Britain needs fighting ‘Plan B’ for trade as EU turns screws on Brexit

By Ambrose Evans-Pritchard. The original first appeared in the Daily Telegraph.

The European Union is hardening its terms on Brexit. There is a new hint of hostility in the language. The tone is peremptory.

Those of us who hoped that Germany would push quietly for an amicable settlement can no longer be so confident. We now learn from *Handelsblatt* that the German finance ministry insisted on some of the most unfriendly changes to the EU’s latest working documents.

Berlin stipulated that Britain must honour “all obligations” (*Verpflichtungen*) for divorce payments, a tougher wording than the earlier, gentler talk of legal and budgetary “duties” (*Pflichten*).

It demanded that Britain desist from tax dumping and financial deregulation that would “jeopardize the stability of the union”. This demand is almost insulting. British regulators have led efforts to recapitalize banks. It is the eurozone and Germany that have dragged their feet on tougher capital rules.

There is no longer any attempt at diplomatic tact. The document states that the European Commission will “determine” when the UK has made “sufficient progress” as it jumps through the hoops, the way it handles accession talks for supplicants hoping to join. It reads like an imperial curia discussing a colony.

The French too have stepped up their demands, insisting that financial services be excluded from the trade deal. The City of London must respect the "regulatory and supervisory standards regime" of the EU in any future arrangement, suggesting that Britain will have to accept the sway of the European Court.

Some argue that France will soften its line under a President Emmanuel Macron. His economic strategist is the anglophile Jean Pisani-Ferry, co-author of a Breugel paper proposing a 'continental partnership' between Britain and the EU that preserves very close ties.

Sadly, Mr Pisani-Ferry has made no headway with this idea. I have met Mr Macron enough times – or have seen him at EU venues behind closed doors – to detect a messianic fervour for the European project. He is a crusader by political religion, the EU's latterday Bernard de Clairvaux.

But it is the hardening mood in Germany that is most ominous. The reason for the sudden change is unquestionably Theresa May's snap election. While we think that the Prime Minister's motive is – in part – to build a buffer against Brexit ultras in her own party, that is not the view in Berlin. Germans see her gambit as anti-EU sabre-rattling and a breach of good faith.

"The EU wants to counter Theresa May's rhetoric and kill the idea that a bigger conservative majority will make any difference to their negotiating position," said John Springfield from the Centre for European Reform.

The German press has likened Mrs May's *démarche* to the defiant posturing of Alexis Tsipras in Greece. They almost take it as a given that her Brexit plan will fail and that she too will be forced to capitulate, grovelling for mercy. One wonders where the briefings are coming from in Berlin.

The parallel with Greece is on one level absurd. Syriza caved after the European Central Bank cut off liquidity and shut down the banking system. Britain is not in the euro or vulnerable to such coercion, and the strategic contours are entirely different.

Yet the Greek saga is instructive. The lesson is that you do not bluff with the EU power structure. If Theresa May still thinks that “no deal is better than a bad deal”, she had better have a credible Plan B, and she must be willing to activate it.

Falling back to the minimalist option of the World Trade Organisation and hoping to craft global trade deals smacks of defeat. It would leave Britain in limbo, pleading with the US, Japan, China, India, and other countries to embark on talks when they have larger matters at hand.

So it is time to think in revolutionary terms. Parliament’s Exiting the EU Committee called earlier this month for a detailed study of what it would mean if the UK left the EU without a deal. Downing Street should answer this legitimate request, and the menu should include the nuclear option of unilateral free trade.

This is a heady Cobdenite manifesto, a turbo-charged version of the Repeal of the Corn Laws in 1846. No developed country has ever attempted such a thing, though New Zealand comes closest, leaving aside the special cases of Hong Kong and Singapore.

All tariffs would be cut to zero. There would be no restrictions on imports besides obvious safeguards, such as policing child labour or environmental abuses, or for national security reasons.

It needs no reciprocation, working from the premise of Adam Smith that if any other country wishes to impose or maintain barriers that is their own folly. They suffer the welfare loss. The currency would adjust to the new equilibrium, keeping the current account close to balance over time.

Adam Smith's *Wealth of Nations* laid out the argument that protectionists hurt themselves most

Adam Posen, head of the Peterson Institute in Washington, said Britain would face a rough time with no EU trade deal but at least such a plan has creative allure. "It is far more credible than other options," he said.

The current dismal narrative on Brexit would be transformed overnight. Britain would suddenly be seen by the rest of the world as pioneering nation at the forefront of globalism, reasserting Thatcherite audacity, rather than a crabby islanders in decline. "People's jaws would drop," says Professor Patrick Minford from Cardiff University.

Pure free trade cuts through the Gordian Knot, eliminating the need for an army of technocrat negotiators and for yet more of those supra-national tribunals that so proliferate, eviscerating democracies and sapping consent for globalism.

Prof Minford says the hide-bound political class has yet to give such clear blue sky proposals a serious airing. "It is so unfamiliar. It takes a mental somersault to break free of mercantilist thinking," he said.

Economists for Brexit – now Economists for Free Trade – certainly got off on the wrong foot last year by suggesting that the UK would be positively richer under such a model. This invited a blizzard of criticism.

My own view has always been that there will be a negative shock from Brexit and withdrawal from the single market, with effects on GDP at best neutral by 2030 with the right policies.

Professor John Van Reenen, a trade expert at MIT and a vocal critic of the Minford plan, says retreat to the WTO would cost roughly 2.5pc of GDP compared to remaining in the EU, with losses rising over time to 8.5pc due to productivity effects.