

An aerial night-time photograph of Europe, showing the continent illuminated by city lights. The lights are concentrated in major urban centers and along coastlines, creating a glowing pattern against the dark landscape. The sea is visible in the upper portion of the image, and the overall color palette is dominated by the blues and greens of the night, punctuated by the warm yellows and oranges of the city lights.

What will an
UK/EU trade
relationship look
like post-Brexit?

SCENE SETTING

The nature of the future relationship that the UK government will seek to negotiate with the rest of the EU has not yet been defined, following the 23 June referendum decision to leave.

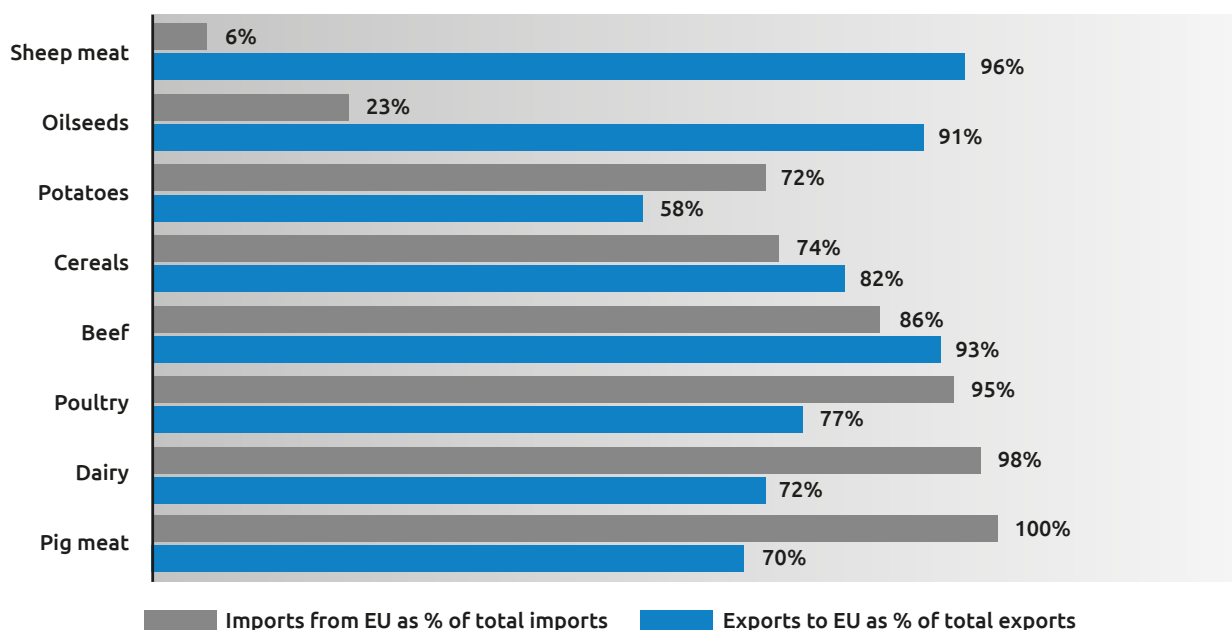
It is expected that negotiations will commence once the UK gives formal notice to leave the EU under Article 50 of the Lisbon Treaty, which is not expected before a new Prime Minister is chosen.

Negotiations will take place over a two-year period, which may be extended by agreement of all 27 remaining EU Member States.

Until the moment the UK leaves the EU it remains a full Member State of the Union and therefore bound by all Treaty obligations, legislation and policy.

Nearly two thirds (62% by value) of UK agricultural exports are to the EU, with seven tenths (70 per cent by value) of agricultural imports from the EU. The UK is a particularly high net importer for dairy products, pig meat and vegetables. 90 per cent of beef and lamb exports and 70 per cent of pork exports go to the EU.

