

The only way to escape a Brexit debacle now is to rip down all trade barriers



[AMBROSE EVANS-PRITCHARD](#) 27 JUNE 2018 • 9:11PM

Berlin has chosen to take a maximalist ideological position towards Brexit despite the enormous risk

Germany risks an economic war on three fronts at once. The combined shocks would endanger the post-War miracle, and expose the underlying fragility of an ageing nation with 20th Century industries.

Donald Trump's 20pc tariff on European cars is likely to come into force this autumn, shutting up to half a million German vehicles out of the US market.

This could happen just as Italy's Lega-Five Star insurgents force a budget showdown with the EU, threatening to set off a chain of events that ultimately leads to euro rupture and a *Lex Monetae* default on vast German credits.

Both sagas may well intrude before the final Brexit summit in October. A "no deal" breakdown would then start to have an existential feel for Germany. Its car industry sells 770,000 vehicles a year to the UK, more than to the US and China combined. Britain is their profit cash-cow.

There might be a spontaneous "patriotic" boycott of German cars by UK consumers in such circumstances. Tariffs each way, plus "rules of origin" requirements, would break Volkswagen's and BMW's supply chains. They would have to switch from Continental to UK subcontractors as fast as possible to protect their sunk costs in UK plants.

Eurointelligence says the combined effect of Trumpian tariffs and a Brexit bust-up would amount to "cardiac arrest" for the core industry of the German economy, already reeling from the diesel scandal and struggling to keep up on electric cars.

Of the three threats, Brexit is by far the easiest to defuse. Theresa May is bending over backwards to avoid a clash. Yet Berlin has chosen to take a maximalist ideological position despite the enormous risk. The German elites have come to believe their own rhetoric about the sacral qualities of the single market and the EU Project, even if a cynic might think it cover for mercantilist advantage.

Amid the barrage of demands on Mrs May over recent days, we have a gem from the German Federation of Industry (BDI): "The United Kingdom is Hurtling Towards a Disorderly Brexit".

Britain "has to accept" – note the imperial tone – the customs union, the single market, and EU law under the sway of the European Court. There is no glimmer or recognition that both the Tories and Labour fought the last election on manifestos rejecting such outcomes, and that violating this is a capital crime.

It sums up the German view. They want full access to Britain's market for goods where they have a €50bn (£44bn) surplus, while refusing reciprocal access to services on the normal basis of "mutual

recognition". They demand that Britain remains in the full regulatory and legal structure of the EU just to secure this dog's dinner.

They are going along with moves to exclude Britain from the Galileo satellite project on the grounds that the UK is a security risk. Yet they want British troops to continue defending the EU's eastern border.

"The British government is still playing for time. This strategy will lead to disaster," states the BDI. This leaves one speechless. It is of course Brussels that is playing the time game. It is withholding assent on a flexible solution to the Irish border in order to force Britain into its legal orbit, aiming to eviscerate Brexit.

For good measure, the BDI adds that the UK is "currently the country with the weakest GDP growth in the entire EU". This falsehood is an article of faith in European circles. To read the German press is to think Britain in the grip of recession. You would not know that Britain has the lowest unemployment rate in 43 years.

The UK grew by 1.8pc last year, the same as France. Japan grew by 1.7pc, and Italy by 1.5pc (IMF data). This is better than it looks since the Chancellor imposed more net fiscal austerity over the last two years than any other G7 state. He has reduced the cyclically-adjusted budget deficit by 1pc of GDP (IMF Fiscal Monitor). The eurozone has been neutral, and the US has loosened massively.

It is an urban legend that Brexit has sent Britain crashing to the bottom of the global growth league. What is true is that investment is falling. That is a worry, but for the future.

The high-decibel warnings by European businesses – the German BDI, Airbus, BMW, Siemens – are coordinated and are intended to scare Britain into "compliance" at the Brussels summit this week.

On the EU side the push is coming from the European Commission's taskforce on Article 50, controlled by Martin Selmayr. On the British side it is being fanned by a nexus of Remain interests with an eye on the Chequers battle over the Brexit white paper in early July.

