

Center for Strategic and International Studies

TRANSCRIPT

The Trade Guys Podcast

“Wheat and Taxes and Brexit, Oh My!”

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SPEAKERS

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Transcript by Rev.com

Scott Miller: I'm Scott

Bill Reinsch: I'm Bill.

Scott Miller: And we're the trade guys.

Andrew Schwartz: You're listening to the Trade Guys, a podcast produced by CSIS where we talk about trade in terms that everyone can understand. I'm H. Andrew Schwartz and I'm here with Scott Miller and Bill Reinsch the CSIS trade guys. This week Brazil's controversial president is in town to meet with President Trump.

[Bolsonaro translator via news clip: Brazil does have a great deal to offer the U.S. and the same is true the other way around.

Andrew Schwartz: They'll discuss among many other issues trade plus chaos with Brexit continues.

[Nigel Farage via news clip: We have voted to leave the European Union and we're supposed to leave on March the 29th but there is going to be a delay.

Andrew Schwartz: What's the EU say and how is this uncertainty affecting trade? And ...

[Journalist via news clip]: France is pressing ahead with these plans to tax digital giants despite the failure to secure an agreement at a European level on this issue.

Andrew Schwartz: France's proposed tax on digital companies has U.S. officials highly concerned. We'll discuss all of that and much more on this episode of the Trade Guys.

Andrew Schwartz: Brazil's controversial right-wing president Bolsonaro is visiting Washington this week and there's a bunch of trade issues on the table. Scott can you tell us what's going on with this guy?

Scott Miller: Well, sure. Look this is a very interesting politician when you step back from it. He has been a politician for a long time, was as local elected official, and then a member of the Brazilian congress, with their house of representatives basically. What's interesting about him is that Brazilian politics since the end of military dictatorship have mostly taken place on sort of center left to left parties. And right wing parties were for a long time discredited because of their association with the military. So, most of the political enthusiasm and many elections were contested from center left or leftist parties. Now, what that led to was some economic policies that tended to favor basically what we call state capitalism. Back in the 50's and 60's it was more articulated as import substitution industrialization. It was a common development economy, development economics platform. Basically you allowed raw materials to come in fairly cheaply but you put high tariffs on finished manufactured goods to incentivize companies to basically skip the tariff

wall, build plants in your country, and essentially industrialize in that manner.

Scott Miller: So, Volkswagen for instance was still the leading car producer in Brazil. Cars are made in Brazil for Brazilians. Same with the chemical industry, lots of global industries followed those restrictions and built plants behind the tariff walls. Now, there's still some overhang from that because unlike some economies in the western hemisphere, Mexico being the principal beneficiary of trade liberalization but also Chile and Columbia. There are other bright spots in countries which adopted more open markets and have benefited from them. Brazil remained committed to those policies for a long time. So, what you have is a economy that is, it's an agricultural powerhouse just because of their [inaudible 00:03:18] just the natural productivity of the land and the massive, it's a massive country. They've also got some very high tech operations going on there, a leader in civil aviation for instance.

Andrew Schwartz: Well, and also Google, and Apple, and all of the major U.S. tech companies are in Rio and in Sao Paulo. And I've been to Brazil. I have cousins in Brazil. Brazil has been really suffering the last few years. They had hyperinflation. I mean you mentioned Volkswagen. One of my cousins is the head of a major, is the managing editor of a major magazine there and drives a Volkswagen Jetta. And guess how much that Jetta costs?

Scott Miller: It's unbelievable.

Andrew Schwartz: It's like he drives a 90 thousand dollar Volkswagen Jetta.

Scott Miller: He'd be driving something far more prestigious here in the U.S. for that money.

Andrew Schwartz: Yeah. And the point is he's paying more than twice what a Jetta would be in the United States.

Scott Miller: Yeah. So, exactly so you still have a lot of economic distortions. You have a time with which there was never a real incentive to improve the logistics in Brazil so it's still very hard to import and export just because of the conditions of poor infrastructure, and the rules, and the governance associated with that. It's a tough place for a lot of companies to do business. As a result they have not benefited as much from globalization as say the fast risers of East Asia or the Pacific coast of South America who chose to engage and chose Asia as customers. Brazil has another drawback as they are a long way from everybody. You tend to trade with you neighbors.

