Brexit FactBase

Summary

As at 16 November 2020

A EU and sovereignty

1. **EU's origins come from the aftermath of WW2** – its unifying ideal is a peaceful, united and prosperous Europe with economic cooperation as its foundation
   - Single Market is unique globally in creating near-frictionless trade in goods and services for member states
   - Four freedoms established in 1958
   - When UK joined in 1973, it was clear that membership involved much more than trade

2. **Member states are sovereign nations** who benefit from close cooperation
   - EU uses a democratic model to govern the European Commission and approve laws
   - EU determines policy areas (or 'competences') in a minority of areas where common or cross-border rules are needed (e.g. trade) – the majority is controlled by member states; others are shared.
   - Majority of UK law is determined by UK – not by EU
   - UK has had a strong influence in the EU and has shaped and voted for the majority of EU law

3. EU has areas to address but democratic deficit often exaggerated
   - In 2014, a UK government review identified areas for EU to improve such as democratic accountability and application of subsidiarity
   - EU has issues to address and is debating its own reform agenda on issues such as eurozone and further reform of the CAP

4. UK came before ECJ less frequently than most member states
5. UK remains subject to EU law during the transition period

B UK contribution and benefit

1. **UK net contribution** is about 0.4% of GDP and less than 1.3% of public

expenditure

2. For 2019, UK contribution was:
   - £14.4 billion gross after rebate
   - £7.9 billion net after public/private sector receipts
   - Net £152 million a week (or 32p per person per day)

3. Economic benefits of EU membership are over ten times the contribution (IFS):
   - Adding about 4% to UK GDP (UK GDP is about ~£2.1 trillion a year)
   - Benefit of ~£84 billion a year (that is, over £1,600 million a week)

4. Economists say Brexit is already causing UK economic growth to fall by about 2% to 2.5% a year – costing GDP of over ~£800m a week

5. OBR expected UK financial settlement (what UK owes) to be ~£33 billion at 31 December 2019
   - Amount owed reduces by the UK's monthly contributions in the transition period.
   - Overall financial settlement remains unchanged, unless the transition period is extended.
   - At 31 December 2020, UK will owe about £24 billion.

C Immigration

1. Government wishes to reduce **immigration**, but UK's ageing population means UK will need more migrant workers not fewer
   - Policy initiatives to reduce migrant workers (e.g. increasing retirement age) will take years to be effective
   - Freedom of Movement rules include controls over EU citizens, but UK decided not to implement them

2. Net migration from non-EU countries has significantly exceeded that from EU (by four to one over the last decade)
   - Post-Brexit trade negotiations are likely to lead to increased migration from non-EU countries

3. EU migration benefits UK economy overall
   - EU27 citizens of working age are more likely working than UK or non-EU citizens

- EEA citizens in 2016-17 contributed ~£5 billion to UK public finances
- Effects of EEA migration on UK wages and employment are small
- Reduced EU migration to UK damages economy and public services

4. Brexit has already caused:
   - Fewer EU/EEA citizens to arrive and more to leave
   - Rising net migration from non-EU/EEA countries

5. Government has been consulting on its White Paper on post-Brexit immigration (published December 2018)
   - February 2020, government announced new rules to apply from January 2021

B Trade and investment

1. About 3/4 of global **trade** is in goods and 1/4 is in services
   - Goods and services are interlinked
   - Exports and imports are interlinked
   - EU, US and China dominate world trade
   - UK ranks 7th for trade after Germany, Japan and France
   - UK ranks 10th for goods exports and 2nd for services exports

2. Most EU trade is with other EU27 countries
   - 61% of EU27 exports go to other EU27 countries
   - Single Market, Customs Union, VAT area and customs cooperation create near-frictionless trade within EU
   - UK accounts for less than 6% of EU27 exports

3. In 2019, UK trade was £1.4 trillion with deficit of £24 billion:
   - Exports £700 billion; imports £724 billion; trade £1,425 billion
   - Surplus on services – £105 billion; deficit on goods – £129 billion
   - Deficit with EU27 of £72 billion; surplus with non-EU of £48 billion
   - 87% of UK goods imports bear no tariff because of EU membership

4. Any Brexit UK-EU trading arrangement will be inferior to EU membership and will create new trade barriers
   - Brexit trade barriers will reduce UK-EU trade volumes and profitability
   - Assuming a UK-EU FTA, impact of tariffs on goods trade likely to be small

- Non-tariff barriers would have much bigger impact than tariffs
- Under WTO terms, impacts of tariffs and non-tariff barriers would be significant
- New infrastructure will take time to implement – extra trade admin and costs for government and business

5. Small percentage drop in EU-related trade will cost UK £ billions. In 2019:
    - 47% of UK trade was with EU (exports £301 billion, imports £372 billion)
    - 66% of UK trade was with EU or countries with EU agreements – rising to 73% with current negotiations
    - 22% of UK trade was with US and China on WTO plus various bilateral EU agreements

