

## INTERNATIONAL TRADE: 10 FACTS ABOUT THE UK'S DEAL WITH THE EU

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As the debate about the United Kingdom's future relationship with the European Union intensifies ahead of a crucial vote in parliament, there have been many inaccurate statements. We therefore thought it would be helpful to set out some key facts in a simple, non-partisan manner.

Trade law is a complex area and we welcome responses from those who believe that we have incorrectly interpreted certain texts, or omitted any key details. However we believe that the key points set out below is the consensus view among serious trade policy scholars and practitioners in and outside the UK.

**1 – Withdrawal Agreement.** The **Withdrawal Agreement** between the UK and EU is a legal treaty that says that the UK will continue to trade with the EU on current terms until December 2020. This period, which starts on 30 March 2019, can be extended, though probably only until December 2022. Thereafter either a new arrangement will enter into force (2), or a 'backstop' as defined in the treaty to prevent a border on the island of Ireland will come into force (3, 4).

**2 – Political Declaration.** The UK and EU have set out their aspirations for a future trade arrangement in a legally non-binding **Political Declaration**. This will be the basis for trade negotiations which can commence in April 2019. The political declaration leaves open elements such as the extent to which the UK will follow EU regulations, and the extent to which trade with the EU will be frictionless. Such agreements typically take several years to negotiate from start to implementation – therefore the agreement on the future trade relationship between Britain and the EU may not be complete by 2022.

**3 – Northern Ireland 'backstop'.** The 'backstop' arrangements between the UK and EU to prevent a future border on the island of Ireland consist of a/ a customs union between the whole of the UK and the EU in order to prevent customs duties and checks b/ and a commitment for Northern Ireland to specifically follow EU regulations at a level that is sufficient to ensure that no product checks will be required at the land border in Ireland. The full details of the way the backstop will work have not yet been defined: this should be done by the middle of 2020. There is already some divergence between Northern Ireland and the rest of Great Britain in terms of regulations, for example with regard to animal health. A 'backstop' could increase that divergence unless the UK Government chose to also voluntarily align the whole country with EU regulations.

**4 – Technology and invisible borders.** All borders between countries outside of the EU have associated infrastructure to check people and goods traffic: goods typically require both customs and product safety checks. Some customs experts believe that technological solutions could remove this need in the case of the Northern Ireland / Ireland border. But the vast majority believe that these solutions do not yet exist, and that they would need to be accompanied by other measures to ensure trust and provide appropriate redress mechanisms between the EU and UK. There is no generally agreed timescale for when

technological solutions for an invisible border could happen, but few believe any alternate solutions would be ready by 2022.

**5 – Scope for free trade agreements with United States and other countries.** If the UK is in a customs union with the EU because of either (2) or (3), and follows many of the same regulations, there will be only limited scope for the UK to negotiate new trade agreements with other countries. That would be predominantly in the area of services (10). Outside of a customs union, if we were to follow EU regulations we would be able to implement free trade agreements with many countries but probably not the United States. US trade agreements normally require countries to follow regulations at variance with those of the EU, particularly in terms of food. A full-fledged free trade agreement with the US would be possible if we were outside of a customs union with the EU and we do not follow EU regulations in sensitive areas such as food.

**6 – ‘Canada plus’ and Irish border.** Some suggest that a UK-EU free trade agreement would allow Britain to negotiate FTAs with the rest of the world, including with the US (5). This would mean that the UK follow different rules and apply different customs rates to imports from non-EU countries. This is inconsistent with having no border in Ireland. Under the Withdrawal Agreement as it currently stands such a future trade agreement with the EU would not obviate the need for the all-UK backstop. However, the UK and EU could agree to a backstop that relates only to Northern Ireland, but this would effectively mean there would be a customs border in the Irish Sea.

**7 – ‘Norway option’.** Some politicians have suggested we leave the EU but remain in the European Single Market in the same way as Norway and Iceland. Known as the Norway option, this would allow the UK to negotiate new trade deals except those requiring regulatory changes such as those typically requested by the US. We would follow EU regulations and have access to the EU market more or less as we do now, with some extra restrictions such as customs checks. However we would have to accept continuing freedom of movement. This option could help resolve the border issue (4) more quickly than the development of technology solutions. But the Norway option alone would not replace the all UK-backstop, ie. a EU-UK customs union. Such a replacement would have to be agreed by the parties.

**8 – ‘WTO terms’.** Another option that has been suggested is that we leave the EU with no deal and trade on World Trade Organization terms. The WTO sets minimal, common-denominator rules among 164 countries in the world. For the UK, trading just on the basis of WTO ‘terms’ would mean the introduction of tariffs and agricultural quotas on imports to Britain. WTO terms also means there would be border tariffs, quotas, and border checks imposed by the EU and many other trading partners on UK exports. It is not clear in this scenario whether border infrastructure would be reintroduced to the island of Ireland (see (4)). No country that is a member of the organisation trades solely on ‘WTO terms’ because these terms do not meet many needs of international businesses involved in trade. For example, although there is no EU-US Free Trade Agreement, there are 147 agreements involving the two trading powers, many of which are bilateral agreements to facilitate trade and improve on WTO terms.

**9 – Economic impact of future trade agreement with EU.** We cannot be sure of the economic impact of any proposed future agreement with the EU because it is a hypothetical agreement until it is negotiated. Economic studies have proved that the greater the number of barriers to trade, the more trade will be restricted, and hence the lower economic growth will be. On this basis the overwhelming majority of economic models say that there will be an impact on growth from leaving the EU – -with the ‘WTO option’ causing the largest fall in growth, and the Norway option the least. Note that there cannot be a reliable forecast for the PM’s proposed ‘deal’ as set out in the Political Declaration (see 2), as we do not know enough about the agreement’s contents. Most economic models of possible trade agreements with non EU countries also say their impact will make very little contribution to offsetting the loss of growth stemming from the UK’s departure from the EU and subsequent divergence from its rules.

**10 – Services.** Much of the public debate on trade and the EU focuses on goods. However 80% of UK GDP and nearly half of the UK’s exports come from services – intangible but highly valued activities. The UK has a trade surplus with the EU in services – though this does not offset our trade deficit in goods. Of the options being discussed, only the Norway option will allow us to continue to have the same access to the EU services market as currently. In contrast, the provisions on services in the proposed Political Declaration are weaker. For example, replacing the current complete freedom for UK nationals such as consultants and musicians to travel to the EU to supply services with a vague provision for “temporary entry and stay” in “defined areas”, and potentially allowing EU Member States much greater scope to restrict the ability of UK service providers in areas such as legal services to operate in the EU.