Andrew Schwartz: It is a very long way.

Scott Miller: As we know from the NAFTA. The week before NAFTA Canada was our biggest trading partner, Mexico was our third largest. So, you tend to trade a lot with your neighbors. And Brazil is geographically in a place where it doesn't have close neighbors with whom it partner.

Andrew Schwartz: So, what do they want from us and what do we want from them?

Scott Miller: Well, there have been some very specific trade problems that they're trying to overcome. I think the most prominent one is Brazilian beef. Now, Brazil obviously has a wonderful beef industry and produces very high quality products, but their inspection system was a seat of corruption. And one of the things about food safety is we have a lot of imported food in the United States. Many processed foods and frankly fresh fruits and vegetables are often imported to the United States.

Andrew Schwartz: Yeah, and I don't know anybody who doesn't like themselves some Fogo de Chao.

Scott Miller: Oh exactly. And it's ...

Andrew Schwartz: Except my vegetarian son.

Scott Miller: It's a unique taste. They're valued in the market.

Bill Reinsch: You have a vegetarian sons?

Andrew Schwartz: My middle son who is a very good football player is a vegetarian and he's been a vegetarian since he was eight years old. Incredible. Amazing.

Bill Reinsch: And stuck with it?

Andrew Schwartz: Yeah.

Bill Reinsch: Well, good for him.

Andrew Schwartz: The kid weighs 183 pounds of muscle. He's unbelievable.

Scott Miller: Glad to know it's working for him.

Andrew Schwartz: Yeah.

Scott Miller: Well, in any case U.S. food safety standards are very high. We put a lot of effort in both USDA and the Food and Drug Administration, FDA, do a great job at maintaining high levels of food safety in the United States in partnership with the industries. When it comes to imported food we need to expect that other government agencies have similar standards. And when the agencies themselves who are responsible for safety regulation particularly in food products, when those agencies fall down that breach of trust makes it very difficult. And so, there's a need to recertify and that's exactly what happened. Brazil had a lot of beef exports to the United States. They stopped because of problems in the agency. The ranchers didn't do anything wrong. It was what happened in the agencies. Now we've got to find a way to rebuild trust. So, that's probably a longer term project but it's one we can do.

Andrew Schwartz: So, they want to sell us their beef. We want what? What do we want from them? Well, I know one of the things we want, our commercial satellites we want to be able to launch from them correct?

Bill Reinsch: Yes we have some specific asks like commercial satellites. Wheat is another ask. We would like to get wheat sales and exports to Brazil.

Andrew Schwartz: Okay. So, Bill tell me about that. We want to sell them wheat right? Because wheat, that's another great market for us.

Bill Reinsch: Yeah, there's some ironies there that I thought were kind of amusing. Apparently when Brazil went into the WTO they promised a 750 thousand ton wheat quota to let foreign wheat in which they've never honored, and the Trump administration is under some pressure from Midwestern wheat state senators to get the Brazilians to honor their commitment. So, apparently what the Brazilians are suggesting is that they're prepared to do that if we'll make some concessions to them. So, this is a very Chinese approach. We promised to do this 20 years ago and now we'll promise to do it again but you'll have to give us something again.

Andrew Schwartz: But if President Trump gets this this is a win for him and this is a win he can take to the Midwest.

Bill Reinsch: It would be a big deal in the Midwest.

Andrew Schwartz: So, the politics of this Brazil visit are particularly important to the president of the United States?

Bill Reinsch: In political terms he will ... Of course the wheat farmers are not the soybean farmers usually they're different. But it's still a win.

Scott Miller: Yeah right. It's still a win and they'll be happy with it. Now, there are ...

Andrew Schwartz: Beautiful wheat deal?

Scott Miller: Well, best ever. Potentially yes.

Andrew Schwartz: I like a beautiful wheat deal.

Bill Reinsch: Well, if you've been out to the Midwest and seen wheat fields they have the beauty of their own. The wind rustles through them and these waves of grain right?

Andrew Schwartz: I see some very good imagery coming for POTUS. For those of you who don't know who POTUS is that means President Of The United States. We use that term here in Washington.

Bill Reinsch: Well, we're part of the in-crowd. We're part of the elite that's ignoring the rest of the country.

