

*Thinking ahead for Europe*

# ECONOMIC IMPACT OF BREXIT ON EU27

## PART 2, SECTORIAL CONSEQUENCES

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# Structure of presentation

1. EU27 – UK economic relations today :  
goods, services, FDI stocks and EU27 citizens in the UK
2. BREXIT effects on EU27 exports
3. From soft exit (2019) to 'hard BREXIT'?
4. In or out of the EU customs union ?
5. Free goods movement across the Channel ?
6. Free services movement after BREXIT ?
7. For. Dir. Investment: BREXIT effect without barriers
8. BREXIT and public procurement, forgotten chapter?
9. Post-BREXIT consumer protection



# EU27/UK trade in goods [by product, 2015]

	EU27 Imports (€bn)	Share in total	EU27 Exports (€bn)	Share in total
Animal and vegetable oils, fats and waxes	0.5	0%	1.0	0%
Beverages and tobacco	3.5	2%	5.7	2%
Chemicals and related products	33.4	18%	50.9	17%
Commodities and transactions not classified elsewhere	4.1	2%	2.6	1%
Crude materials, inedible, except fuels	2.9	2%	6.5	2%
Food and live animals	11.5	6%	32.2	11%
Machinery and transport equipment	62.4	34%	126.7	41%
Road Vehicles	19.3	10%	58.8	19%
Aircraft, associated equipment	8.8	5%	4.7	2%
Ship, boat, float. structures	0.4	0%	0.3	0%
Manufactured goods classified chiefly by material	19.0	10%	33.4	11%
Mineral fuels, lubricants and related materials	21.7	12%	10.6	3%
Natural Gas	3.0	1%	0.8	0%
Petroleum and petroleum products	17.7	6%	8.3	3%
Miscellaneous manufactured articles	25.2	14%	36.9	12%
ALL PRODUCTS	184.2	100%	306.4	100%

