

**Brexit -**

**What We Now Know**

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# Executive Summary

This document sets out some of the key things we have learnt since the referendum. These include:

* The *Office for Budget Responsibility* has downgraded UK growth expectations for the next five years.[[1]](#footnote-1)
* The *Organisation for Economic Co-operation and Development* says the UK went from the top of the G7 growth league to the bottom in the year following the Brexit vote. [[2]](#footnote-2)
* *The Centre for Economic Policy Research* calculates that the Brexit vote has already cost the UK economy £300m a week.[[3]](#footnote-3)
* Food prices are growing at their fastest rate in 4 years.[[4]](#footnote-4) Inflation is over 3% for the first time in nearly six years.
* The *Centre for Economic Performance* says that the Brexit vote has cost the average household £404 a year.[[5]](#footnote-5)
* The *Nursing and Midwifery Council* says applications from EU nurses to work in the UK have fallen by 89% since the referendum.[[6]](#footnote-6)
* The Government has said it is not bound to honour the pledge to spend £350m extra a week on the *NHS* made by the *Vote Leave* campaign.[[7]](#footnote-7)
* *The* *Brexit Secretary David Davis* said in February 2017, that “in the hospitality sector, hotels and restaurants, in the social care sector, working in agriculture, it will take time. It will be years and years before we get British citizens to do those jobs.” Industry bodies have since reported labour shortages across those sectors of the UK economy.
* *Theresa May* has agreed to an EU exit bill which she admits could cost between £35 billion and £39 billion.[[8]](#footnote-8)
* The Government has set aside £3bn over the next two years to prepare for Brexit. [[9]](#footnote-9) *The National Audit Office* says almost 2,500 new civil service jobs have already been created due to Brexit. [[10]](#footnote-10)

# Costs

*The Office for Budget Responsibility*, established by Government to provide independent scrutiny of the UK’s public finances, says that the UK economy’s ability to grow has been negatively affected since the Brexit vote. [[11]](#footnote-11)

“The renewed weakness of productivity growth over the first half of 2017 will almost certainly have been exacerbated by the Brexit Vote.”[[12]](#footnote-12)

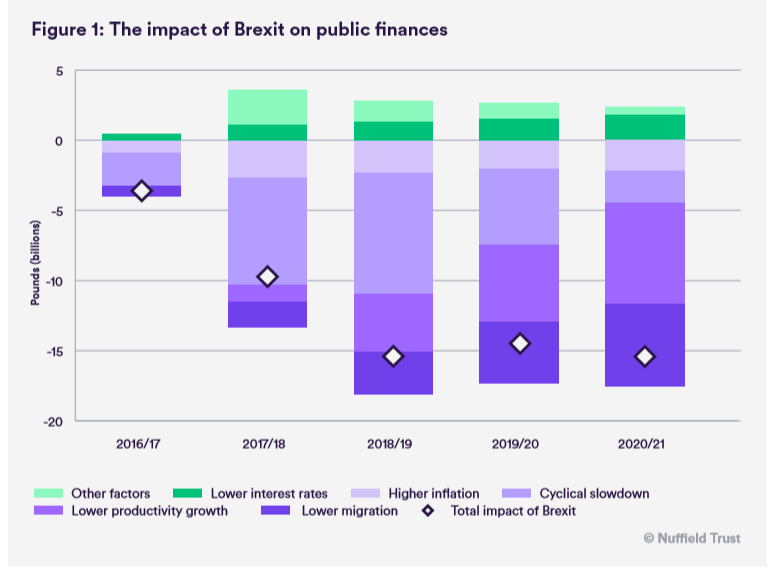
The *Governor of the Bank of England, Mark Carney* has also stated that Brexit is already having a “noticeable impact” on the UK economy and is depressing the rate at which it can grow.[[13]](#footnote-13)

UK growth expectations for the next five years are the most pessimistic in over four decades.[[14]](#footnote-14) Every major international and domestic economic forecaster has downgraded its projections for the UK.

## UK public finances and the NHS

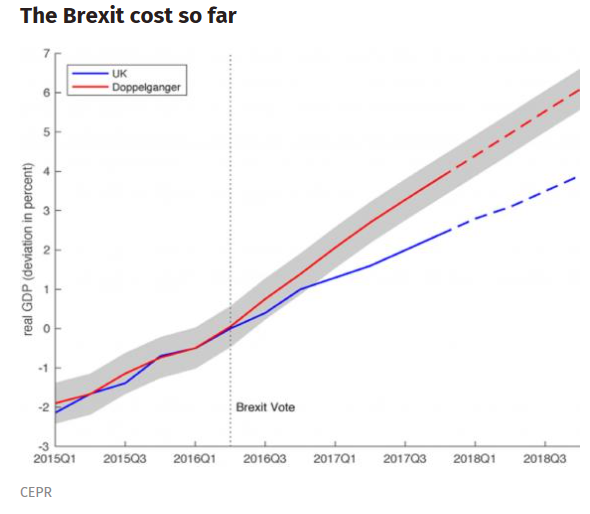
The *OBR* also forecasts a weaker outlook for the public finances. The independent health think tank, the *Nuffield Trust* believes the cumulative economic impact of Brexit, if distributed proportionately across the public sector, could lead to a £2.4 billion reduction in annual NHS spending in England by 2020/21.[[15]](#footnote-15)

*Sir Simon Stevens, Chief Executive of NHS England*, believes that the NHS needs an additional £4bn next year just to maintain existing levels of care.[[16]](#footnote-16) The Government has refused to give the *NHS* the £350m extra a week promised during the Vote Leave campaign.

***The impact of Brexit on public finances*** *[[17]](#footnote-17)*

## The Brexit Vote & UK Economic Output

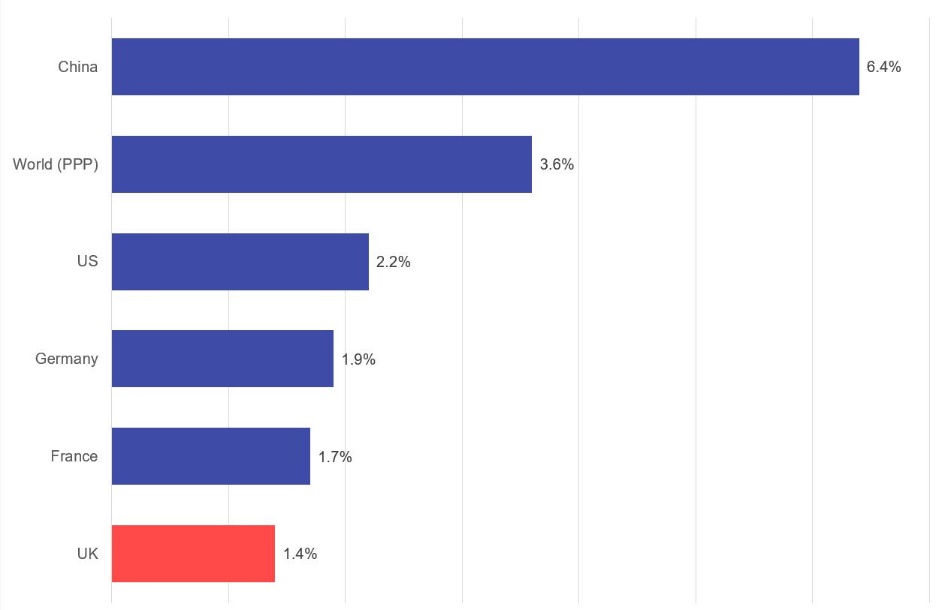
*The Centre for Economic Policy Research* calculates that the Brexit vote has already cost the UK economy £300m a week. By the end of 2018 that will add up to a total of £60 billion, or almost 3% of GDP in lost output.[[18]](#footnote-18)

