

**‘Long Brexit’..how are we
coping with its after-effects..**

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Brexit vote , June 2016, exited Jan 31, 2020, then 11 months transition.

The Trade and Cooperation Agreement (TCA), signed Dec 30, 2020 then proper 11 pm exit Dec 31, 2020 ...

Key points of the TCA

- **Trade:** No tariffs or quotas on trade in goods provided rules of origin were met but there were are increased non-tariff barriers, including potentially in services
- **Governance:** Binding enforcement and dispute settlement mechanisms covering most of the economic partnership, involving an independent arbitration tribunal. There is **no role for the Court of Justice of the EU in the governance and dispute settlement provisions.**
- Both parties can engage in cross-sector **retaliation in case of non-compliance**).
- **Level playing field** provisions: Both parties have the right to take counter-measures including imposition of tariffs,

The Trade and Cooperation Agreement: key points continued

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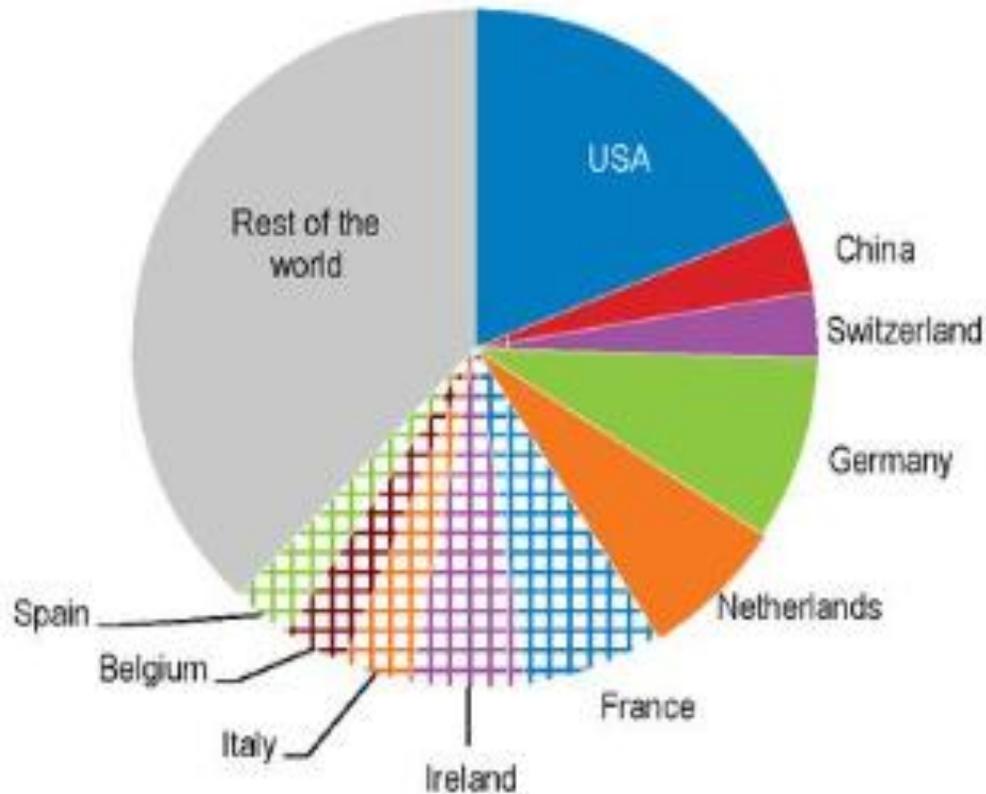
- **Subsidies/state aid:** Both parties are required to have an effective system of subsidy control with independent oversight.
- **Fisheries:** 25% of the EU's fisheries quota in UK waters will be transferred to the UK over a period of five years. After this, there will be annual discussions on fisheries opportunities.
- **Security:** A new security partnership provides for data sharing and policing and judicial co-operation, but with reduced access to EU databases. A new surrender agreement takes the place of the European Arrest Warrant.

The **TCA will be reviewed every five years.** (next review by next year)

