

# Cliff edge or springboard?

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**\*Picture of a cute animal\***



# What is the EU?

- **Single Market (SM)**: four freedoms of movement (goods, services, capital, people)
- EU regulations that apply to whole economy
- Jurisdiction of ECJ
- Payments to EU Budget
- **Customs Union (CU)**: common external tariff
- A wide range of other agreements; e.g. reciprocal health care, Europol, Euratom, Horizon 2020
- Some optional bits: e.g. euro and Schengen area

## Plans for UK's relationship with EU

- A** Leave SM & CU in March 2019, then immediately implement a comprehensive free trade deal with EU
- B** Retain main benefits (also obligations?) of SM & CU during a time-limited transition period (2 years?), then replace with a free trade deal
- C** Use A50 to delay Brexit for a fixed period (2 years?), then leave with a free trade deal
- D** Clean break in March 2019 ('no deal')

# What does 'no deal' mean?

- Trade on WTO rules
- Common external tariff would be imposed on UK exports to the EU. Average 5% (more for agriculture)
- UK would have to impose tariffs on imports from EU, or remove them for other WTO members too ('MFN')
- UK exports to EU would face stricter customs checks
- Uncertain impact on areas, especially services, which are not covered by the WTO

## How bad could it be?

- Some academic studies suggest huge hits to UK/EU trade if we leave the SM & CU. As much as 60%!
- These often rely on ‘gravity models’
- They use averages, including much smaller countries
- They also often assume that UK loses all the benefits from the convergence of regulation and economic integration that has already taken place
- Project Fear: ‘planes won’t fly’, ‘cancer patients will be denied life-saving drugs’, ‘75,000 City jobs lost’...

# A more positive take on 'no deal'

- 'Bare bones' Brexit
- Quit SM & CU in 2019, but replicate other arrangements that don't require EU membership
  - ✓ Mutually beneficial
  - ✓ Many precedents
  - ✓ Wouldn't be starting from scratch
  - ✓ Some things can/should be done unilaterally
- Would provides clarity and certainty, and allow UK to start to benefit from Brexit straightaway

# The tariff choice

- Impose tariffs on imports from EU. On average, UK households would be £260 a year worse off
- Reduce tariffs on imports from rest of world. On average, UK households would be £130 a year *better off* (Source: Resolution Foundation)
- There's a debate about this, amazingly! Some worry about (i) exposing UK producers to more competition and (ii) giving up a bargaining chip



# The financial settlement

- UK on strong legal ground if it decides to pay nothing (and should actually get some money back!)
- ? Annual budget contributions until end-2020 [£20bn+]
- ? Something for pensions of EU officials? [£5bn]
- X Contribution to spending after 2020? [£20bn+]
- X Upfront payment for contingent liabilities [£20bn?]

# Conclusions

- It's about getting the trade offs right
- Maximising benefits from free trade with rest of world and from liberalising economy ...
- ... while minimising any harm to relationship with EU
- Transitional period helpful. Simply not ready for 2019? Gives time to negotiate better free trade deal?
- But 'no deal' is second best, not worst case
- Can be a springboard, not a cliff edge