Andrew Schwartz: Yeah inside the swamp here.

Bill Reinsch: We are deep in the swamp yes.

Andrew Schwartz: Deep in our freezing cold studio inside of the swamp.

Bill Reinsch: If you want to get out of the swamp you can go to Iowa and just take the annual Ragbrai, the annual bike ride across Iowa.

Andrew Schwartz: There's a lot of democrats going to Iowa these days.

Bill Reinsch: Yes.

Scott Miller: It's the place to be a for a little while.

Bill Reinsch: It's the place to be for a while.

Andrew Schwartz: Right.

Bill Reinsch: That and New Hampshire and boy do they love it. You get all of this intention for a while. And then, the day after the caucus in the Iowa case everybody leaves.

Scott Miller: Yes.

Bill Reinsch: Yeah.

Scott Miller: And that's the end of that.

Andrew Schwartz: I have covered the Iowa caucus in Des Moines and Iowa is very flat. It's a very flat place.

Bill Reinsch: No it's not. If you do the bike ride. I've not done this but we've driven the route and it's rolling hills it really is. It's a beautiful state.

Andrew Schwartz: Okay. No, I thought it was beautiful.

Scott Miller: Yeah get out those council bluffs away from Des Moines and you'll see a different kind of different state.

Bill Reinsch: It's all green. It's all corn.

Andrew Schwartz: Now, do the farmers, beef is a big deal in Iowa and potatoes are a big deal.

Scott Miller: And pork. I mean Senator Grassley himself raises pork.

Andrew Schwartz: Yeah. And how would he feel about a trade deal with Brazil?

Scott Miller: Well, there's some sensitivities. There's no question wheat exports would be good but Brazil, don't forget, is an agricultural powerhouse of their own. They have interest in ethanol. They can produce ethanol very cheaply and currently at their strict quotas.

Bill Reinsch: They make it out of sugar. We make it out of corn and their ethanol competes directly with grass [inaudible 00:10:34] ethanol.

Scott Miller: Yes, and their ethanol is probably more efficient in terms of total production cost.

Andrew Schwartz: So, what's President going to say? Good luck Chuck?

Scott Miller: I don't know probably it won't come up.

Bill Reinsch: Yeah I don't think this is going to [inaudible 00:10:42] right now.

Scott Miller: Yes my guess is ethanol is not going to come up, cotton's not going to come up and sugar's not going to come up. Those are the areas of irritants in the past or sensitivities.

Andrew Schwartz: The president just wants to get the wheat deal done and call it a day?

Scott Miller: That's what I'd do if I were him.

Bill Reinsch: Well, they want us to support, the Brazilians want us to support their entry into the OECD, the Organization for Economic Cooperation and Development which is sort of the club of developed companies.

Andrew Schwartz: Right. Why wouldn't we let them in?

Bill Reinsch: Well, in general, what the United States has wanted to do is to make sure the countries are really ... Have a market-based economic system. Because if you lower the standard of the OECD, then you let in a lot of countries that don't adhere to what our sort of strong rule of law, market-oriented principles. There was just a big debate about Columbia. Columbia wanted to get in, and the United States has ultimately supported that effort, but we insisted that they ... If you want to get in, it's sort of like the WTO. You have to negotiate with all the current members, because they all have to agree to let you in. So we went to the table with the Colombians to say, "Well, we're concerned about your lumber policies, and we're concerned about some of your, I think, labor policies as well." These are commitments that they had made previously that we felt they were not honoring or implementing enough.

Bill Reinsch: So there's going to be kind of an unpleasant negotiation about this. Basically, the Brazilians are going to have to become much more of an open trade economy if they want to get in, I think.

Andrew Schwartz: Scott, tell me about the technology. Tell me about the satellite issues that we want to ... Why do we want access to their airspace?

Bill Reinsch: Because it's near the equator.

Scott Miller: Right. Most satellites are launched in these, what's called the geosynchronous orbits. The geosynchronous orbit is ... It may be getting a little crowded up there in space, but it is a very valuable piece of the sky, so to speak, because satellites then can track a very predictable stationary [crosstalk 00:12:45].

Andrew Schwartz: So this is another great natural resource that Brazil has.