***The Brexit cost so far*** *[[19]](#footnote-19)*

## Global Economic Context

The UK went from the top of the G7 growth league to the bottom in the year following the Brexit vote. The intergovernmental organisation, the *Organisation for Economic Co-operation and Development* says Brexit’s economic impact on the UK has “cut growth to the lowest annualised rate in the G7 in the first half of 2017.”[[20]](#footnote-20)

The *OECD* now predicts global growth of 3.7% in 2018. The professional services group *PWC,* alsoforecasts the global economy will grow at its fastest rate for seven years in 2018, but that Britain will lag behind.[[21]](#footnote-21)

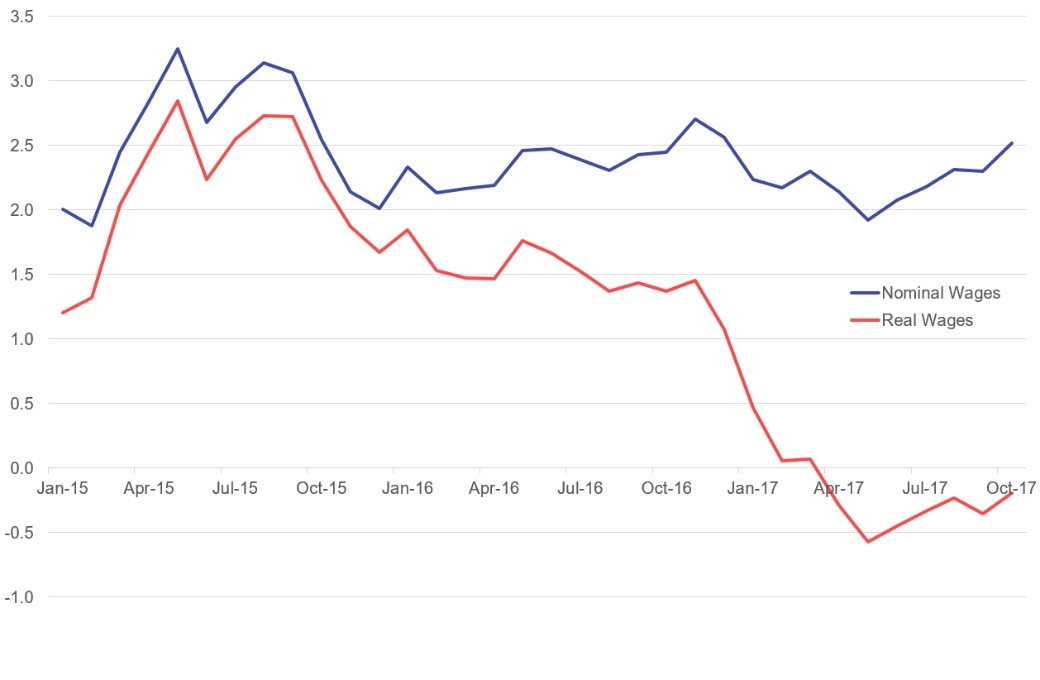
***PwC 2018 GDP global growth forecast: % change year on year*** *[[22]](#footnote-22)*

## Living standards

Inflation has picked up sharply since the Brexit vote. It is over 3% for the first time in nearly six years.[[23]](#footnote-23) The result has been a renewed fall in real wages. The *Centre for Economic Performance* says the impact it has had is close on to a week’s wages for the average worker.[[24]](#footnote-24)

Consumer spending has seen its weakest annual growth since 2012. UK households have now been net borrowers for four successive quarters for the first time since records began in 1987. UK households are saving less than at any time for almost twenty years, in an effort to sustain their spending.[[25]](#footnote-25)

*The Resolution Foundation* warns that Britain is on course for the longest period of falling living standards since records began back in the 1950s. [[26]](#footnote-26)

***UK nominal and real wage growth: 2015-2017*** *[[27]](#footnote-27)*

The *Centre for Economic Performance* says that the Brexit vote has cost the average household £404 a year.[[28]](#footnote-28)

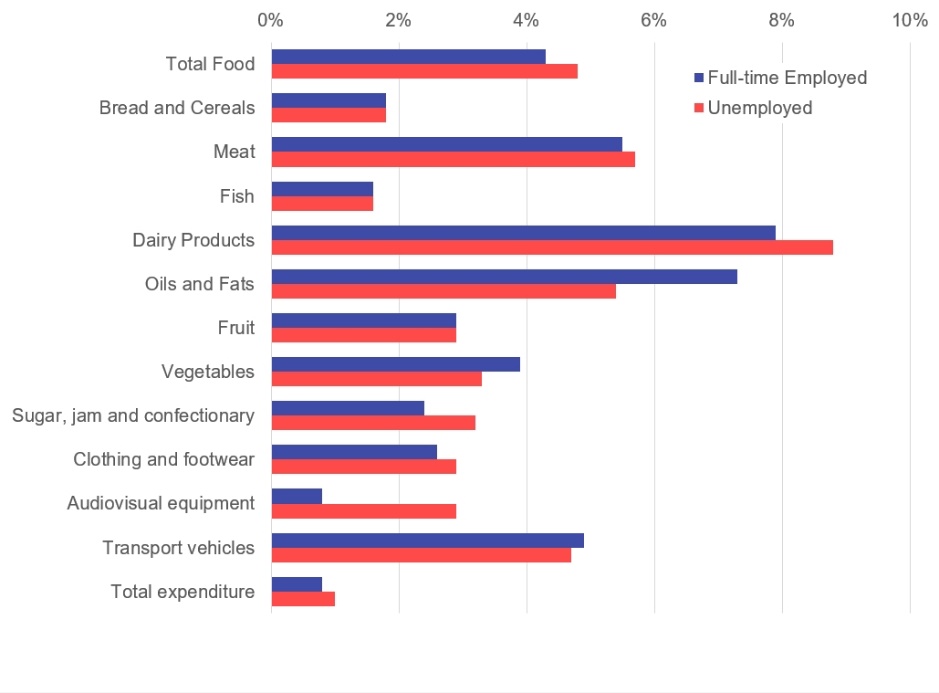
Food prices are growing at their fastest rate in 4 years. Here are the latest percentage changes for some basic foodstuffs recorded by the *Office for National Statistics* in the 12 months to November 2017:

* Butter is up 22.5%.
* Sugar is up 13.9%.
* Pasta is up 11.5%.
* Coffee is up 10.5%.
* The price of fish has risen 8.5%.[[29]](#footnote-29)

As well as food prices, sterling’s devaluation has impacted other essentials such as clothing, footwear and transport. The latest *ONS* figures show transport costs rose by 4.5%, while the costs of clothing and footwear are up by 3%.[[30]](#footnote-30)

The *National Institute of Economic and Social Research* says UK households could face increases of up to £930 in their annual shopping bills if the UK does not reach a trade deal with the EU. Unemployed households, those with children, and pensioners would suffer disproportionately as a result.[[31]](#footnote-31)