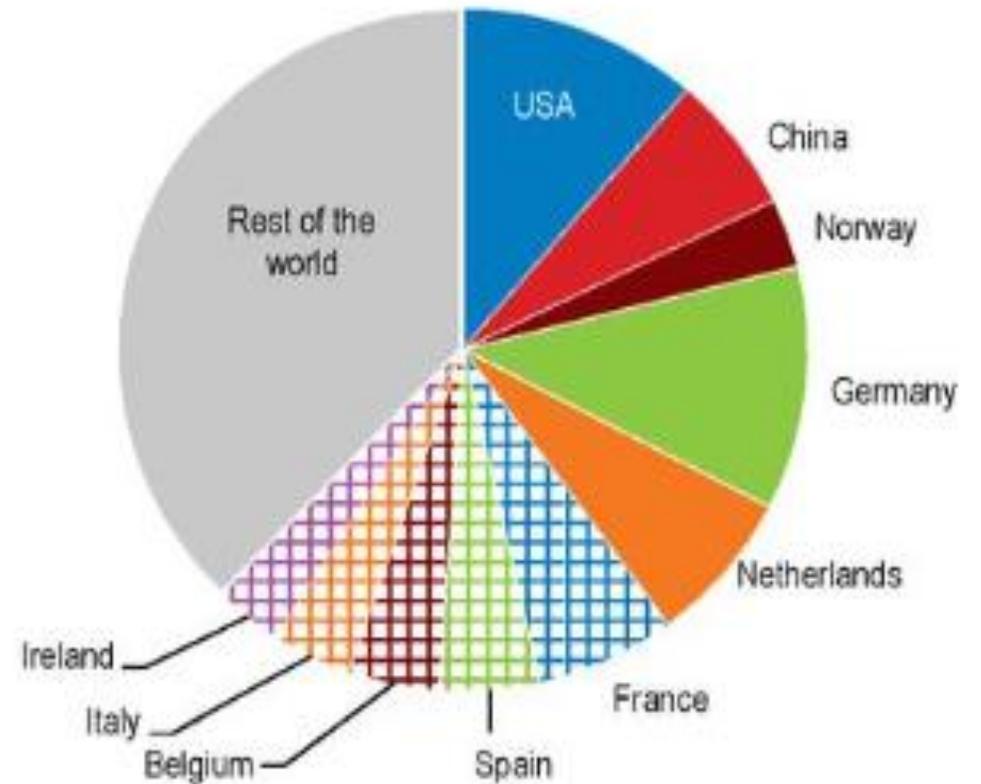
Why an issue? Trade so important

Exports and imports of goods and services, 2018

A. Main trading partners: Exports



B. Main trading partners: Imports

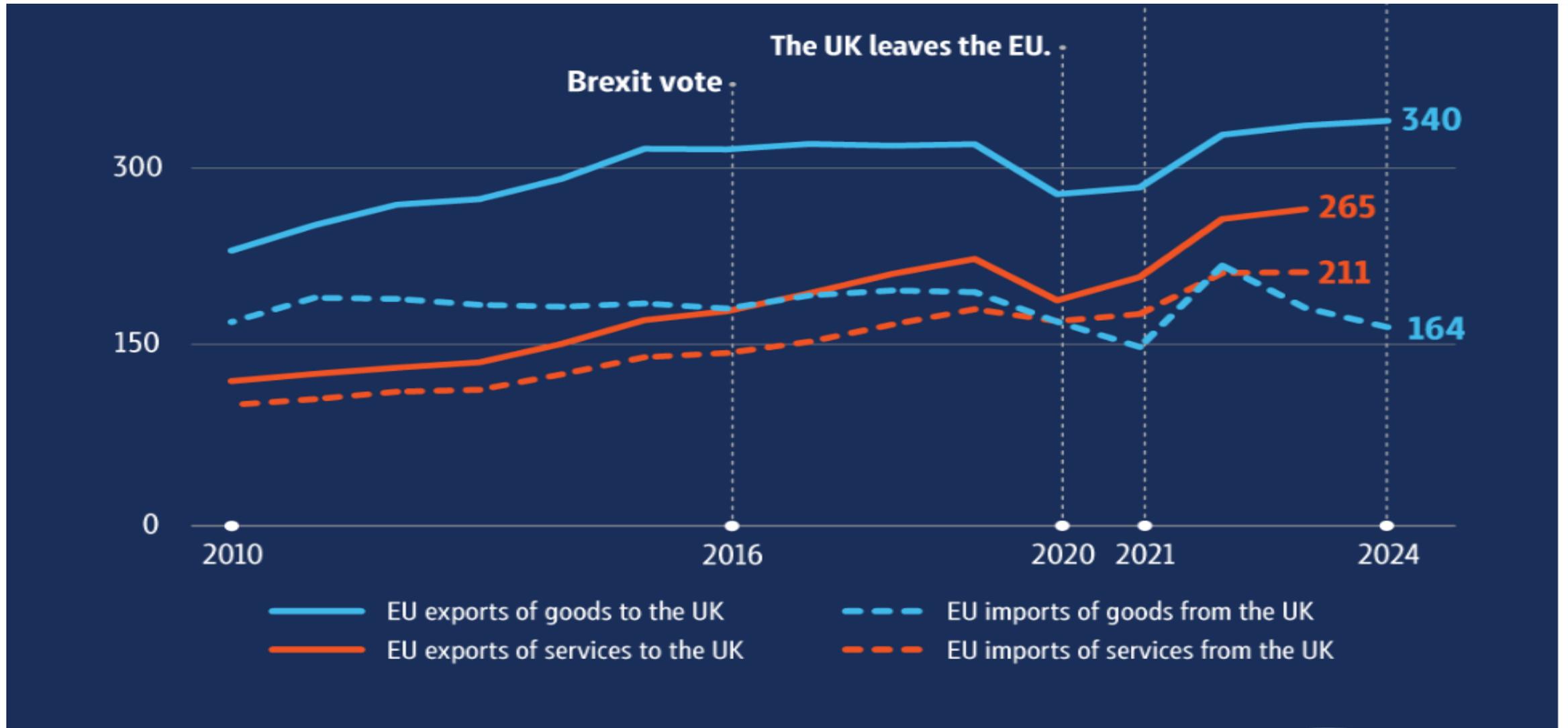