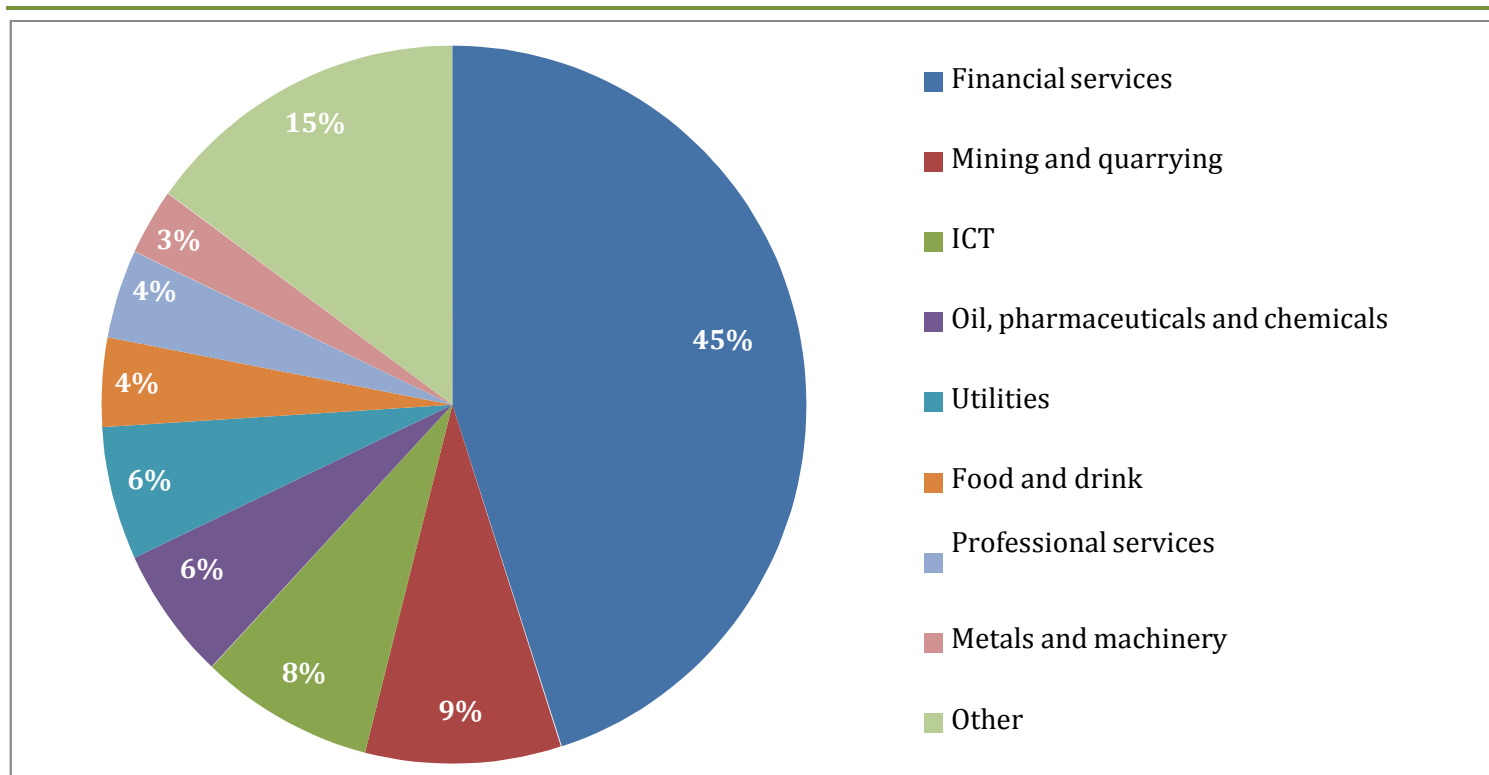


# EU27/UK services trade [by sector, 2015]

	EU27 imports from the UK (€bn)	% of GDP	EU27 exports to the UK (€bn)	% of GDP	Trade (€bn)	% of GDP
Transport	14.8	0.1%	12.9	0.1%	27.6	0.2%
Travel	15.0	0.1%	27.7	0.2%	42.7	0.4%
Construction	0.9	0.0%	2.2	0.0%	3.1	0.0%
Insurance and pension services	3.0	0.0%	0.7	0.0%	3.7	0.0%
Financial services	25.1	0.2%	4.5	0.0%	29.6	0.2%
Charges for the use of intellectual property	5.2	0.0%	2.5	0.0%	7.7	0.1%
Telecommunications, computer, and information services	9.3	0.1%	6.7	0.1%	16.0	0.1%
Other business services	22.7	0.2%	18.9	0.2%	41.7	0.3%
Personal, cultural, and recreational services	0.9	0.0%	0.4	0.0%	1.2	0.0%
Government goods and services	0.7	0.0%	2.2	0.0%	2.8	0.0%
Other	3.3	0.0%	1.0	0.0%	4.3	0.0%
<b>SERVICES</b>	<b>100.8</b>	<b>0.8%</b>	<b>79.6</b>	<b>0.7%</b>	<b>180.4</b>	<b>1.5%</b>



# FDI stock in UK from EU27 [sectors, 2014]



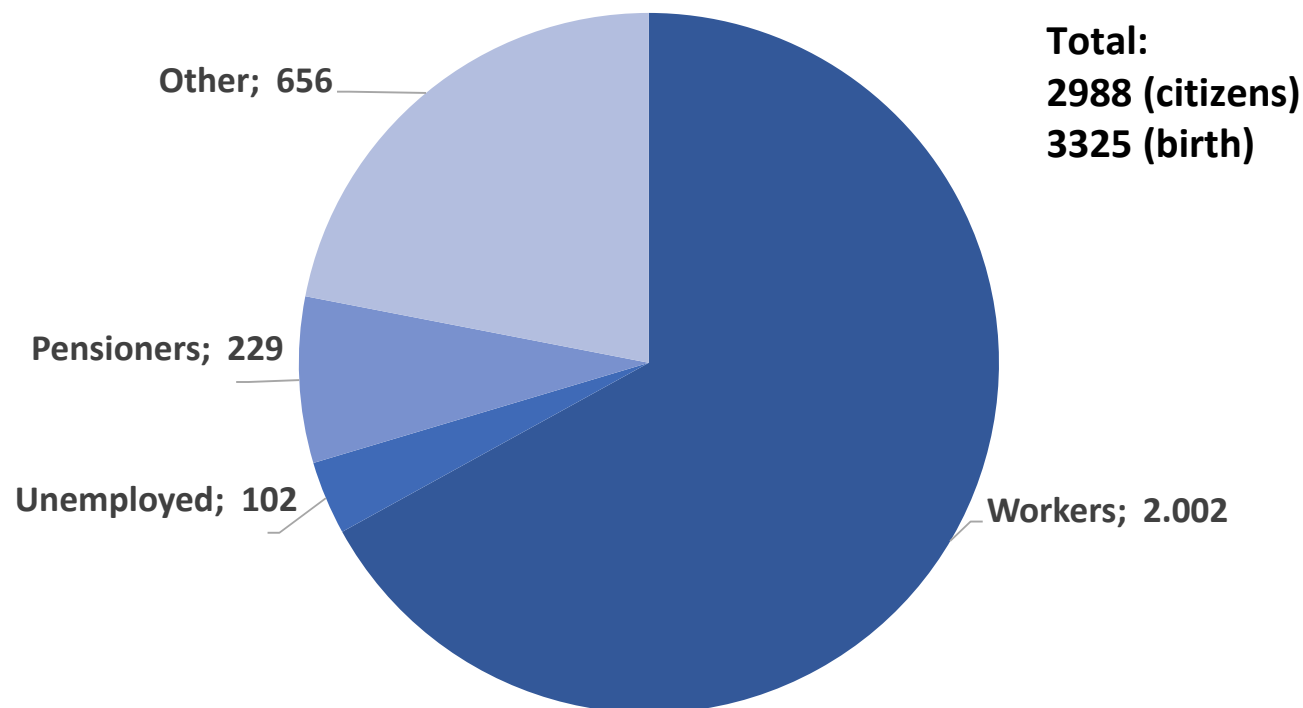
Source: ESRI, 'Scoping the Possible Economic Implications of Brexit on Ireland', 2015