Scott Miller: Because of their location near the equator, it is very efficient and highly predictable, given current avionics and current missile technology. They have a better shot at reaching the geosynchronous orbit.

Bill Reinsch: The French launch from French Guiana, for example, which is just a little bit north of Brazil and as close to the equator as the French can get.

Andrew Schwartz: All right, well speaking of the French, there's a big issue going on with the French right now.

Bill Reinsch: There's always a big issue going on with the French.

Andrew Schwartz: There is always a big issue going on with the French, but let me ask you this. What is going on with the French right now? This is over a French digital tax. Can you guys explain this to me? We don't want anybody taxing our digital stuff.

Bill Reinsch: Yes, can I tell a story first?

Andrew Schwartz: Of course.

Bill Reinsch: Is that all right?

Andrew Schwartz: Yeah.

Bill Reinsch: When I was on The Hill, this happened to me a number of times. I was working at the time for Senator Heinz. Periodically, we would launch a critical press release [crosstalk 00:13:40]-

Andrew Schwartz: God bless Senator Heinz.

Bill Reinsch: I miss him every day. We would launch at then the European Community ... It was before the EU, about some horrible thing that they had done. There'd be total radio silence for about three weeks. Then someone from the British Embassy would come in to see me. It was, at the time, Christopher Meyer,

who ultimately was their ambassador, but at the time was their Economic Minister. He would come in and he would explain in very clear, slow talk ... He was talking to the colonials.

Bill Reinsch: You had to be very simple when you did this. Why we were wrong, and they were right. Then I would do 20 minutes on why we were right and they were wrong. Then at the end of this, Christopher would look at me and say, "Well, you know, it wasn't us. It was the French." I always thought it was just a marvelous European tactic. They would send in the relatively innocent to atone for the guilty. The guilty never showed up. We saw the Germans and the British a lot. We didn't see the French very often. We never saw the Italians. We saw the Nordics a lot.

Bill Reinsch: But on this question, the French are leading the guilty wave. What they have posed doing ... And they have not been able to get the EU to go along with them. They proposed doing it on an EU-wide basis, and there was resistance from at least EU countries that have killed this off. They want to impose a tax on digital services. Digital services means advertising. It doesn't mean using your platform simply as a communication type of device, but using it as a commercial device, selling things on it, advertising. That's what they want to tax. One novel and controversial [inaudible 00:15:26] is they want to tax revenue and not profit, which is unusual. Most governor ... When you're taxing corporations, most countries tax corporate profits. They don't tax you if you're not making any money.

Bill Reinsch: This is basically a turnover tax. It's a tax on income that comes in, without regard to whether you're profitable or not. The way the tax is structured has irked the Americans, because when you work your way through the definitions of who has to pay, it's entirely foreign companies.

Andrew Schwartz: Yeah, I mean, they estimate that this would affect around 30 tech giants, mostly from the United States. The United States believes it would be highly discriminatory against us.

Bill Reinsch: Well, and they're right. It's the Amazon, Facebook, Google tax, among others. The one European company that at least qualifies in terms of income would be Spotify. But they get an exemption because the proposal excludes fees, membership fees. So that takes-

Andrew Schwartz: Just because they're Swedish and they've got a great product, they get off? I mean, what ...

Bill Reinsch: They're European. I think this is very clearly targeted at very competitive, very successful American companies, and the Europeans don't have any.

Scott Miller: Because they're long running skirmishes over how to extract the right amount of taxes from the right taxpayers. Corporate taxation is one of the things, frankly, that is the most difficult for any economy to manage. Basic corporations are quite difficult to pin down as where their entities are

located and what tax jurisdictions apply. So there's been a long-running ... This is sort of the latest chapter in a long-running set of battles. It started off with the notion of US headquarter companies putting their European operations in very low tax jurisdictions, such as Ireland, and essentially avoiding a lot of corporate taxes that they would have faced had they located in France, say for instance, as the French corporate tax rates are higher.

Scott Miller: There was a lot of activity to lower corporate tax rates throughout Europe. So at this point, Sweden, which you think of as a socialist democracy and high taxes ... Well, they're high taxes on individuals. But then their corporate tax rate is below 20, or around 20%, because the effect was nobody wanted to be the tall poppy. Everyone lowered corporate tax rates. Then they got into a big fight called 'base erosion and profit shifting,' where they accused companies sort of manipulating this, and that their tax base was erosion. Then there was a project at the OECD, which you mentioned earlier, called Unfair Tax Competition, to which all the companies asked, "Unfair to whom?" We found out it was unfair to the French, where the governments that were expecting to collect more revenue.

