



**European  
Movement  
International**

## Brexit, and now what? Possible Scenarios for Trade



The United Kingdom and the European Union are preparing their divorce after 51.9% of the country's electorate voted to leave the Union. Now that Brexit negotiations have started, it is important to know what the options are for the future relationship between the two parties. This paper lays out some of the possible consequences of Brexit for the UK in the area of trade and the single market. The EMI evaluates which scenarios are the most advantageous for the UK by analysing what the country currently has access to as a member state and what it would lose in the case of a soft or hard Brexit.

## EU membership

The EU accounts for 16.5% of the world's exports and imports, which makes it the world's biggest trader<sup>1</sup>. The establishment of the EU's single market is one of its most important achievements. But in order to have access to it, countries must accept the EU four freedoms: free movement of goods, services, capital and labour.

Thanks to its membership, the UK has been benefitting from free movement of goods and services, which stimulates trade and competition, provides cheaper prices for consumers and improves efficiency<sup>2</sup>. Currently, UK businesses have access to 500 million customers in the different member states, and UK citizens and companies can buy products from EU countries as well<sup>3</sup>. In 2016, the UK's exports to

EU states amounted to 43.9%, a total of £240 billion<sup>4</sup>. EU membership has directly contributed to the UK's economic prosperity, according to a study by the OECD. The document links the effects of Brexit with a permanent annual tax on people's income and highlights that leaving the Union would severely damage the UK's economy and



weaken GDP growth for many years. Ángel Gurría, OECD Secretary-General, said that it would be "equivalent to missing out on one month's income within four years."<sup>5</sup> According to the paper, not being part of the EU would further damage productivity, foreign direct investment, and trade<sup>6</sup>. By 2020, GDP would be 3% smaller than if the UK would continue in the EU. In the long term, there will be a drop in foreign direct investment and a smaller pool of skills, which would hold back labour productivity. Even in the case of an optimistic divorce settlement, the effects of Brexit will remain negative. The study also illustrates that further single market reforms with the UK as a member state would improve living standards for both the EU and

market-brexit-eu-trade-deals-what-is-uk-leave-european-union-why-a7627061.html  
4 Ward, M. 2017. Statistics of UK-EU trade. House of Commons briefing paper number 7851.  
5 Giles, C. 2016. OECD issues damning report of effect of Brexit. Financial Times  
6 OECD, 2016. OECD study finds Britons will be paying a heavy "Brexit tax" for many years if UK leaves EU. <http://www.oecd.org/newsroom/oecd-study-finds-britons-will-be-paying-a-heavy-brexit-tax-for-many-years-if-uk-leaves-eu.htm>

the UK<sup>7</sup>. Gurría argued that the best option was for the UK to be "in the company of Europeans", since there is no reason to believe that it would manage to reach a better trade deal outside of the EU<sup>8</sup>.

## Soft Brexit

A soft approach to the EU-UK trade relationship would be for the UK to continue having full or partial access to the single market while changing some aspects of certain rules. For instance, the UK could leave the EU but remain a member of the European Economic Area (EEA), which is the relationship that exists between the EU and Norway. This scenario would mean that the UK would still have access to the single market and follow single market rules, but would not have a say in the single market rulemaking<sup>9</sup>. Moreover, it would still have to contribute to the EU budget and respect the four freedoms. It is unlikely that the negotiations would reach this outcome, since the UK has said it does not want to have access to the single market if it means it has to accept free movement of people.