Those EU countries have remained major trading partners but UK is losing out on exports of goods to them though not on services

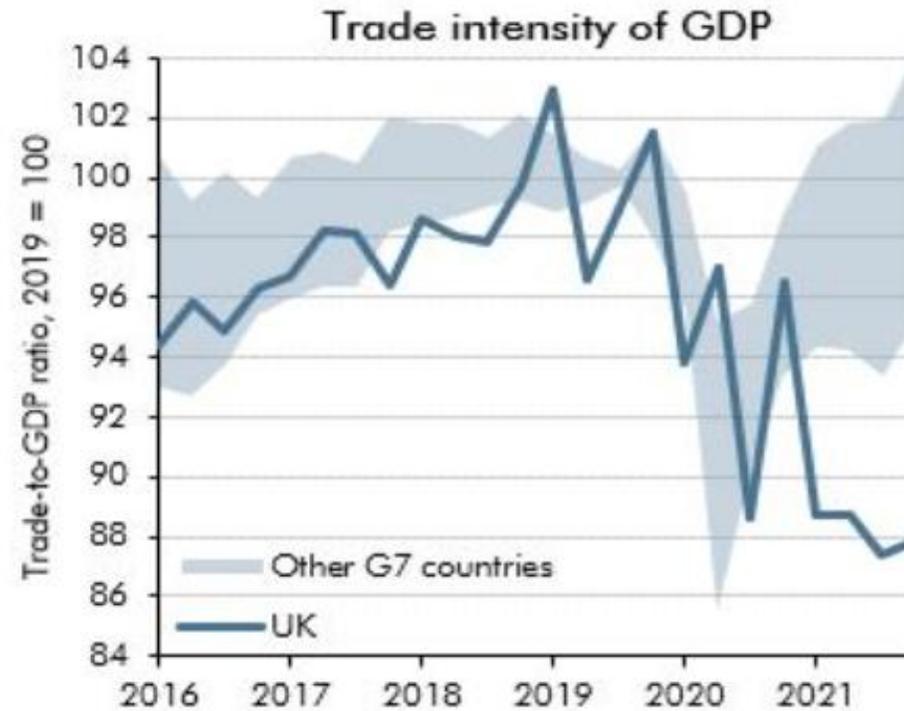
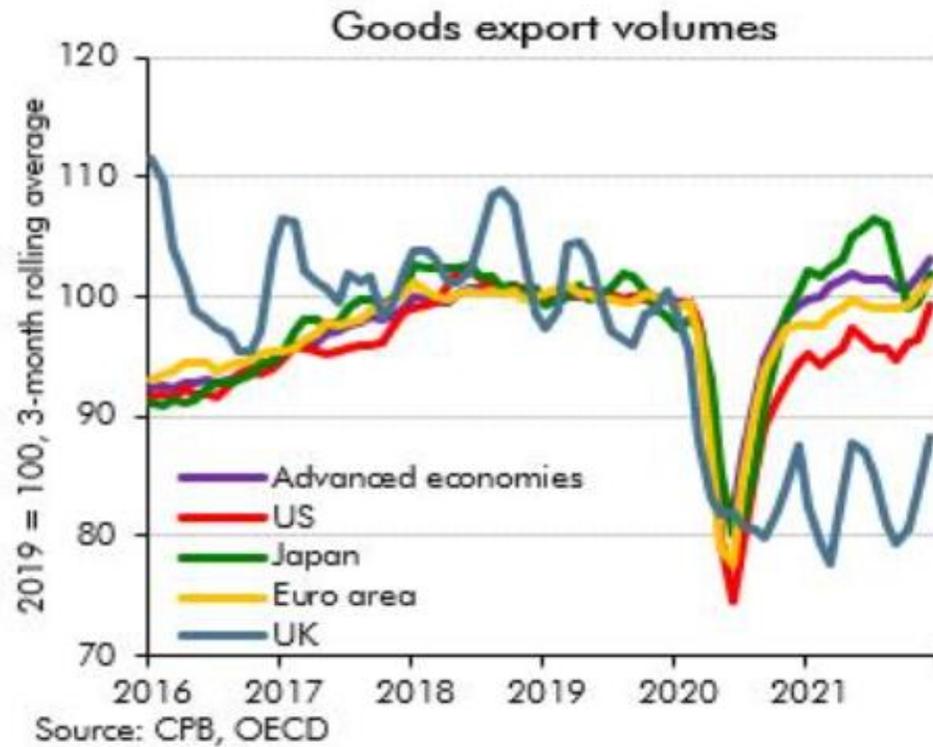