Scott Miller: They key point with the digital tax is it's an extra tax. Digital services companies, like every corporation operating in the planet is already taxed at the corporate level. So their [crosstalk 00:18:28]-

Bill Reinsch: Yeah, corporate profit.

Scott Miller: On their corporate earnings, corporate profits. So this is a tax on top of that. It's one of the unusual parts about the current global economy, is despite having many excellent firms based and headquartered in Europe that were European from the beginning, in this part of the economy, the digital economy are mainly American national champions. They are the American headquartered companies. There doesn't seem to be an effective mirror of that in the European economic order.

Bill Reinsch: There's two sins being committed here. First, it's easy money and they're going after the easy money. It's large, visible. These guys make a lot of money. Amazon's doing rather well. If you're short of funds, that's where you look. The second frustrates me, because we've talked about this before. When you're competing, there's two ways to win. You run faster or you trip the other guy. This is tripping the other guy. They don't have ... There's no European Amazon, there's no European Facebook, there's no European Google. So their response to that is, "Let's stick it to them." That's not going to help them create competitors.

Andrew Schwartz: So how would we retaliate? It's not like we can tax their [crosstalk 00:19:36]? What are we going to do?

Bill Reinsch: We have tools. The most obscure, which has never been used, is Section 891 of the Internal Revenue Code, which allows the United States to assess additional taxes on anybody that has done that to us. We've never done that,

but it's out there. We could also take them to the WTO on the grounds that this is a discriminatory tax.

Andrew Schwartz: It's a pretty clear case there is.

Bill Reinsch: I think that's probably a winner, because the measure of whether you're discriminating is not based on what you say about it, because of course they say it's not discriminatory. It's based on the effect, and if you can show that 98% of the people that are paying are not European, that tells you something about this. We could do that. The thing that, thanks to China, 301 is back in vogue, the statute that allows the President to go after unreasonable discriminatory or unjustifiable actions. This would probably qualify under that.

Bill Reinsch: The good news is there's actually a better way to do all this. That's going back to what we were saying before. Go back to the OECD. What the OECD does all the time, in addition to producing mountains of data that people use, is they produce best practices. They produce principles of how to behave well. They've done an OECD thing on bribery and corruption ... Against it, not how to do it, but how governments should oppose it. They produced a lot of principles on sound tax policy and neutral tax policy.

Bill Reinsch: What the G20 has done in the past is task the OECD with coming up with principles and guidelines to prevent the kind of games that Scott was just talking about. The base shifting, the profit shifting, and shifting your assets around in order to take advantage of low taxation. Most of the countries in Europe and the United States have said on this issue, "Let the OECD come up with proper system of digital taxation that is fair and neutral to everybody." The problem with the French is, they don't want to wait for that. They want to go right now. That's going to take a couple years.

Andrew Schwartz: Well, I mean, this is like if ... Let's say for instance, the French film industry was as big as Hollywood, and we

Andrew Schwartz: Decided out of the blue, we're going to slap a tax on the French film industry to punish them. Isn't that what this is analogous to?

Scott Miller: Yes, pretty close. But it also represents a very commonly used tax tactic, which was best articulated by Senator Russell Long.

Andrew Schwartz: Oh, this is my favorite one.

Scott Miller: Don't tax me, don't tax thee, tax the fellow behind that tree.

Andrew Schwartz: Yeah.

Scott Miller: Okay. And so shifting that burden of taxation is as old as taxes themselves as a practice. And everybody tries it. And discrimination really doesn't pay off in the long run, but you can still try.

Andrew Schwartz: Ze French.

Bill Reinsch: They're crafty.

Andrew Schwartz: Very crafty. They do make a good croissant though.

Bill Reinsch: And cheese. Can't forget the cheese.

Andrew Schwartz: And le omelet.

Bill Reinsch: What's that?

Scott Miller: Omelet.

Bill Reinsch: Oh, I'm with you.