Lost in the emotion this week over the car industry is the inescapable fact that it is in structural decline already. The electric vehicles of the 2020s will have far fewer moving parts and are expected to last over 300,000 miles. Driverless ride-on-demand fleets imply a drastic fall in car ownership.

The British car lobby SMMT says the UK car nexus employs 186,000 jobs in manufacturing. Sadly, they are going to lose half those jobs, Brexit or no Brexit. Britain's constitutional settlement cannot be determined by the particular vested interests of one industry in any case. Nor does final assembly with low UK content – 15pc for Nissan, 25pc for Honda – add as much economic value as headline figures suggest.

Theresa May is boxed into a corner. She decided before last December's EU summit to pursue a friendship policy hoping that it would unlock a tolerable deal, even pledging total solidarity in defence and security regardless of Brexit talks.

This strategy has failed. The gestures were pocketed. The December pledge to move on "Phase II" talks has come to nothing. Propitiation has emboldened Selmayr and the Franco-German axis to push harder.

We have incessant leaks/spin from Brussels, one day suggesting British aircraft might be denied landing rights at EU airports, another that British citizens might need EU visas, unlike citizens of Venezuela, Guatemala, Indonesia, Botswana, or Kazakhstan.

If this intimidation continues, Britain should in my view quietly draw down its Nato troops in Eastern Europe and seek to bury the hatchet with Vladimir Putin's Russia.

I do not expect the British government to deviate from its current course. It has effectively abandoned Brexit and will opt for the lamentable halfway house of EU duties without EU rights. There is a 1940 feel to this, except that this time we are France.

Several readers told me after my last Jeremiad that it is still not too late for a new departure, and some suggested that the UK should exploit Germany's troubles with the US and Italy to force better terms.

My answer to this is to outflank the entire Selmayr structure. We should not negotiate at all with people who have demonstrated an intent to harm us. The only way to achieve this safely at such a late stage is to rip down our entire tariff wall and declare unilateral free trade (UFT) from March 2019. There should be a five-year carve out for agriculture and safeguards on health, child labour, and so forth.

Professor Patrick Minford proposed this idea long ago. Parliament told the Treasury to examine it. Nothing serious was done. But UFT is still there as an intriguing possibility, and would change global narrative of Brexit overnight.

It would cut through the Gordian Knot of Ireland. If there were a hard border it would be erected on the orders of the EU, on one side only. If the EU refused to entertain a hi-tech "MaxFac" and "trusted trader" scheme for intra-Irish trade – and a waiver for the 80pc of small business traffic – it would be on their heads. The WTO allows creative solutions for areas of political sensitivity.

Unilateral free trade would eliminate the worry over long queues at Dover. The queues would be in Calais, and the EU side would suffer the opprobrium of chaos, and the furious reproaches of European companies with broken supply chains.

The presumption that it would lead to a flood of cheap goods and wipe out British industry is unscientific. Average tariffs are just 1.6pc. Sterling moves by that much in a single day. The currency would find at equilibrium rate for the capital account, as it has in free-trade Singapore with a booming manufacturing greater akin to Germany as a share of GDP. Ricardian comparative advantage would prevail.

Where there are pockets of special hardship, the Government would have wide latitude under WTO rules for state aid. It takes 20pc of GDP to fight a big war. Let us earmark a fifth of that – £80bn or so – as a transition fund financed by borrowing to get the country through the crisis until British independence is safely restored.

Not a penny of the £39bn exit fee should be paid unless the EU acts in a civilized fashion over Euratom, landing rights, visas, and a long list of house-keeping issues. We should be the judge of that, they the demandeur.

It is a fair bet that Britain would enjoy a surge in global investment and economic dynamism once the dust had settled. The UK would no longer be a pitiful supplicant, begging for mercy at one excruciating summit after another. The venture would be marvellously daring. Can it be any worse that what is now coming straight at us?