A second possibility would be for the UK to leave the EEA but reach a special agreement that would grant it partial access to the single market, like the agreement between the EU and Switzerland, which is a member of the Eu-

7 OECD, 2016. The economic consequences of Brexit: a taxing decision. OECD Economic policy paper number 16. <http://www.oecd.org/economy/The-Economic-consequences-of-Brexit-27-april-2016.pdf>

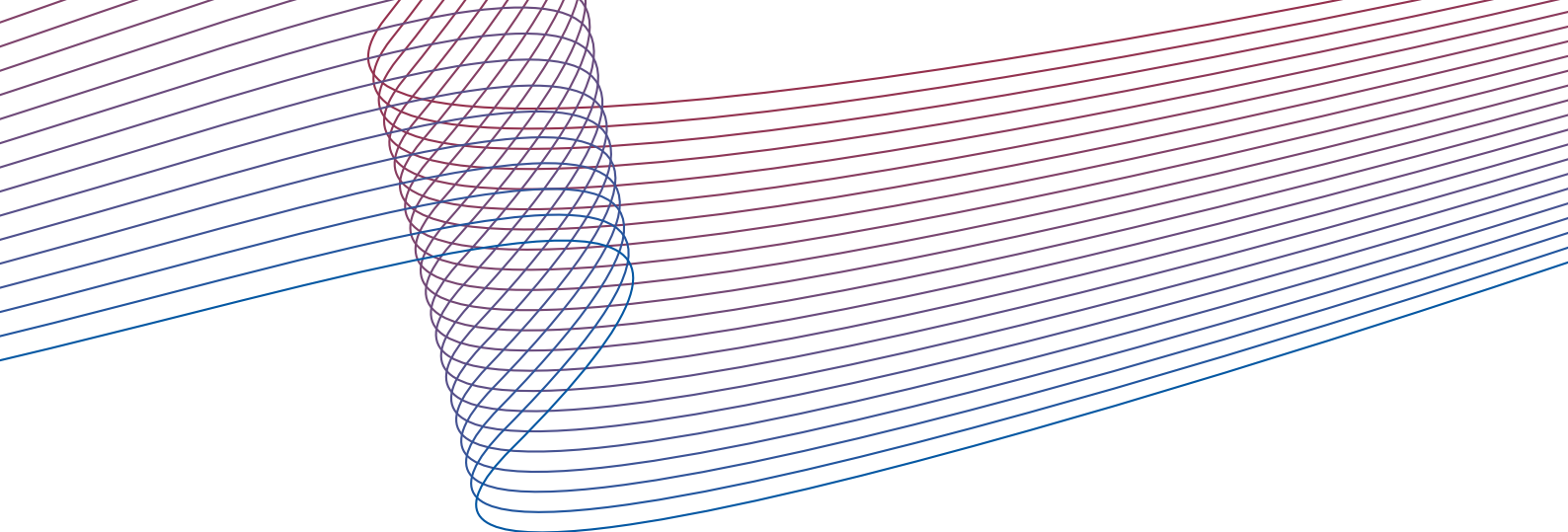
8 Giles, C. 2016. OECD issues damning report of effect of Brexit. Financial Times. <https://www.ft.com/content/eda98e66-0c48-11e6-9cd4-2be898308be3>

9 Sapir, A. 2016. Beyond hard, soft and no Brexit. Bruegel. <http://bruegel.org/2016/10/beyond-hard-soft-and-no-brexit/>

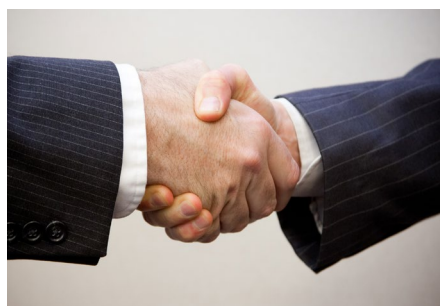
1 Europa.eu, 2017. Trade. [https://europa.eu/european-union/topics/trade\\_en](https://europa.eu/european-union/topics/trade_en)

2 Ec.Europa.eu, 2017. The European Single Market. [https://ec.europa.eu/growth/single-market\\_es](https://ec.europa.eu/growth/single-market_es)

3 Chapman, B. 2017. EU Single market: What is it, and why should we care if the UK leaves it. The Independent. <http://www.independent.co.uk/news/uk/politics/single->



ropean Free Trade Association (EFTA). If the UK and the EU were to decide on a similar relationship, the UK would have partial access to the single market in exchange for complying with certain aspects of EU legislation, including free movement of persons<sup>10</sup>. Nevertheless, the UK would have no decision-making power over the single market rules and would have to contribute to the EU budget. Furthermore, the economic and trade relationship between the EU and Switzerland is built on 100 agreements and is managed through a structure of more than 15 joint committees<sup>11</sup>. It is therefore uncertain whether the EU would want to suggest a similar deal, or in fact, whether the UK would accept it<sup>12</sup>.