6. UK intends to 'roll over' existing EU agreements with 67 countries (for £197.8 billion or 13.9% of trade) before end of transition. At 11 November 2020:
    - 50 of the 67 had been replaced, accounting for £117.6 billion or 8.3% of UK trade
    - 2 agreements with Norway (£25.5 billion) and Iceland (£1.3 billion) – 1.9% – in event of 'no deal', but not roll-overs
    - 15 not yet replaced means a further £80.2 billion (5.6%) is at risk

7. UK will negotiate trade deals with other countries but:
    - UK negotiating position is weaker as a solo country
    - UK needs to replace about 1,000 other EU agreements with third countries (i.e. not just trade)

8. UK has been an attractive destination for **Foreign Direct Investment**:

    - UK has been an attractive destination for FDI: in 2019, UK ranked 4th globally for FDI stock and 8th for FDI inflows
    - UK's stock of FDI is greatest with its main trading partners – EU27 and US
    - Brexit means investors had delayed and/or redirected FDI in 2017 and 2018, but in 2019 FDI increased
    - COVID-19 crisis will cause a dramatic fall in FDI in 2020

E Impact on economy

1. All reputable economists agree Brexit will harm economy.

- Already causing GDP to be 2.0-2.5% lower than it would be without Brexit (that's about £0.8bn/week to £1.0bn/week)
- Costing public finances about £300 million a week (assuming a 37% impact)

2. UK economy will continue to grow after Brexit, but more slowly than if UK had stayed in EU.

- NIESR estimated economic impact of Johnson's October proposal at a loss of 3.5% GDP (~£70 billion a year or £1.3 billion per week)
- LSE, with UKICE, estimated the economic impact of Johnson's basic FTA at a loss of 5.5% to 7% of GDP

3. **Brexit impacts on trade and economy** include:

- New barriers to trade and disrupted supply chains
- Export of UK jobs and business activity to EU27
- Reduced benefits from migration on work force (e.g. in farming)
- Additional red tape, bureaucracy and costs
- Impaired UK ability to compete in world markets

4. Brexit impacts on public services include:

- Reduced tax take and contribution to public finances
- Reduced services due to unfilled vacancies in e.g. social care and NHS

5. Government (November 2018) assessed mid-range long-run annual GDP reductions to be:

- 1.4% for EEA-style agreement (loss of GDP of £0.5 billion per week)
- 4.9% for FTA-style agreement (£2.0 billion per week)
- 7.7% for WTO option (£3.0 billion per week)
- Johnson's basic FTA falls between an average FTA and WTO

6. Employment effects of these estimates are equivalent to job losses of:

- EEA – 0.4 million jobs
- FTA – 1.6 million jobs
- WTO – 2.5 million jobs

7. Benefits of potential new trade deals with other countries are small, uncertain and long-term (same for reduced regulation)

8. For EU27, Brexit will, overall, have minor economic impact but some countries could suffer a big impact, notably Ireland

F Impact on industry sectors and regions

1. Several studies (including government's own analysis) conclude that all **UK regions and nearly all industry sectors** will be harmed by Brexit
2. Economic impact on some industries (such as automotive and chemicals) could be severe
3. Public services, like health and social care, are likely to be badly affected because of reliance on EU workers
4. New Brexit trade barriers on UK exports to EU will create opportunities for EU27 suppliers to freeze out UK from EU opportunities
5. Impact on UK sectors:
    - 5 sectors will bear most of the trade costs of Brexit: financial services; automotive; agriculture, food and drink; consumer goods; and, chemicals and plastics
    - 3 sectors with the most jobs at risk: administration and support services, wholesale trade, and legal and accounting services

6. Impact on regions:
    - London and the South East are likely to suffer the least
    - Most at risk: Cumbria, Hampshire, Herefordshire, Gloucestershire, Lancashire, Leicestershire, East Riding/North Lincolnshire, Warwickshire and Wiltshire
    - Regions with high EU exports in vulnerable goods sectors:
        - Northern Ireland and Cornwall (food, live animals and manufactures)
        - Northumberland, Tees Valley and Durham (chemicals, machinery and transport equipment)
        - East Wales (manufactures, machinery & transport equipment)

G Impact on policy areas

1. Policy areas such as **science, education and healthcare** face common risks and damage from Brexit

2. Risks include lost funding; lost influence over EU standards; lost participation in EU & international programmes; lost/reduced access to talent
3. After Brexit, in areas like **environment**, **defence and security**, an ongoing partnership and continued cooperation between UK and EU27 will be important for UK's and EU27's future success
4. After Brexit, challenge for UK is to find effective ways to maintain UK involvement and influence on EU27 (and elsewhere)

H Negotiations to 31 January 2020

1. **Phase 1** prioritised the **Withdrawal Agreement:** principally, citizens' rights, Irish border and UK's financial settlement.