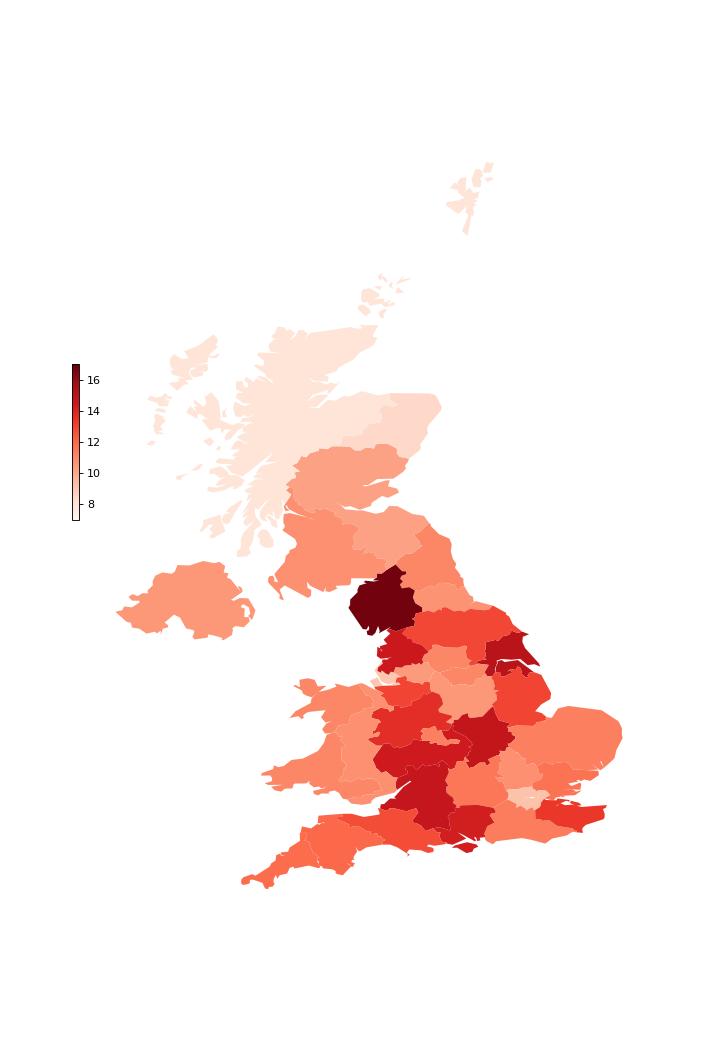
***The unemployed will be hit harder than full-time workers by Brexit price increases***

*Percentage change in value of spending**[[32]](#footnote-32)*

## Regional Economic Impact

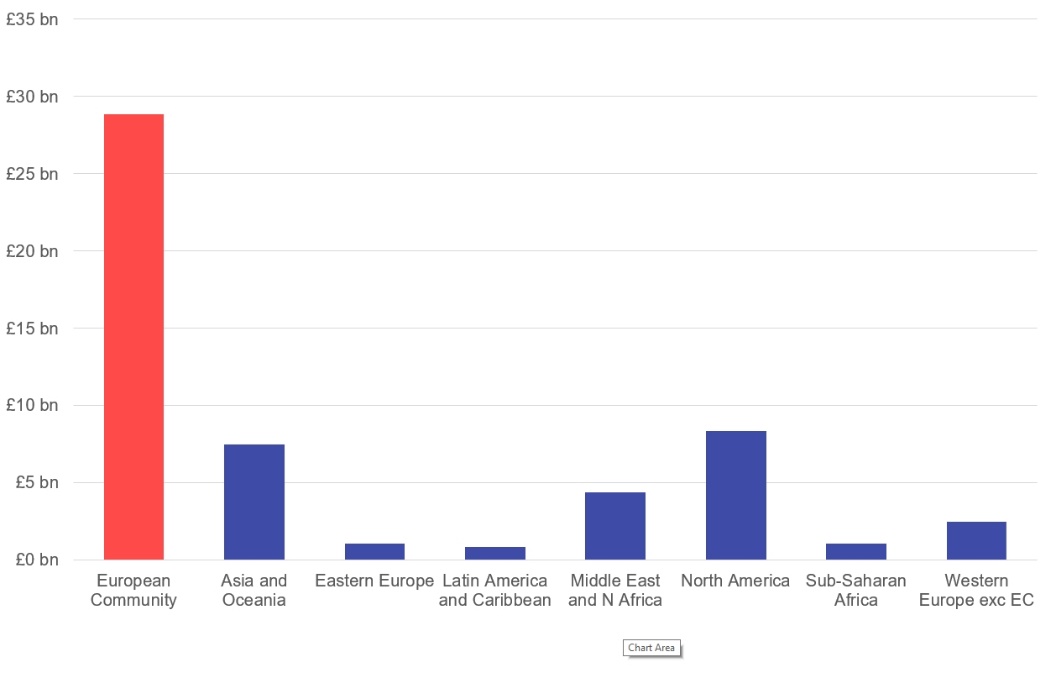
Research from *the University of Birmingham,* has identified parts of the Midlands and the North of England as the UK regions most vulnerable to the economic impact of Brexit. Areas dependent on manufacturing and agriculture are more reliant on EU markets. London sells less of its exports to the EU.[[33]](#footnote-33)

***Economic exposure to Brexit across UK nations and regions   
in terms of share of local labour income*** *[[34]](#footnote-34)*



The *Institute for Public Policy Research* *North* calculates that Brexit is set to have nearly twice the impact on the North of England than it will have on London. More than 10% of the region’s economy is dependent on trade with the EU.[[35]](#footnote-35)

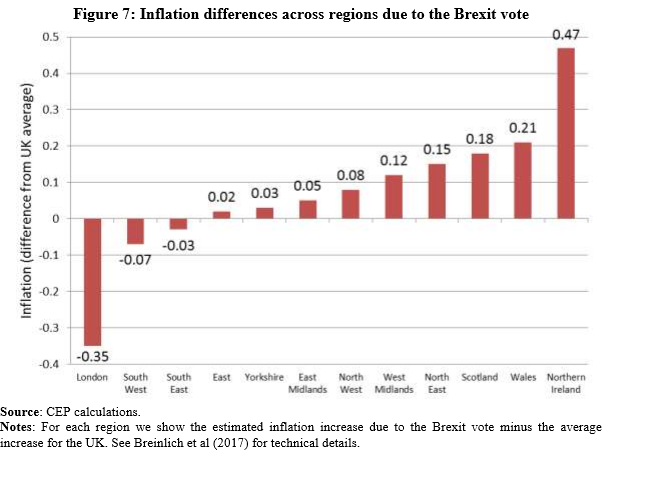
***Value of exports of goods from the North of England: 2016*** *[[36]](#footnote-36)*



The *Resolution Foundation* says that the impact of Brexit on households in Northern Ireland will be a third greater than on households in London.[[37]](#footnote-37)

Northern Ireland, Scotland and Wales are already paying the heaviest economic price for Brexit in terms of higher inflation costs, according to the *Centre for Economic Performance* at the London School of Economics.[[38]](#footnote-38)

***UK regional impact of inflation due to the Brexit vote*** *[[39]](#footnote-39)*

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## Cost of Brexit Divorce Bill

In December 2017, the UK agreed to pay a divorce bill of £39bn as part of its withdrawal from the EU. [[40]](#footnote-40)

* The UK has agreed to pay its share of EU spending for 2019/20 but will have no control over what commitments are agreed or how the money is spent. [[41]](#footnote-41)
* The overall cost of Brexit will rise if billions in loans to the EU are not repaid on time and in full.
* The provisional agreement includes billions of euros to pay for the pensions of civil servants in Brussels which may well continue until the 2050’s.
* The UK is expected to contribute to the cost of relocating two EU agencies based in London. Moving the European Medicines Agency and its 890 staff to Amsterdam is set to cost 585.2m euros. 347 million euros is to be spent on a 25 year rental lease on office space in Canary Wharf.

## Brexit Preparations

The *Chancellor Philip Hammond* announced in his November 2017 Budget, the Government’s intention to spend £3bn over the next two years preparing for Brexit outcomes.[[42]](#footnote-42)

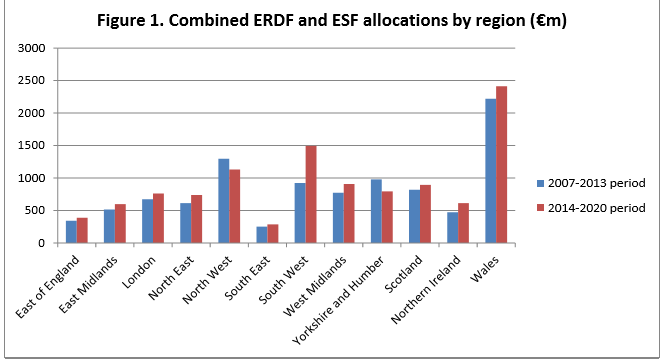
More than £660m has been spent already.[[43]](#footnote-43) In the next financial year the Government has confirmed it will be spending £942,000 a day on Brexit planning.[[44]](#footnote-44)

The UK wants to remain part of several EU science and education research programmes. The government has yet to agree the payments it would have to make after 2020 to participate in such projects as the *Erasmus* student exchange and the EU’s collaborative research programme for cutting edge science, *Horizon 2020*. Since 2014 that scheme alone has contributed a total of £420m to funding British health research.