Research prepared for Policy Department A at the request of the Committee on Internal Market and Consumer Protection.



# EU27 citizens living in the UK [ 2015 ]



# BREXIT effects on EU27 exports:



to the UK, two studies to illustrate

- Treasury (2016) first gives the effect on **ALL** UK trade [EEA - 9 %, bilateral FTA - 14 % to - 19 %, WTO – 17 % to – 24 %], which are anything but comfortable
- But for **bilateral** trade across the Channel, Treasury utilises the ‘benefits of EU membership’ literature, and finds a range of effects of EU membership on trade with other EU between 51 % - 104 %, with its own (gravity) approach coming to a range of 68 % - 85 % compared to WTO
- A hard BREXIT (to WTO) would see trade shrink this much; a half-hard BREXIT (FTA) would shrink trade somewhat less, namely, with 2/3 of that reduction; both are huge



# BREXIT effects on EU27 exports:



sectorial effects simulated (Worldscan model)

- Rogas (2016) Worldscan simulation shows a fall of EU27 exports to the UK of 56.6 % (WTO) and 31 % (FTA); thus, BREXIT may hurt the EU27 quite a lot
- BREXIT effects on Dutch exports to the UK by 2030 (%)

	WTO option	FTA option
Processed foods	- 9.6	- 6.7
metals	- 4.3	- 3.2
Chemicals, plastics	- 5.5	- 2.5
Motor vehicles, parts	- 7.8	- 3.0
Electron. equipment	- 9.8	- 6.4
finance	1.5	0.8
Other commerc. services	- 3.2	- 2.1
Recreational /other services	- 2.9	- 1.8

Note : only selected sectors ; for other sectors, see Rogas (2016), table 4





# From soft exit to 'hard' BREXIT ?

- The recent White Paper - though still open-ended in many respects – is based on the idea that the 2019 starting position of the UK is little else than a “domestic form of EU”
- The single market acquis, if not yet in UK law, will be integrally ‘imported into it’ via the Repeal Act
- presented as if BREXIT is no more, and no less, than a “clear break” (immigration and the CJEU) but otherwise there would be no “trading costs” given the EU acquis in the UK
- If taken for granted, the FTA and WTO simulations would be off the mark ; for trade (and FDI?), BREXIT would mean little



# From soft exit to 'hard' BREXIT? (2)

- This suggestive presentation has to be dismissed
- First, the EEA (= single market acquis) is rejected and so is the customs union
- Second, there is no proposal to introduce joint EU/UK disciplines to ensure the EU acquis is maintained over time
- Third, tariff-free mutual access is more or less assumed – makes sense - but that presupposes a rich/deep FTA ; as noted by Michael Emerson, the DCFTA is a good candidate, esp. because the UK already fully 'owns' the EU acquis and migration is not 'in'. But the DCFTA is clearly based on 'entrenching the single market acquis', hence, **not** 'taking back control', except for migration and no customs union
- So **BREXIT will harden over time**, unless the UK deeply commits to a DCFTA-type acquis ; is not in White Paper



