Brexit FactBase

Summary

As at 31 January 2021

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
   - UK had a strong influence in the EU
   - EU uses a democratic model to govern European Commission and approve laws
   - EU determines policy in a minority of areas (or 'competences') which need common or cross-border rules (e.g. trade) – member states control the majority; some are shared.
   - Majority of UK law determined by UK – not by EU
   - UK shaped and voted for 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 its own reform agenda including better regulation, 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

F 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. UK financial settlement (what UK owes EU) was about £33 billion at 31 December 2020:

- Includes £8.5 billion contributions for 2020

5. From 2021 onwards, UK will pay EU for ongoing participation in EU programmes (e.g. Horizon)

G 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)

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. 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 had no tariff because of EU membership

4. The new EU-UK trade agreement is inferior to EU membership and creates new trade barriers

- Brexit trade barriers reduce UK-EU trade volumes and profitability
- Impact of tariffs on goods trade should be small
- Other barriers (such as rules of origin) have much bigger impact than tariffs
- 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 aimed to replace existing EU agreements with 70 countries (accounting for

£226.1 billion or 15.9% of trade) before end of transition. At 1 January 2021:

- 64 of the 70 had been replaced, accounting for £221.2 billion or 15.6% of UK trade
- 31 were fully ratified and 33 provisionally applied or with bridging arrangements
- UK had signed Mutual Recognition Agreements with US, Australia and New Zealand

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**:

- In 2019, UK ranked 4th globally for FDI stock and 8th for FDI inflows
- UK's stock of inward FDI comes mainly from its top trading partners – EU27 and US
- 2019 was the third successive year of falls in inward FDI to the UK
- In 2019, wider business investment intentions remained depressed by slower global growth and political uncertainty
- COVID-19 crisis will cause a dramatic fall in FDI in 2020

C Impact on economy

1. Most economists agree Brexit will harm UK economy.

- Continues to grow long-run, but more slowly than if UK had stayed in EU
- Brexit already causing GDP to be 2.0 – 2.5% lower (loss of ~ £40 to ~£50 bn a year)
- Current cost to public finances ~ £300 million a week (assuming 37% of GDP)

2. Estimated *further* long-run impact of Johnson's shallow FTA on UK economy:

- OBR: loss of 4% (~£80 billion a year or £1.6 billion per week)
- NIESR: loss of 3.5% (~£70 billion a year or £1.3 billion per week)
- LSE, with UKICE: loss of 5.5% to 7% (~£110 billion to ~£140 billion a year)
- 'No deal' would have reduced GDP by a further 2.0% to 2.5%

3. Brexit trade impacts include:

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

4. Benefits of own trade deals and reduced regulation are small, uncertain and long-term

5. Brexit impacts on public purse and services include:

- Less tax take and contribution to public finances (about 37% of the GDP loss)
- Poorer public services due to unfilled vacancies in e.g. social care and NHS

6. Government (November 2018) assessed long-run annual losses to the UK economy would be:

- 1.4% for an EEA-style agreement (~£0.5 billion per week)
- 4.9% for an FTA (~£2.0 billion per week)
- 7.7% for WTO option (~£3.0 billion per week)

H 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

- Economic impact on some industries (such as automotive and chemicals) could be severe
- Public services, like health and social care, are likely to be badly affected because of reliance on EU workers
- New Brexit trade barriers on UK exports to EU will create opportunities for EU27 suppliers to freeze out UK from EU opportunities

2. 5 sectors expected to bear most of the trade costs:

- Financial services
- Automotive
- Agriculture, food and drink
- Consumer goods
- Chemicals and plastics

3. 3 sectors have the most jobs at risk:

- Administration and support services
- Wholesale trade
- Legal and accounting services

4. Regions:

- Least affected: London and South East
- Most at risk: Cumbria, Hampshire, Herefordshire, Gloucestershire, Lancashire, Leicestershire, East Riding/North Lincolnshire, Warwickshire and Wiltshire
- 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 and transport equipment)

E Impact on policy areas

1. Policy areas such as **science, education and healthcare** face common risks and damage from Brexit
2. Risks include losing funding & influence over EU standards, reduced participation in EU & international programmes, access to talent
3. After Brexit, in areas like **environment**, **defence and security**, an ongoing partnership and continued cooperation between UK and EU27 remains 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)

D Negotiations to 31 January 2020

1. **Phase 1** prioritised the **Withdrawal Agreement:** principally citizens' rights, Irish border and 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 negotiations took 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.
   - 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 short timetable for scrutiny
   - 22 October, Government put WA Act into limbo
   - 28 October, EU agreed a third Art50 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:
   - Article 50 period ended
   - Transition period began
   - Transition lasted to 31 December 2020 (but could have been extended)
   - Detailed Phase 2 Brexit negotiations began

I 2020 negotiations

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

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

3. Future UK-EU partnership's key elements:

- Economic partnership
- Security partnership
- General (programmes, equivalence, adequacy etc.)

4. Commission negotiating scope, agreed by European Council, covered:

- Future relationship with the UK
- Implementation of the Withdrawal Agreement
- No-deal preparations
- Expired on 31 December 2020

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 has 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 discussions dis not finish on 31 December 2020

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

8. Basic FTA has several advantages over 'no deal'

J 'No deal'

1. 'No deal' would have meant no UK-EU agreement beyond the Withdrawal Agreement
2. Government found impact of 'no deal' would have been significant (even without effects of Covid-19)

- Yellowhammer planning assumptions

3. UK and EU trade with tariffs on exports to EU and imports to UK (the main differences with the TCA)

4. As with TCA, a major increase in non-tariff barriers to EU-UK trade:

- 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

5. Immediate and long-run economic damage for UK on top of Covid-19 effects

- Long-run cost to GDP estimated at 6% (TCA costs 4%)

6. 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.

7. Longer-term, 'no deal' would have meant:

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

K EU-UK trade agreement

1. EU-UK Trade and Cooperation Agreement agreed 24 December 2020

2. From 1 January 2021, major changes for UK

3. Tariff-free, quota-free UK-EU trade

4. Many new UK-EU trade barriers

5. Ongoing UK-EU dialogue with some urgent issues to address e.g.

- EU grant of equivalence for financial services regulation
- EU grant of data adequacy
- Implementation of the governance framework