EU regional development funds have been of critical importance to the economic regeneration of large parts of the UK for decades, providing support for local business as well as building new roads and bridges.

The nations and regions of the UK are due to receive in excess of 10 billion euros from the EU between 2014 and 2020. Wales gets an annual sum of £370m from EU structural funds. West Wales and the Valleys will benefit from close to £1.9 billion in financial support from the EU from 2014-20.[[45]](#footnote-45)

***EU structural and investment funding to UK regions 2007-2020*** *[[46]](#footnote-46)*

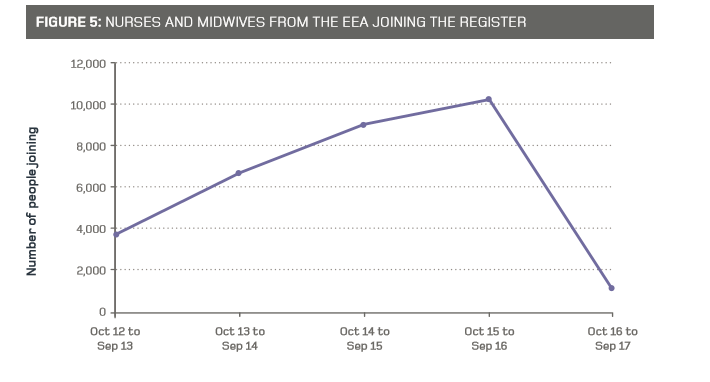


The UK Government is developing proposals for a “UK Shared Prosperity Fund.” The *Local Government Association* has stated the UK Government needs to find £8.4 billion to make up the shortfall in regional aid after Brexit.[[47]](#footnote-47)

## NHS Staffing

The *Nursing and Midwifery Council* says applications from EU nurses to work in the UK have fallen by 89% since the referendum. At the same time, more UK based nursing staff are leaving the register than are joining it. This is the first time the number of nurses on the register has dropped year on year.[[48]](#footnote-48)

***EU nursing applications to the Nursing and Midwifery Council register: 2012-2017*** *[[49]](#footnote-49)*



The *Royal College of GPs* has warned 3.5 million patients are at risk of losing their local doctor because of Brexit.[[50]](#footnote-50) The *General Medical Council* is also concerned the demand for GPs is outstripping supply, warning of a “crunch point” for the medical profession.[[51]](#footnote-51)

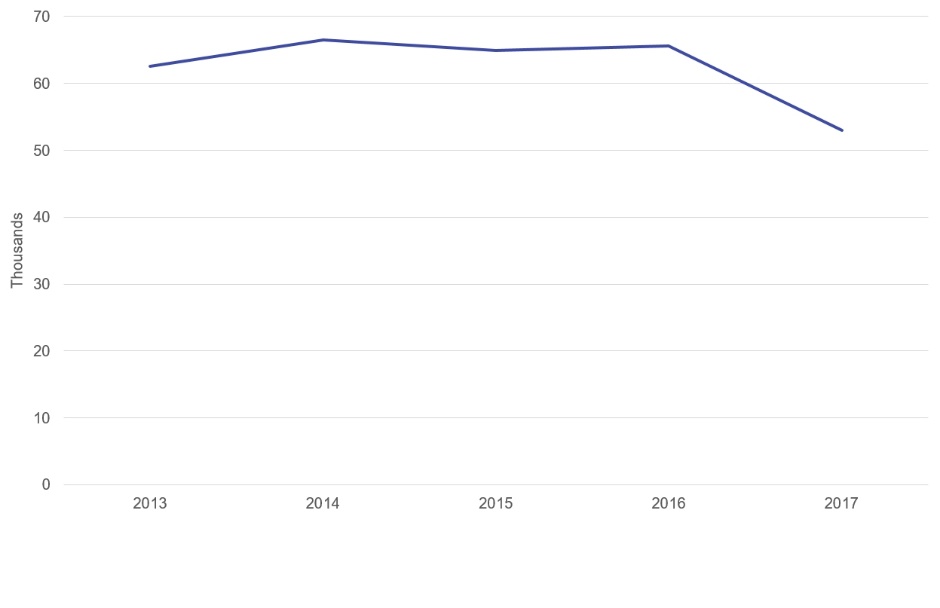
A shortage of GPs in Lincolnshire means patients faced a 4 week wait for an appointment. In 2016, Cumbria already had more than 50 vacancies out of a total consultant workforce of over 200.[[52]](#footnote-52)

The *British Medical Association* says nearly 1 in 5 NHS doctors from the European Economic Area have made concrete plans to leave the UK. Their survey shows that as many as 5,400 EEA doctors are considering moving abroad.[[53]](#footnote-53)



Figures prepared for Parliament show a fall in the percentage of EU nationals joining the NHS. In 2016/17, 11% of nurses leaving the NHS were EU nationals. The numbers of Portuguese, Spanish and Italian nurses have fallen between December 2016 and June 2017.[[54]](#footnote-54)

The *University Admission service UCAS,* says the number of applicants for nursing courses declined by 18% in 2017 compared to the previous year. This is the “biggest fall in nursing applications on record.”[[55]](#footnote-55)

***Student Applicants for nursing courses: 2013-2017*** *[[56]](#footnote-56)*

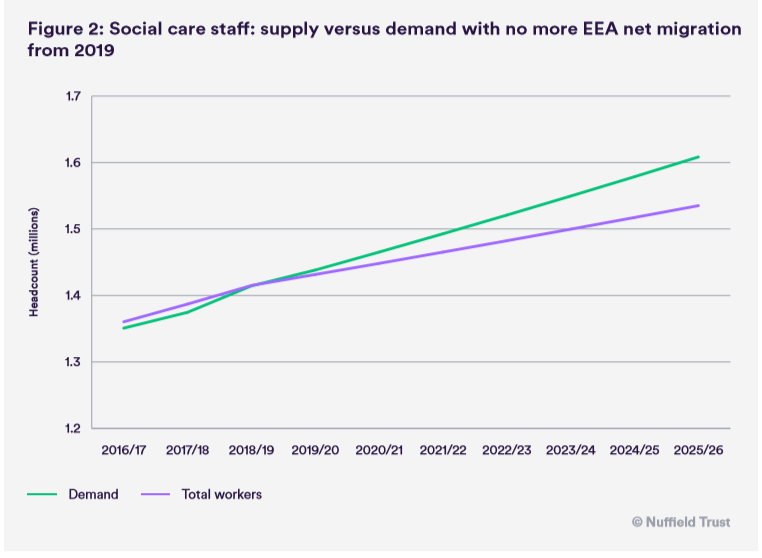
*NHS Digital,* the main recruitment website for the NHS, says that in the year to June 2017, a total of 9,832 EU doctors, nurses and support staff left the UK. The number of officially advertised full time vacancies in NHS England rose from 26,424 in 2016 to 30,613 in March 2017. Recent research by the Labour Party, based on FOI requests made to 82 NHS trusts, indicates there are currently 100,000 full-time staff vacancies in the NHS.[[57]](#footnote-57)

***NHS Digital: Full time monthly advertised vacancies: 2015-2017 [[58]](#footnote-58)***



The *Nuffield Trust* has estimated that social care, which includes care homes for the elderly, faces a shortfall of as many as 70,000 workers by 2025/26, if net migration from the EU is halted after Brexit*.[[59]](#footnote-59)*