UK agricultural trade with the EU¹



This document sets out five potential trade relationship options post-Brexit and explores the pros and cons of each. It is the first of a series of analyses from AHDB looking at the implications of the EU exit. When published, these will be available at www.ahdb.org.uk/news/eureferendum.aspx

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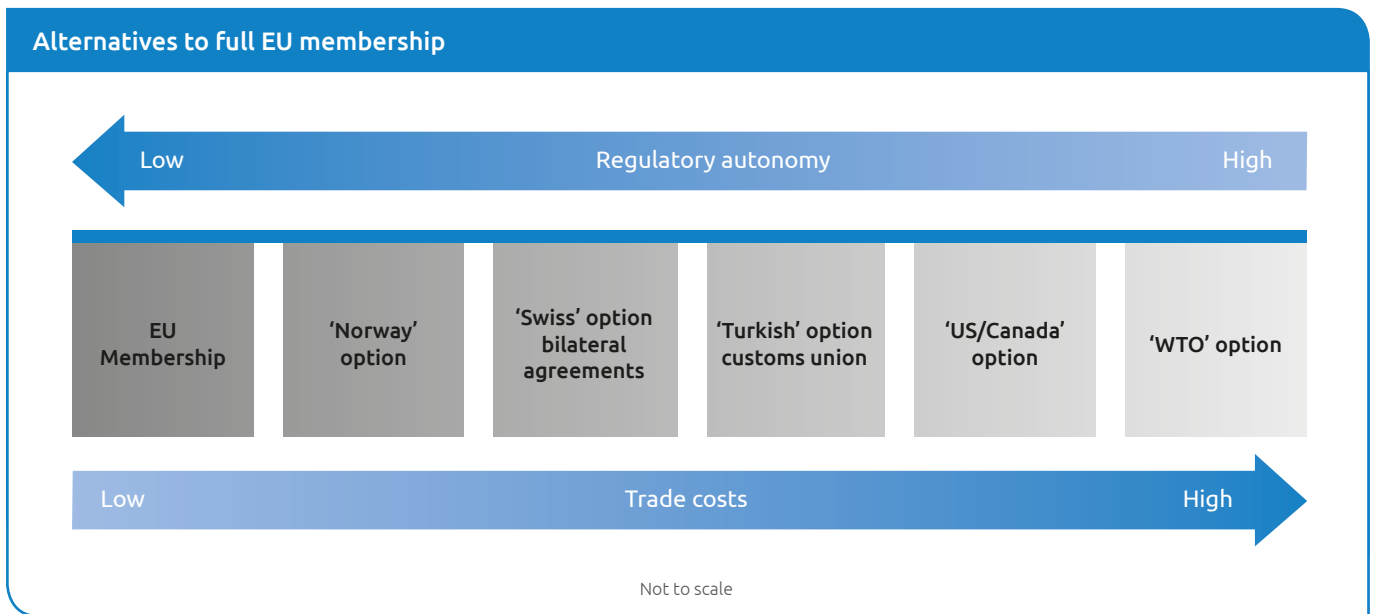
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WHAT ARE THE ALTERNATIVE OPTIONS FOR A UK/EU RELATIONSHIP POST-BREXIT?

At his address at the AHDB Outlook Conference 2016, Alan Matthews, Professor of European Agricultural Policies at Trinity College Dublin, identified five examples of alternatives to full EU membership, three of which already exist within Europe.

It is an unprecedented event for a Member State to leave the EU. The country-specific models set out in this paper have emerged in the context of a historical timeframe of EU evolution and therefore cannot be viewed by the UK as off-the-peg solutions.

The chart below compares how much power the UK has to regulate itself against the costs associated with trade for each of these options.



THE 'NORWAY' OPTION

Tariff-free access to the EU's Single Market but freedom to control own external trade policy

- Inside the Single Market, although some agricultural products are exceptions
- Outside the EU Customs Union
- Operate own external trade policy
- Subject to most EU rules and regulations for exports into the EU

Pros

Continue to trade with EU without any barriers, as part of the Single Market

Able to negotiate trade deals with partners outside the EU

Reduced contribution to EU budget (approximately 20 per cent per capita lower)

Able to introduce own agricultural policy

Migrant workers from EU able to work in agriculture due to free movement of people

Cons

Continue to follow majority of EU rules and regulations which act to bind the Single Market together

'Integration without representation' as would no longer have voting rights on the rules and regulations

May take up to 10 years to set up trade deals with third parties that EU already has agreements with

Still required to contribute towards EU budget

Uncertainty on level of UK government support for agriculture within future policy