Andrew Schwartz: I mean, there are just so many things. I mean, Paris is a wonderful place, I have to say.

Bill Reinsch: My son and daughter-in-law just got back from there, from a week there.

Andrew Schwartz: Did they have a good time?

Bill Reinsch: They say so. We're seeing them over the weekend to look at pictures.

Andrew Schwartz: Excellent.

Bill Reinsch: So, I can give you a report next time.

Andrew Schwartz: We'll look forward to hearing about that. Meanwhile, there's another European country, very close to France that's having some trouble.

Bill Reinsch: Geographically, but not culturally.

Scott Miller: Yes, it's across the channel, but it's a long way.

Andrew Schwartz: Right under, under the ... we've got some issues with Brexit going on. How is Brexit and its current situation, meaning that it's completely in disarray. Theresa May's government is in disarray as they seek to figure out whether they're going to leave or not. And the chaos continues. How is this affecting trade?

Bill Reinsch: The best analogy we can't resist is like, go ahead. The black knight in Monty Python.

Andrew Schwartz: Please do not ... the Monty Python black knight.

Scott Miller: There was a Dutch elected official, a parliamentarian who described-

Bill Reinsch: It was the prime minister, Mark Rutte.

Scott Miller: Yeah, Dutch Prime minister, so sorry, who described a Theresa May's struggle with a parliament as similar to the black knight in Monty Python. And the Holy Grail, which having lost both arms, says, "It's merely a flesh wound. Come back and fight." But really, in fairness to prime minister May, she was with the remain camp, alright. And when the referendum went to leave, she was chosen for the leadership role and remained the leader despite her misgivings for that side of the referendum. And so she has done a mighty job of trying to hold together the British interests in negotiations with the Europeans.

Scott Miller: The problem is she wound up with a negotiation ... by ending the negotiations with the Europeans at a point where nobody in Britain liked the deal and Europe basically said, "This is, it is all you get, alright" for whatever set of reasons. And Theresa May has now brought her deal to parliament twice and basically how to rejected twice. Long story short, she thought about doing it the third time, and the British House of Commons speaker, which is not like our Speaker of the House exactly, but it's a pretty important role, basically said, "No, no, no. We're not going to do this a third time."

Bill Reinsch: It is an important role. I discovered that it can be a dangerous one. There were seven Speakers of the House who had been beheaded over the years, although the last one was the 1535.

Andrew Schwartz: Okay, so it wasn't so recent.

Bill Reinsch: But I don't think he needs to worry about that.

Scott Miller: It's not a career aspiration by any of the trade guys.

Bill Reinsch: He cited the precedent from 1604.

Scott Miller: That's impressive.

Bill Reinsch: But it's actually a fairly fundamental parliamentary rule. I mean, everybody thinks that he's trying to skew the results here, but the parliamentary rule is simple, which is that once an issue has been debated and voted on, it can't be considered again in the same session.

Andrew Schwartz: I got to tell you, I love watching their parliament in action. They just yell at each other.

Bill Reinsch: It's raucous.

Andrew Schwartz: Yeah. It's sorta like our professional wrestling, but more civilized.

Scott Miller: You know, the design of the Chamber of the House of Commons.

Andrew Schwartz: Yeah.

Scott Miller: You know why it's set up? Well, the sides or are facing each other, unlike ours, which is in a sort of a semicircle.

Andrew Schwartz: Right.

Scott Miller: Okay. The sides face each other. But the distance between those front rows on both sides is two drawn swords plus one foot.

Andrew Schwartz: Yeah and it's also-

Scott Miller: And that's the extent of conflict that goes on.

Andrew Schwartz: Sure, well, they don't have guns.

Scott Miller: Right.

Andrew Schwartz: You know, we all have guns in America and used to be able to carry your gun into the Capital in the United States. So, I mean, we have to not be in each other's line of site, right?

Bill Reinsch: But they don't carry their swords.

Scott Miller: They don't carry swords anymore.

Bill Reinsch: Except for the, I guess the guy that brings the mace in, I think he has a sword. Anyway, to get back to your question-

Andrew Schwartz: How does it affect trade?