***Impact on supply of social care staff of UK restrictions on EU migration: 2016-2026*** *[[60]](#footnote-60)*

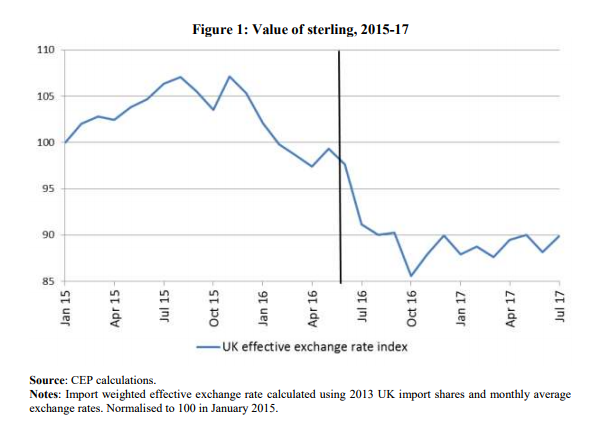


## UK Business

Almost 50% of UK manufacturing exports go to the EU. The *International Monetary Fund* has stated that Brexit has the “potential to reshape the structure of the UK economy.” The *IMF* highlights the impact on agriculture, manufacturing and services.[[61]](#footnote-61)

The pound is the worst performing major currency since the Brexit vote, according to the financial news service *Bloomberg*.[[62]](#footnote-62) But the *Organisation for European Co-operation and Development* says it has seen little sign of any boost to UK total exports from the depreciation of sterling.[[63]](#footnote-63)

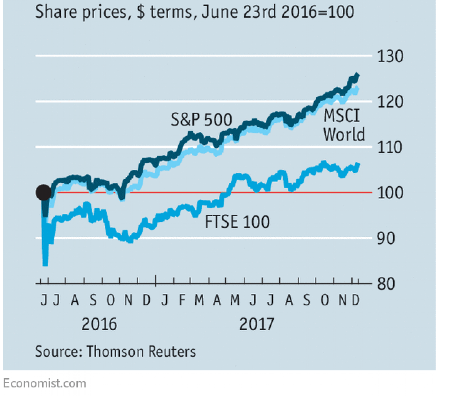
***Decline in the value of the pound: 2015-2017*** *[[64]](#footnote-64)*



The *Economist* has found that in relative terms, British equities have not been performing well since the Brexit vote. “In both dollar and sterling terms, the FTSE 100 index has been one of the worst developed markets in 2017.”[[65]](#footnote-65)

Measured in dollar terms, the FTSE 100 index has risen by just 6% since the referendum compared with gains of 26% for the S & P 500 index in the US and gains of 23% in the MSCI world index.[[66]](#footnote-66)

***The FTSE-100 index has underperformed compared to other global indices*** *[[67]](#footnote-67)*



## UK Financial Services

Financial services account for 25% of UK services exports, according to the *Office for National Statistics.[[68]](#footnote-68)* International banks operating in the UK are so far set to move around 4,600 jobs from London in preparation for March 2019, according to *Financial Times* research.[[69]](#footnote-69)

## UK Car Industry

New car sales in the UK fell by 11.2% in November 2017 while manufacturing output is at an 18 month low. Deliveries to the UK domestic market have fallen by more than a quarter.[[70]](#footnote-70)

Mike Hawes, Chief Executive of the industry body, *the* *Society of Motor Manufacturers and Traders,* which represents more than 700 UK companies, said in October this year. “Domestic demand for new cars decreased for the ninth month this year amidst continued uncertainty over both Brexit and the government’s air quality plans.”[[71]](#footnote-71)

Investment in the UK car industry is down more than 50% on last year. 82.1% of all UK built cars were shipped abroad in October 2017, with the bulk going to Europe.[[72]](#footnote-72)

The UK motor industry calculates the imposition of EU tariffs on the UK would put £1,500 on the price of a new car imported to the UK from the EU.

The UK car industry is responsible for 12% of the total UK exports of goods and employs over 800,000 people. Since 2010, output has risen by more than 60%.[[73]](#footnote-73)

## UK Labour Market

UK job vacancies were at a record high of 798,000 in the three months to November 2017.[[74]](#footnote-74) According to the *Office for National Statistics,* there are 18 sectors of UK industry where a fifth of the labour force originates from the EU.[[75]](#footnote-75)

The hospitality sector is one high profile example. It is responsible for a total of 3 million jobs in the UK. 75% of waiters in London are EU nationals, according to the *British Hospitality Association*. The *BHA* believes more than 60,000 new EU migrants a year are needed just to replace those who leave the industry and maintain current levels of service.[[76]](#footnote-76)

*The* *Brexit Secretary, David Davis,* has admitted that “in the hospitality sector, hotels and restaurants, in the social care sector, working in agriculture, it will take time. It will be years and years before we get British citizens to do those jobs.” *The Independent, February 22nd 2017*.

## UK Construction Industry

1 in 5 people working on housebuilding sites across Britain come from other EU countries. The *Home Builders Federation* says there are not enough UK born workers to meet demand.[[77]](#footnote-77)

Output in the UK construction industry was estimated to have decreased by 0.5% in the third quarter of 2017. According to the *Office for National Statistics,* it has now fallen for six consecutive periods.[[78]](#footnote-78)

## UK Agriculture

The *National Farmers Union* points to a 29% national shortfall of seasonal workers for horticulture businesses in September this year.[[79]](#footnote-79)

Crops are “rotting in the fields” following a decline in the number of EU agricultural workers in Cornwall. Farmers only have two thirds of the workers they need.[[80]](#footnote-80)

Research conducted by the council states that, “All agricultural businesses reported virtually no demand for agricultural jobs from a British workforce and the demand for jobs in the food processing sector was also relatively low from UK workers.”*[[81]](#footnote-81)*

## UK Transport Sector

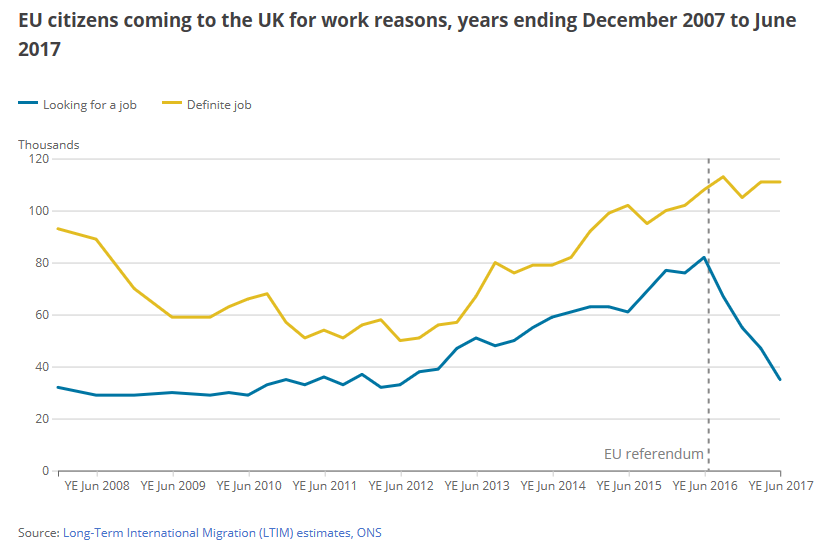
The *Freight Transport Association* say 10% of its entire workforce are EU nationals. There is a shortage of 52,000 LGV drivers in the UK, a rise of almost 50% in the 12 months since the Brexit vote.[[82]](#footnote-82)

## Wider UK Economy

Net migration to the UK has fallen by the largest amount on record in the year since the Brexit vote. Over three quarters of the decrease in net migration can be accounted for by EU citizens.

The *Office for National Statistics* has found that fewer EU citizens are coming to the UK “looking for work.” The number has more than halved in the year to June 2017.[[83]](#footnote-83) At the same time, the number of EU citizens leaving the UK has risen by almost a third.