THE 'SWISS' OPTION

Bilateral agreements giving greater autonomy than Member States or Norway on adopting EU rules and regulations but compliance to maintain trade links

- Outside the Single Market
 - Outside the EU Customs Union
 - Free trade agreements with individual EU Member States
 - Compliance with many EU rules and regulations
-

Pros

Able to trade with the EU via multiple Free Trade Agreements with EU Member States

Reduced contribution to EU budget (approximately 60% per capita lower)

Not part of EU Customs Union so able to negotiate own trade deals with other parts of the world

Able to introduce own agricultural policy

Migrant workers from EU able to work in agriculture due to free movement of people

Cons

Must continue to follow many EU rules and regulations

Still required to contribute towards EU budget

May take up to 10 years to set up trade deals with third parties that EU already has agreements with

Uncertainty on level of UK government support for agriculture within future policy

Increased bureaucracy involved with having multiple bilateral agreements. EU currently not agreeing further bilateral agreements with the Swiss.

THE 'TURKISH' OPTION

A stripped-back Customs Union operating outside the EU framework of treaties and institutions

- Outside the full Single Market
- Inside the EU Customs Union for some goods
- Free from most EU rules and regulations

Pros

Customs Union arrangement allows free movement of goods with the EU with no requirement to adopt many EU regulations linked to the Single Market

Contribution to EU budget likely to reduce

UK able to introduce own agricultural policy

Cons

Required to adopt EU external trade policy for imports but not able to access existing and future EU trade deals with third countries for exports

While Turkey does not fund EU budget (as the deal it agreed was linked to joining the EU in future) the UK would be required to do so

Uncertainty on level of UK government support for agriculture within future policy

Likely that migrant workers from EU would find it harder to work in agriculture due to no free movement of people with the EU

THE 'US/CANADA' OPTION

Seek trade agreements tailored to national interests

- Complete breakaway from EU
- UK sovereignty over policy and regulation

Pros

Power to agree future trading arrangements with EU and others

No contribution to EU budget

Not required to follow EU rules and regulations

Cons

As a smaller entity than the EU, may have less bargaining power within trade discussions

Free trade agreements unlikely to remove all trade barriers, some tariffs likely

No longer party to any trade agreements negotiated by the EU with third countries

Differing standards and rules may become non-tariff trade barriers with the EU or others

Likely that migrant workers from EU would find it harder to work in agriculture due to no free movement of people with the EU

THE 'WTO' OPTION

Rely on the multilateral trading system through UK membership of the World Trade Organisation (WTO) rather than negotiating own agreements

Pros

No contribution to EU budget

Not required to follow EU rules and regulations

Trade barriers may raise food prices which would benefit domestic producers

Cons

Tariffs will act as a barrier to UK exports to EU and elsewhere

No longer party to any trade agreement negotiated by the EU, with third countries

Likely that migrant workers from EU would find it harder to work in agriculture due to no free movement of people with the EU

Differing standards and rules may become non-tariff trade barriers with the EU or others

WHICH OPTION IS LIKELY TO BE CHOSEN?

At present, the UK has not defined the type of relationship it intends to seek in the negotiations and when this does happen it is far from certain whether the EU will be agreeable.

During the referendum campaign, senior Leave campaigners signalled that the UK should continue to access the Single Market at the same time as leaving the EU. It is unclear from this whether their intention is/was to retain the UK's trading status within the Single Market or seek access on a 'bilateral' trading basis.

Though this distinction may seem subtle, it is fundamental to determining whether the UK would be bound by EU principles, especially free movement of goods, labour, services and people.

If the UK seeks to negotiate on a similar basis to Norway – as a full trading partner in the Single Market – it will benefit from free movement of goods but must also accept free movement of labour and also EU regulatory burdens that bind the Single Market together.

Some Leave campaigners hinted at a preference for a bilateral trading model similar to the trade agreement that Canada has negotiated with the EU, albeit with much greater market access. This may enable greater control over free movement from the EU, which has also been a central pillar of the Vote Leave manifesto.

In the course of the obligatory two-year negotiation period to determine the new UK/EU relationship, the importance of the UK as a destination for EU trade means, on balance, individual EU Member States are likely to want terms which will not strongly disadvantage their own UK trade relationship.



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