# Costs of leaving the customs union

- out-of-the-C.U. is a costly option for the UK, and to some extent for the EU; 'free circulation' is an asset
- The trade facilitation literature shows that efficient customs generates only low costs (e.g. 0.3 % - 0.4 % of the invoice price) but this can be much higher when customs are inefficient ; OECD work (2015) shows that the transaction costs of getting goods across the border might be increased by customs procedures by as much as 24 %, so far from trivial
- in the case of origin rules, the range of costs is far wider [some 4 % to 15 % higher trade costs] and product-specific >>>> this matters a great deal for EU-27 – UK value chains in automotive products and electronic goods ; these sectors may well reduce the cross-Channel interaction; also, AIRBUS has said so literally



# Free goods movement across the Channel, all-or-nothing-or-most?

- Free movement [here, for goods] combines two essential ingredients : it is a 'right' for [EU] consumers and companies, but subject to overcoming/removing derogations, i.e. assuring SHEIC regulatory objectives
- The White paper suggests that, in 2019, the UK and EU acquis will be the same (except CU + migration), so....?
- So the EU27 and the UK could 'agree' to allow 'free goods movement' in a treaty, under conditions
- So, BREXIT amounts to possible deviations from or erosion of 'free goods movement', if (a) new EU laws are not incorporated in the UK, (b) the UK opts for amendments or new UK laws affecting derogations, (c) the UK does not accept relevant CJEU rulings ; all this could be big or small (?)
- **Core issue** : can 'taking back control' be so light and limited?



# Free goods movement (2)

- We are not aware that this very crucial issue has been modelled (indeed, can it ?)
- If the logic of the White Paper (which is open-ended on most of what might happen after the Great Repeal Act, but rejects tariffs) would be accepted on face-value, the costs of BREXIT in goods (apart from trading costs when 'out' of the customs union) would at first be zero
- Without a follow-up of the White paper giving clarity, nobody has any clue



# Free services movement across the Channel ?

- In services, 'free movement' in the EU goes far (and the link with unrestricted FDI ought to be taken into account) but it is not fully accomplished [see CETA MS reservations]; is often stuck on weak M.R., restrictive national laws, etc.
- One observes an ongoing incremental deepening of the single services market and the UK used to be in the frontline ; why turning their back on all this ?
- Additional EU issues include infrastructure (in some Netw Industries), supervision, EU Agencies, MS discretion in the TFEU treaty (energy), etc.



# Free services movement (2) ?

- For the UK services are of great economic importance,
- In sectors such as professional services (in a range of subfields such as accountancy/auditing, law firms, financial services, management advice, some ICT) and audio-video-services
- UK is highly dependent on several modes of transport (esp. road haulage, maritime shipping)
- White Paper mostly descriptive, no positioning, so what will the UK want ? Free movement a la Suisse would cut into the UK's own flesh ; for EU27, there are costs too but relatively and absolutely less



# FDI : BREXIT impact & barriers

- The FDI problem in BREXIT are not the 'new' barriers as FDI is practically free for 3rd countries
- The economic issue is that FDI is partly dependent on '**market size**'; BREXIT reduces access to the large EU27 market ; recent estimates show a FDI reduction of 22 % compared to the WTO option
- However, the lower attractiveness of the UK for FDI has knock-on effects given the nexus between trade and FDI (in value-chains and otherwise) ; it might also affect UK productivity levels negatively (range of 3 % - 7 %)
- Hence, BREXIT is likely to induce some FDI diversion towards EU27, and the more so the harder BREXIT is





# BREXIT and public procurement

- Public procurement seems to have been ‘forgotten’ in economic BREXIT studies, so far ; even if acquis is maintained in the UK, what about the remedies directive and COM appeal, what about concessions ? ; the Swiss model has public procurement in, but this raises questions about EU acquis in the UK
- There can be links with state aids ; how will the EU state aids regime be maintained or not in the UK ?  
**A MS itself can not discipline its own state aids** - would the EU keep a role there, or, is that incompatible with the aversion against the CJEU?



# Post-BREXIT consumer protection

- This is about SHEIC objectives and consumer rights ; if, from the consumer end, there would be pressures in the UK to revise/amend the SHEIC resp. consumer acquis, it will have consequences for trade and/or trading costs such as non-MR or conformity questions
- PwC, based on Open Europe, suggests UK regulatory change in social/health/safety laws ; environment/climate ; product standards ; this is exactly the gradual hardening of BREXIT when no 'deep' FTA and firm commitments are agreed
- However, the EU consumer protection is unlikely to change due to BREXIT alone



# Thank you!

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