***EU citizens coming to the UK for work reasons,   
years ending December 2007 to June 2017*** *[[84]](#footnote-84)*



The *Centre of Economic Business Research* believes a rapid reduction in net immigration to below 100,000 a year would reduce the potential size of the UK economy by between 1.5% and 3% by 2025. As a result public borrowing would have to rise by £15.6bn a year.[[85]](#footnote-85)

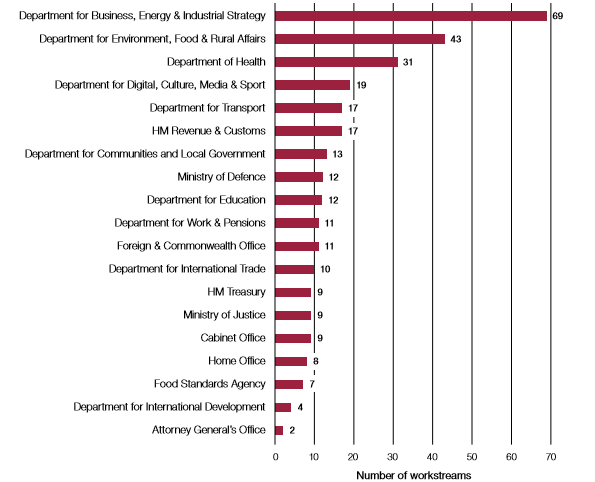
# Complexity

The Head of the Home Civil Service, Sir Jeremy Heywood has described Brexit as a project “unprecedented in our modern peacetime history in both scale and complexity.”[[86]](#footnote-86)

Sir Amyas Morse, Auditor General of the *National Audit Office*, has warned that the plans to implement Brexit are at risk of falling apart “like a chocolate orange.”[[87]](#footnote-87)

The UK Civil Service is currently having to manage a total of 313 separate projects to make Brexit happen.[[88]](#footnote-88)

***Implementing Brexit: activities of central government departments: November 2017*** *[[89]](#footnote-89)*



## EU Agencies

Almost 70 EU agencies currently oversee the UK.[[90]](#footnote-90) Some will cease to be relevant, but dozens of regulatory bodies will have to be replaced at a substantial cost in staff and investment. Most of these agencies have to be replicated because of the UK Government’s wish to reject the authority of the European Court of Justice.

The business lobby group the *CBI*, has said the UK must sign up to at least 10 out of 39 EU regulatory agencies which “set the bar for industry standards across the world.” These include the European Aviation Safety Agency, the European Chemicals Agency, the European Food Safety Authority, the European Medicines Agency. There is also concern in the medical profession over a continuing UK role for Euratom, the pan-European nuclear regulator.[[91]](#footnote-91)

The Government has already announced plans to create an independent environmental watchdog[[92]](#footnote-92) and a trade remedies authority[[93]](#footnote-93).

The *European Commission* says Britain will have to conclude more than 750 bilateral international treaties before March 2019. 295 involve trade while 202 involve regulatory co-operation. Talks will need to take place with more than 160 non EU countries.[[94]](#footnote-94)

## Customs Regulation

The *Public Accounts Committee* expects a fivefold increase in customs checks at UK ports after Brexit. In 2016 nearly £740bn of goods crossed the UK border.[[95]](#footnote-95)

*HMRC* estimates that the number of traders who have to make customs declarations after the UK leaves the EU will rise by almost a half to 273,000. The introduction of customs declarations alone could end up costing traders in the region of £4bn a year, according to the *Institute for Government.*[[96]](#footnote-96)

The *National Audit Office* has warned that the timely completion of a new IT system to handle customs is crucial in order to process £34bn in customs duties, excise taxes and VAT after Brexit.[[97]](#footnote-97) Currently 85 different IT systems operate at UK borders. The new Customs Declarations System is due to be ready just two months before Britain is due to leave the EU.

The delivery of this new IT system is “in doubt” according to MPs who say there has been a “collapse in confidence.” in the Customs Declaration Service.[[98]](#footnote-98) The Chairman of the *Public Accounts Committee,* Meg Hillier, has even voiced criticism of the readiness of the Government’s contingency option.

## Brexit & the UK Civil Service

As of October 2017, 2409 new posts had been created in five government departments to meet the demands of Brexit.[[99]](#footnote-99) There is no centrally held register across Whitehall recording all Brexit related employment activity, but the Government has said it expects to have hired a total of 8,000 additional civil servants to deal with Brexit by the end of next year.[[100]](#footnote-100)

The *Department for Environment, Food and Rural Affairs* will have created 1,200 new posts by March 2018 to plan for Brexit.[[101]](#footnote-101) The *National Audit Office* says this Government department has “de-prioritised” its domestic policy agenda to work on the UK’s exit from the EU.[[102]](#footnote-102)

Two new Government departments have had to be established, the *Department for International Trade* and the *Department for Exiting the EU.* The two existing Government departments with the most need for additional staff are *HM Revenue & Customs* and the *Home Office*.

*HMRC* has told the *Public Accounts Committee* that it needs up to 5,000 more staff to prepare for a Brexit if there is no trade deal with the EU.[[103]](#footnote-103)

The *Home Office* is already recruiting 300 extra Border Force staff.[[104]](#footnote-104) The *Home Secretary*, *Amber Rudd* has told MP’s her department has hired an extra 700 immigration staff and will have added another 500 staff by April 2018.[[105]](#footnote-105) 5,000 staff may be required to process and register applications from the 3 million EU nationals now living in the UK, according to the *Institute for Government*.[[106]](#footnote-106)

# Concessions and Chaos

The UK Government has not taken a clear and consistent position on Brexit since the referendum.

During the referendum campaign there was little mention of the UK having to pay a divorce bill to leave the EU.[[107]](#footnote-107) In November 2017 Theresa May agreed to a divorce bill of “between £35 billion and £39 billion in current terms”.[[108]](#footnote-108)

Over the past year, the official position of the UK had been that all UK laws should be free from the control of the *European Court of Justice*. However, the draft agreement concedes the *ECJ* will still have a role protecting EU citizens’ rights living in the UK.[[109]](#footnote-109)

## UK Cabinet

The two year transition period *Theresa May* has suggested, ensures the UK will observe all EU rules including freedom of movement.[[110]](#footnote-110) It was only back in June 2017 that the *International Trade Secretary,* *Dr Liam Fox* told the BBC that the UK did not vote in the referendum to “part leave” the EU.[[111]](#footnote-111)

In October 2017, the *International Trade Secretary* promised at the Conservative party conference that he would have 40 trade deals ready to sign “one second after midnight in March 2019.”[[112]](#footnote-112)

A month later, Dr Fox admitted to the *International Trade Select Committee* that he had yet to reach any agreement for preferential trade access with dozens of non-EU countries.[[113]](#footnote-113) The EU has made it clear a two year transition period would prevent any such agreements coming into force until 2021 at the earliest.

In January 2017 the *Brexit Secretary David Davis* told Parliament that the UK would achieve, “a comprehensive free trade agreement and a comprehensive customs agreement that will deliver the exact same benefits as we have now.”[[114]](#footnote-114) By March, this had turned into an “ambition”.[[115]](#footnote-115)

In May 2016, *David Davis*, while campaigning to leave the EU, tweeted his support for a “UK-German deal that would include free access for their cars and industrial goods.”[[116]](#footnote-116) EU membership expressly forbids any such individual arrangements.

