

Trade options after Brexit

After the referendum vote to leave the European Union, important policy decisions remain about the model for the UK's future relationship with EU – whether to remain in the single market, opt for EEA, a free trade agreement or independent WTO membership.

About the research

The referendum vote to leave the European Union raises important questions about the UK's relationship with Europe outside of the EU – not least whether the UK seeks to remain a member of the EU's Single Market or only seeks tariff-free access.

A report from the Institute for Fiscal Studies outlines the different options for trade deals available to the UK, and the impacts they will have on the UK economy and public finances.

A single market is much more integrated than a free trade area or free trade agreement (FTA), as it aims for free movement of both goods and services. FTAs are predominantly concerned with reducing or eliminating trade tariffs on goods between members. A 'customs union' commits members to free trade on goods, removes the need for internal customs checks and agrees a common external tariff for imports.

The type of trade agreement and relationship with the EU will have a major influence on key areas such as the UK's future trade patterns, the level and mix of immigration, trade tariff income, and the agriculture sector where policy needs to be redeveloped post-EU.

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Key findings

- While any country has 'access' to the EU as an export destination, membership of the Single Market reduces 'non-tariff' barriers in a way that no existing trade deal, customs union or free trade area does.
- All three potential trade scenarios for the UK – EEA membership (the 'Norway option'), an FTA with the EU (the 'Canada option'), and independent World Trade Organization (WTO) membership – show a negative impact on the UK economy and living standards. There is a clear hierarchy of impacts, with EEA being the least economically damaging, the WTO scenario the most damaging, and an FTA scenario in between. In broad terms, the WTO scenario is around twice as economically damaging as an EEA scenario.
- Services play a significant role in UK trade. For UK service exports, the EU is by far the largest market, accounting for almost 40 per cent, whereas emerging economies such as Brazil, Russia, India and China together account for less than five per cent.
- The UK financial services sector is particularly important to the UK economy, and is likely to be disproportionately hit by loss of

Key findings - continued

Single Market membership by losing 'passporting rights' (the ability to supply financial services directly to consumers and businesses across the EU).

- New trade agreements are unlikely to substitute fully for EU trade. Trade deals that cover services are still relatively rare, and would require harmonised regulation in a similar way to the EU Single Market.
- The negative impacts on public finance from reduced EU market access and trade are likely to be much more significant than the UK's current net EU budget contribution of £8 billion. An ongoing EU budget contribution could therefore be an important bargaining chip.
- Even under an EEA agreement the UK will need to develop a new agriculture policy from scratch. The design of such a policy will have important implications not just for the agriculture sector but also for food prices, for the environment, and for land prices and land use in the UK.

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BRIEF DESCRIPTION

The report *The EU single market: the value of membership versus access to the UK* from the Institute for Fiscal Studies, funded by the ESRC's The UK in a Changing Europe programme, has outlined the characteristics of the European Union's Single Market, distinguishing between 'membership' and 'access', including the impact on the financial services sector. It also considers the potential for new trade deals beyond the EU and assesses the economic and public finance implications of the various options.

Carl Emmerson, Paul Johnson and Ian Mitchell: *The EU single market: the value of membership versus access to the UK*
Web: www.ifs.org.uk/publications/8411

FURTHER INFORMATION

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The Institute for Fiscal Studies (IFS) is Britain's leading independent microeconomic research institute. It is core-funded by the ESRC.
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The ESRC's The UK in a Changing Europe initiative promotes rigorous, high-quality and independent research into the relationship between the UK and the European Union.
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