## Hard Brexit

The following hard Brexit scenarios envision the UK leaving the EEA and not having any kind of access to the single market. The first possibility would be

<sup>10</sup> Ec.europa.eu, 2017. Countries and regions: Switzerland. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/>

<sup>11</sup> Idem

<sup>12</sup> Sapir, A. 2016. Beyond hard, soft and no Brexit.

Bruegel. <http://bruegel.org/2016/10/beyond-hard-soft-and-no-brexit/>

for the UK to stay in the customs union and have a relationship such as the one between Turkey and the EU. Being a member of the customs union would mean that the UK would accept common tariffs on imports from outside the EU and would be able to trade goods freely with EU members<sup>13</sup>. The UK would benefit from agreements that the Union has reached with other states, but would not be free to set its own tariffs<sup>14</sup>. Lastly, it would not have to comply with the EU's four freedoms or contribute to the Union's budget.

The UK could also decide to leave the EEA and the customs union, which would mean that it would have to reach a free trade agreement as a third country, such as the agreement reached with Canada. The UK would no longer have to accept common tariffs on non-EU imports but would not have access to free movement of goods. This is another scenario where the UK would not have to agree to free movement of goods, services, capital and labour or contribute to the EU budget<sup>15</sup>. As we have seen with the Comprehensive Economic and Trade Agreement (CETA), it take a long pe-

<sup>13</sup> Europa.eu, 2017. Customs: Free trade in Europe. [https://europa.eu/european-union/topics/customs\\_en](https://europa.eu/european-union/topics/customs_en)

<sup>14</sup> Cadman, E. and Tetlow, G. 2017. The EU single market: How it works and the benefits it offers. Financial Times. <https://www.ft.com/content/1688d0e4-15ef-11e6-b197-a4af20d5575e>

<sup>15</sup> Sapir, A. 2016. Beyond hard, soft and no Brexit. Bruegel. <http://bruegel.org/2016/10/beyond-hard-soft-and-no-brexit/> and Chapman, B. 2017. EU Single market: What is it, and why should we care if the UK leaves it. The Independent. <http://www.independent.co.uk/news/uk/politics/single-market-brexit-eu-trade-deals-what-is-uk-leave-european-union-why-a7627061.html>

riod of time to reach a free trade agreement and it is likely that it would not be reached by 29 March 2019.

Finally, the worst-case scenario would be for the UK not to have any kind of preferential trade agreement with the EU and for the relationship to be solely based on WTO terms. In this case the UK would have no participation whatsoever in EU policies or processes<sup>16</sup>. Moreover, it would have to negotiate 750 agreements from scratch<sup>17</sup>.

## Conclusion

It is clear that remaining a member of the EU is the most advantageous option for the UK. The single market grants it access to 500 million customers across the EU and it can influence the single market rulemaking. In turn, this lowers prices for costumers and provides them with more options. Ultimately, this relationship makes the UK economy more prosperous.

<sup>16</sup> Sapir, A. 2016. Beyond hard, soft and no Brexit. Bruegel. <http://bruegel.org/2016/10/beyond-hard-soft-and-no-brexit/>

<sup>17</sup> McClean, P. 2017. After Brexit: the UK will need to renegotiate at least 759 treaties. Financial Times. <https://www.ft.com/content/f1435a8e-372b-11e7-bce4-9023f8c0fd2e>

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