In December 2017, *Mr Davis* was accused of having misled Parliament after he admitted that the Government had not carried out any systematic impact assessments on how Brexit would affect UK industries. In December 2016, June and October 2017, Mr Davis said something different.[[117]](#footnote-117)

In June 2017 *Mr Davis* told the *BBC* that, “We’ve got 50, nearly 60 sector analyses already done, we’ve got planning work going on in the customs, we have got planning work going on 22 other issues which are critical, 127 all told.”[[118]](#footnote-118)

On May 11th 2015, *Boris Johnson* felt able to praise the benefits of the single market to the UK in the *Daily Telegraph*: “The best and cheapest way to kick-start growth is to complete the single market.”[[119]](#footnote-119)

## Prime Minister

On May 26th 2016, *Theresa May,* before becoming Prime Minister and before the Brexit vote, was also praising the virtues of the single market and warning of the dangers of businesses relocating if the UK left the EU.

“I think the economic arguments are clear. I think being part of a 500 million trading bloc is significant for us.”[[120]](#footnote-120)

In April 2016 *Theresa May* had explicitly dismissed the idea of replacing European trade with international trade deals: “Look at the figures. We export more to Ireland than we do to China, almost twice as much to Belgium as we do to. India, and nearly three times as much to Sweden as we do to Brazil. It is not realistic to think we could just replace European trade with these new markets”.[[121]](#footnote-121)

Then in January 2017 the *Prime Minister* delivered her Lancaster House speech, in which she promised to leave the single market, and said she would rather do “no deal” with the EU than one which was a “bad deal for Britain.”[[122]](#footnote-122)

But in a speech nine months later, the *Chancellor of the Exchequer, Philip Hammond,* was able to highlight the critical value of the single market to the UK’s financial services sector: “No existing trade agreement, nor third country access to the EU, could support the scale and complexity of reciprocal trade in financial services that exist between the UK and EU.”[[123]](#footnote-123)

## Northern Ireland

The UK Government has listed 142 different levels of EU-relevant North South co-operation.[[124]](#footnote-124) Annual bilateral trade across the border is worth 65bn euros.[[125]](#footnote-125) A third of Northern Ireland’s exports go to the South.[[126]](#footnote-126) Ireland exports half of its beef to the UK.[[127]](#footnote-127)

*Theresa May* has made an explicit promise to prevent a hard border in Ireland.[[128]](#footnote-128) This assurance goes to the heart of the UK’s contradictory approach to Brexit.

In the event of no trade deal being reached with the EU, she has said that Northern Ireland will be in full alignment with the rules of the EU internal market and customs union in various sectors that underpin the Good Friday agreement. There is also the specific pledge has also been made that there can be “no new regulatory barriers” along the Irish Sea.[[129]](#footnote-129)

If one part of the UK retains a regulatory alignment with the EU,it means the entire UK has to continue to accept all EU rules. This appears incompatible with the *Theresa May*’s promise to leave the single market and customs union.

*Pierre Moscovici*, EU Commissioner for Economic Affairs, has warned, “It’s hard to imagine that there is no hard border, and at the same time, no internal market and no customs union, there would be a contradiction there.”[[130]](#footnote-130)

# Choices

The *Confederation of British Industry,* which represents 190,000 UK businesses has stated, “the EU is the most important single trading partner for every major sector of the UK economy.”[[131]](#footnote-131)

Seven out of the top ten destinations for UK services are within the EU.[[132]](#footnote-132) 48.2% of total UK exports in goods also went to the EU.[[133]](#footnote-133)

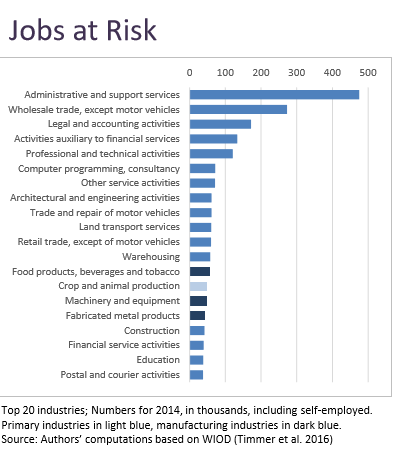
The *Governor of the Bank of England, Mark Carney* highlighted the importance of trade to the UK economy in a speech to the International Monetary Fund in September:

“It’s a fact that the UK is a truly open economy and it’s a truth that being an open economy is the key to Britain’s success.” [[134]](#footnote-134)

The single market is the largest and deepest integrated trading bloc in the world. UK exports to the EU have risen by 68% between 1999 and 2015, according to the *ONS*.[[135]](#footnote-135)

## Trade Deal & Jobs

The *University of Birmingham* has found that across the UK, more than 2.5 million jobs are exposed to the trade effects of Brexit. This is a list of the 20 sectors across services and manufacturing most at risk if the politicians can’t agree. In total, these industries produce £140bn a year for the UK economy. [[136]](#footnote-136)

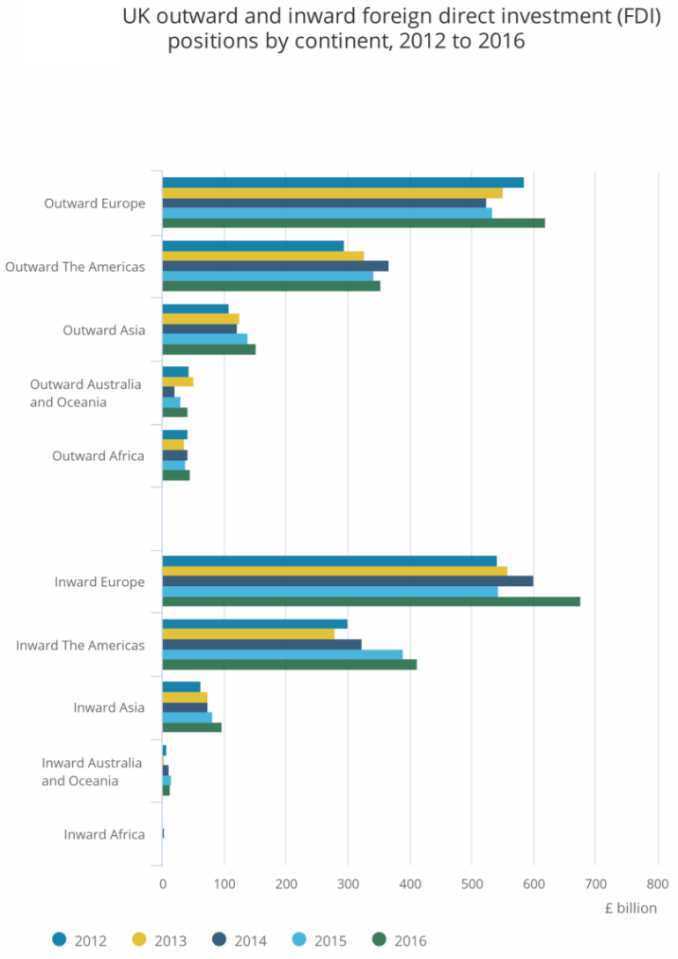
***Jobs at risk*** *[[137]](#footnote-137)*

## International Investment

Europe was the region responsible for the biggest increase in UK international investment abroad in 2016. Europe was also where the majority of UK earnings from foreign investments were generated.

The *Office for National Statistics* attributes both the rise in UK inward and outward foreign investments in 2016 to Europe.[[138]](#footnote-138)

***UK outward and inward foreign direct investment (FDI) positions by continent,   
2012 to 2016*** [[139]](#footnote-139)



## US Trade Policy

President Trumphas made clear both his determination to put America First on trade and his belief that companies should bring back manufacturing jobs to the USA. He has already withdrawn from the Trans-Pacific Partnership trade agreement, criticised the *North America Free Trade Agreement, the World Trade Organisation* and vetoed the appointment of new judges to this international trade body.