- UK and EU signed legally binding WA on 24 January 2020

2. Phase 2 focuses on future UK-EU relationship

- Political Declaration published 14 November 2019 provides principles
- Detailed Phase 2 negotiations taking place during transition to 31 December 2020

3. Commons rejected WA three times 15 January to 29 March 2019
4. 11 April, EU and UK agreed second Art50 extension to 31 October to ratify WA
5. Subsequent 2019 events:

- 23 May, UK participated in EU elections
- 24 July, Boris Johnson became PM
- 28 August, Parliament prorogued from 10 September to 14 October
- 24 September, Supreme Court ruled prorogation unlawful & void.
- 25 September, Parliament resumed sitting
- 2 October, UK Government proposed changes to WA but these were not seen as workable
- 17 October, UK agreed a revised WA/PD with EU
- 19 October, Parliamentary approval withheld until WA Act passed
- 19 October, UK requested extension to 31 January 2019
- 22 October, Commons approved second reading of WA Act but rejected timetable for scrutiny as too short
- 22 October, Government put WA Act into limbo
- 28 October, EU agreed a third Article 50 extension to 31 January 2020
- 6 November, Parliament dissolved for General Election
- 12 December, Conservatives won large parliamentary majority

6. 24 January 2020, Brexit Withdrawal Agreement signed
7. 31 January 2020, UK left EU; detailed **Phase 2 Brexit negotiations** begin

I What happens next?

1. UK in **transition period** until 31 December 2020
    - One-time opportunity for extension before 1 July 2020
    - Little time available for negotiation in 2020: around nine months

2. UK has not requested extension although EU open to one and despite COVID-19:
    - Impeding negotiations
    - Causing severe economic recession

3. Commission negotiating objectives agreed by European Council, cover:
    - Negotiations on the future relationship with the UK
    - Implementation of the Withdrawal Agreement
    - Commission's 'no-deal' preparations

4. **Future UK-EU partnership**'s key elements:
    - Economic partnership
    - Security partnership
    - General (programmes, equivalence, adequacy etc.)

5. UK government states its principal aims for an FTA are:
    - Zero tariffs and quotas on UK-EU goods trade
    - Ability to diverge from EU regulations and rules
    - But:
        - EU pre-condition for FTA is UK commitment to level playing field provisions
        - UK's choice to diverge comes with definite large costs and uncertain small benefits

6. UK almost certainly unable to implement Northern Ireland Protocol by December 2020:
    - Practical and political disruption in NI
    - UK could be taken to ECJ

7. Brexit will not be over on 31 December 2020

- Negotiations likely to continue into 2021 (e.g. services)
- Implementation activities will continue in 2021 and probably beyond

8. Threat of ‘no deal’ persists (save for provisions in Withdrawal Agreement)
9. Basic FTA has several advantages over ‘no deal’

J No deal/end of transition period

1. Government planning assumptions for ‘no deal’ show impacts would be significant (even without effects of Covid-19)
2. ‘No deal’ means UK ends transition period on 31 December 2020 with no agreement beyond Withdrawal Agreement
   - UK-EU trade on WTO terms (tariffs on exports to EU and imports to UK)
   - No bilateral UK-EU agreements e.g. fisheries, agriculture
   - EU imposes its standard ‘third-country’ tariffs on UK goods exports to EU
   - EU does not grant UK regulatory equivalence for financial services nor adequacy for data
   - New border procedures and regulatory certification for UK exports to EU: confusion and queues at borders
   - New non-tariff barriers damage UK-EU services trade
   - Price rises and shortages in shops: notably food
   - UK citizens lose rights to freedom of movement in EEA: work, education, travel
   - UK benefits from ‘rolled-over’ trade agreements with other countries

3. Immediate and long-run economic damage for UK on top of Covid-19 effects
   - Economy contracts further due to instant trade barriers and uncertainty
   - Financial markets lose confidence in British institutions
   - Unemployment rises further and sterling falls
   - Inflation rises due to weak £ and higher cost of trade

4. No agreement on the future UK-EU partnership in critical policy areas
   - Defence and security: no basis for future UK participation with EU27 systems and agencies critical for UK security
   - Science and education:
     - Loss of Horizon 2020 and Erasmus participation
     - Reduced opportunities and mobility of talent
     - Reduced participation in international science programmes, loss of funding etc.

5. Euratom: no replacement agreements in place causing disruption to:

- Nuclear fuel cycle, both in UK and overseas
- Supply of medical isotopes to UK hospitals

6. Longer-term, 'no deal' will mean:

- Years of post-Brexit negotiations with EU and others
- Worst long-term economic impact of all Brexit options
- UK negotiating position will be weak