Bill Reinsch: The sad news for everybody is, it's already affecting trade, because people are hedging. They don't know what's going to happen, and so they're covering all the different bets by moving. And they're not exactly leaving London, but they're partly leaving London. And if you talk to financial institutions, there are new centers developing in Dublin and Rotterdam and Frankfurt. That's where the growth is. The growth is not in London. People are not abandoning the country, but they're very nervous, also because the government has put out very little guidance about what's going to happen on departure day, which is now, if they stick with no deal-

Scott Miller: Friday of next week.

Bill Reinsch: Yeah, it'll be a week from Friday. So what happens if your food, if you're a you're a restaurant owner, and you're bringing a cheese, wine and cheese over from France, which right now is, there's no barrier, no inspection, nothing at all. And all of a sudden on the day after March 29th, it's not duty free anymore maybe, it depends on what the British do, and it's subject to

inspection. But they haven't set up any inspection network. They haven't set up any rules. So people that are in businesses that involve getting stuff every day are very, very nervous. People in the financial markets are very, very nervous and are afraid of big downturn.

Scott Miller: Exactly. So I think that the-

Andrew Schwartz: The grande problem avec les fromage. Big problem with cheese.

Scott Miller: I think cheese may be the least of their worries at the moment. But if you look at it, the most likely immediate outcome is a delay. That the March 29th date will be fudged off into the future. And they'll pick some other leave date to keep working on this and to keep muddling through. But the fact is Bill's point about uncertainty remains. And nobody really knows what the final status of this will be. What do you do with ... how do you manage a hard border in between Ireland and Northern Ireland? This whole backstop issue is fraught with problems. And it's a real muddle, because I think is going to take elected officials really stepping up in a way they haven't so far.

Bill Reinsch: One possibility that's occurred to me is if she gets an extension, which I think she probably will now-

Andrew Schwartz: She just keeps suffering flesh wounds. So there's going to be an-

Bill Reinsch: Yeah. Well, the arms and legs are probably gone.

Scott Miller: Come back here! Come back here now!

Bill Reinsch: But one of the things that I can actually see is a series of perpetual extensions. You know, the EU will give them three or four months, and then she'll come back then, because they still can't solve the problem. And they'll want another one. And eventually somebody will figure out, well, maybe this is what is going to happen. Maybe they're just going to stay in by default. The first one, however, is crucial, because if they stay in more than I guess three months, they have to run candidates in the European Parliament election, which is the last week in May or the third week in May, I guess it is.

Scott Miller: Yes. Right.

Bill Reinsch: And there's been a legal opinion issued in Europe that says if the UK remains in the EU, but does not send anybody to the parliament, it casts doubt on the legality of the European Parliament at that point. And so the British have to decide if they want to run anybody and fill the seats. Meanwhile, all their seats have been reallocated to other countries. So it's going to a ... or most of them have been reallocated to other countries, some have just been eliminated.

Andrew Schwartz: This really does hearken.

Bill Reinsch: It's a mess.

Andrew Schwartz: This harkens back to their medieval torturous past. I mean, this is just brutal for people in Great Britain right now.

Scott Miller: Well, the lights are still on, okay? The lights are still on, the trains still run.

Bill Reinsch: It's not quite as bad as a hundred years' war when they were going over to Gaskin [crosstalk 00:30:26] and pillaging.

Andrew Schwartz: No, but it's as bad as or worse as our government shutting down for a period of time. It's bad.

Bill Reinsch: It will be, if there's a hard Brexit for sure.

Scott Miller: The hard out will be very difficult for both the UK and for Europe. It will be a very disruptive event. It's not insurmountable. It's not all out war, but it's not what anybody planned for.

Andrew Schwartz: To our listeners next week, The Trade Guys will be on hiatus. Some of us will be on spring break, some of us will just be here in the office working. In any case, we'll catch you all the following week right here on The Trade Guys.

Andrew Schwartz: If you have a question for The Trade Guys, write us at tradeguy@csis.org. That's tradeguys@csis.org. We'll read some of your emails and have The Trade Guys react to it. We're also now on Spotify, so you can find us there when you're listening to The Rolling Stones or you're listening to Tom Petty or whatever you're listening to. Thank you, Trade Guys.

Bill Reinsch: Thanks, Andrew.

Scott Miller: Thank you.

Andrew Schwartz: You've been listening to The Trade Guys, the CSIS podcast.