President Trump said in November 2017 that, "We are not going to let the United States be taken advantage of anymore”.[[140]](#footnote-140)

In September 2017, *the US Department of Commerce* imposed tariffs amounting to close to 300 per cent on plane parts made in Belfast by *Bombardier*.[[141]](#footnote-141) The Canadian engineering company employs 4,200 people in Northern Ireland.[[142]](#footnote-142)

*US Commerce Secretary Wilbur Ross* says the UK must ditch European food safety laws on chlorinated chicken and GM food to secure a free trade deal with the US. He says changing these regulations will form a “critical component of any trade discussion.”[[143]](#footnote-143)

## New Deal vs Status Quo

Dr Monique Ebell of the *National Institute of Economic and Social Research,* has estimated that if the UK leaves the single market, UK total trade will see a long term reduction of anything between 22% and 30%.[[144]](#footnote-144)

The *NIESR* believes that even if we were able to reach new deals with the US, Australia and New Zealand the total benefits of all those deals combined would boost total UK trade by less than 3%.[[145]](#footnote-145)

The *Rand Corporation*, a leading US think tank, has warned that leaving the EU with no deal would reduce UK GDP by £100bn over a ten year period. It believes that, under most plausible scenarios, the UK will be economically worse off outside the EU.[[146]](#footnote-146)

## Trade Deal Options

The UK Government wants a “bold and ambitious” new trading relationship with the EU, which involves separating itself from the EU system of governance but retaining access to the EU’s single market.[[147]](#footnote-147) However the EU’s constitutional and economic arrangements are bound closely together.

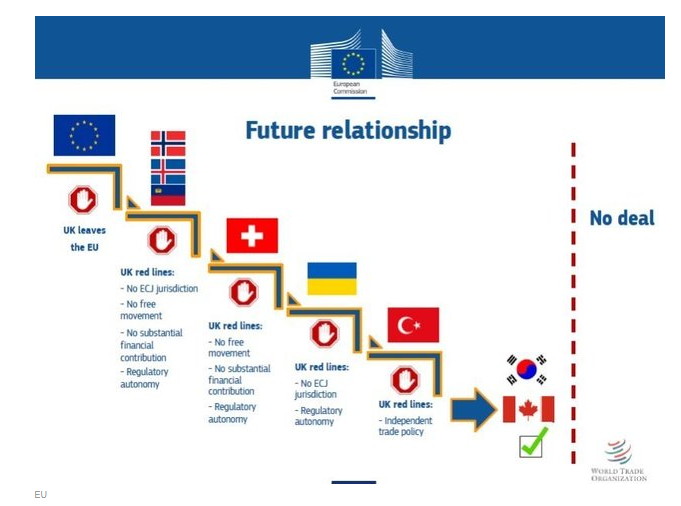
Foreign Secretary, *Boris Johnson* and prominent Leave campaigner insists the UK wants to be able to “do things in a distinctive way” or Britain will become a “vassal state.”[[148]](#footnote-148)

*Boris Johnson*, has also said he is in favour of the policy of the UK “having our cake and eating it.”[[149]](#footnote-149) His statements seem to indicate he believes that Britain could benefit from open trade with the EU but without having to follow its rules, particularly on free movement.

The EU chief negotiator, *Michel Barnier* believes the UK cannot expect to leave the single market and keep all of its trade benefits. “There won’t be any cherry picking.” UK politicians, he said, “have to face the consequences of their own decision.”[[150]](#footnote-150) He has also made clear there is “no way” the UK will be given a bespoke deal.[[151]](#footnote-151)

This graphic shows how the *European Commission* is explaining the options to EU leaders. European negotiators believe the UK’s red lines leave a Free Trade Agreement, like the one agreed with Canada and South Korea, as the only option open to the UK.

***European Commission portrayal of the options for trade between the UK and EU [[152]](#footnote-152)***



Given his unambiguous comments about a bespoke deal, *Mr Barnier* appears to have ruled out any combination of the two trade arrangements the EU already has in place with Norway and Canada as potential models for the UK.

## Canada Model

The *CETA* free trade relationship between the EU and Canada is limited in scope and principally applies to goods. It would also require the UK to impose border controls.

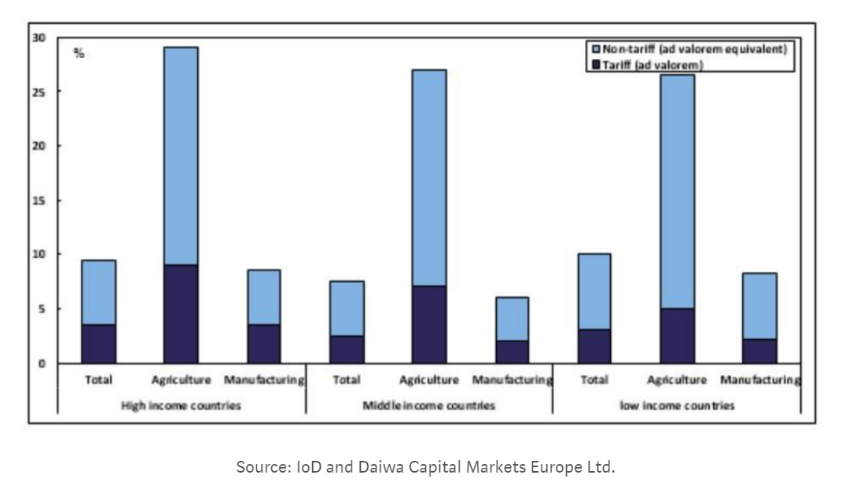
Although it would provide tariff free trade for most manufactured goods, any such agreement would largely exclude services which have generated the majority of the growth in UK exports over the past ten years. They include everything from design and architecture, accounting and financial services to the Technology, TV and Film industries.

The UK ran a £92bn trade surplus in services in 2016 compared with a deficit of £135bn in the trade in goods.[[153]](#footnote-153)

The *Institute for Fiscal Studies* has pointed out for services, “non-tariff barriers are especially important.” Non-tariff barriers include safety regulations, licensing regimes, environmental standards and product quotas.**[[154]](#footnote-154)**

Their impact is difficult to quantify but as this chart, based on *United Nations* data shows they have four to five times more impact on the flow of goods and services than the imposition of tariffs.

***Overall level of restrictiveness on international trade   
imposed by non-tariff measures*** *[[155]](#footnote-155)*



## Norway Model

Norway’s relationship with the EU ensures full access for its goods and services to the single market. But it also means Norway follows EU rules on the free movement of goods, services, people and capital. Norway also has to agree to contribute into the EU budget and observe EU laws it has no say in the making.

According to research by the *Centre for Economic Performance at the London School of Economics,* in 2011 Norway’s contribution to the EU budget was £106 per head capita, only 17% lower than the UK’s EU net contribution for that year of £128 per capita.[[156]](#footnote-156)

As the *CEP* observes, “becoming part of the EEA would not generate substantial fiscal savings for the UK government.”[[157]](#footnote-157)

## Business Opinion

Only 2% of British businesses think the Government is right to leave the single market and customs union and rely on WTO rules, according to the *British Chambers of Commerce*.[[158]](#footnote-158)

Only 10% of foreign businesses invested in the UK think Brexit will have a positive impact on their future investments here, according to a recent *Ipsos Mori* survey for 13 UK based foreign chambers of commerce.[[159]](#footnote-159)

Almost two thirds of EU businesses expect to abandon some of their British suppliers after Brexit, according to a survey for the *Chartered Institute of Supply and Purchasing* of 1,100 supply chain managers.[[160]](#footnote-160)

## Reversibility of Brexit

The Irish Taoiseach *Leo Varadkar* is hopeful that the UK still has a place in the EU. “The door remains open for the UK to stay in the European Union.”[[161]](#footnote-161)

The French President *Emmanuel Macron* has also suggested the UK has the option of rejoining the EU: “In a few years, if it so wishes, Britain could regain its place [in the EU].” *26th September 2017*.[[162]](#footnote-162)

The former diplomat, *Lord Kerr* who helped draft the Article 50 legislation, which is the legal procedure by which the UK is leaving the EU, told the *BBC* in November that,

“At any stage we can change our minds if we want to, and if we did we know that our partners would actually be very pleased indeed.”[[163]](#footnote-163)

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