Source: EPRS, based on data from [Eurostat Comext](#) and [Eurostat bop_its6_det](#) (February 2025).

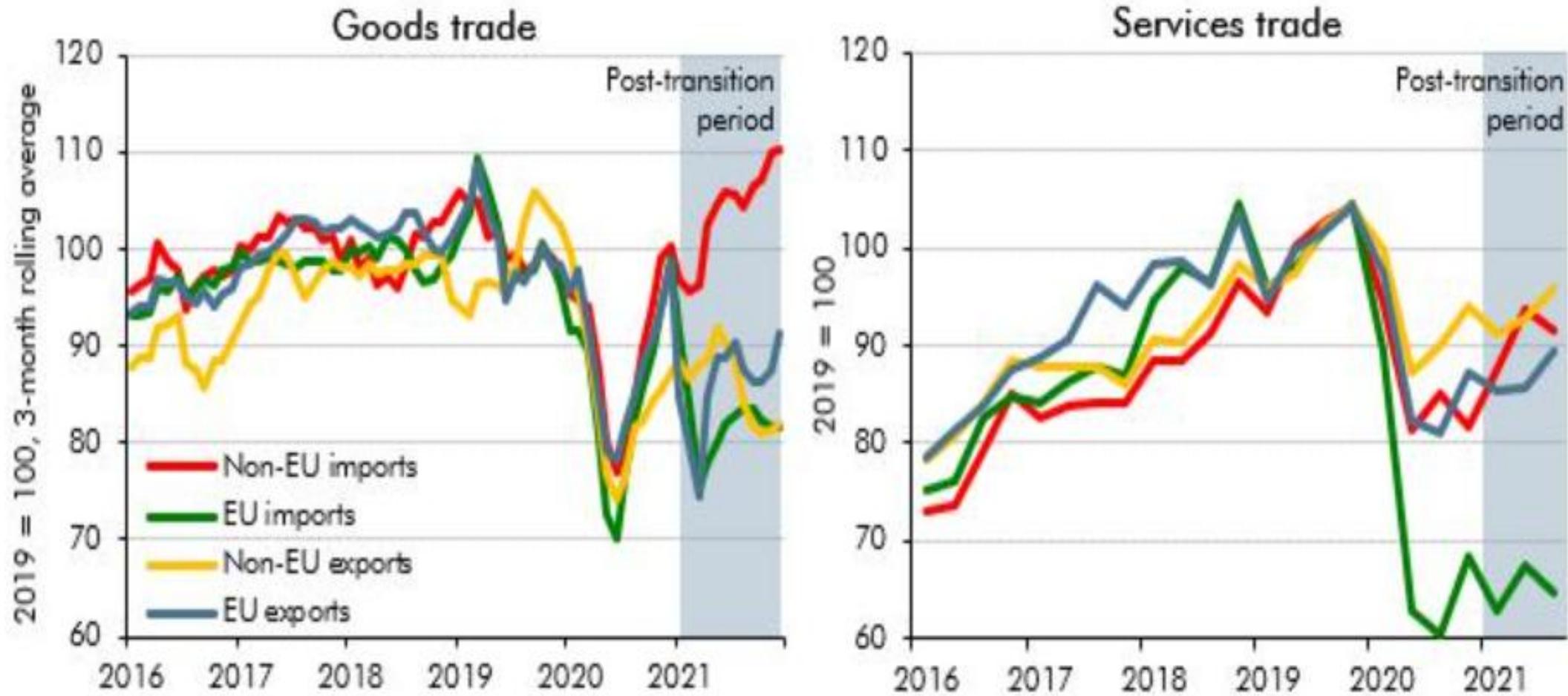
EU/UK trade flows..*Trade and Cooperation Agreement (TCA)* *signed on December 30th, 2020, operational May 1, 2021*



“UK ..appears to have become a less trade intensive economy, with trade as a share of GDP falling 12 per cent since 2019, two and a half times more than in any other G7 country” Source: OBR/ONS



Goods trade has been particularly affected by Brexit – Source OBR/ONS, OBR view is a 4% hit on GDP, and 15% percent on trade- new trade deals deals only partly compensating for loss of EU trade though one with India consider more important

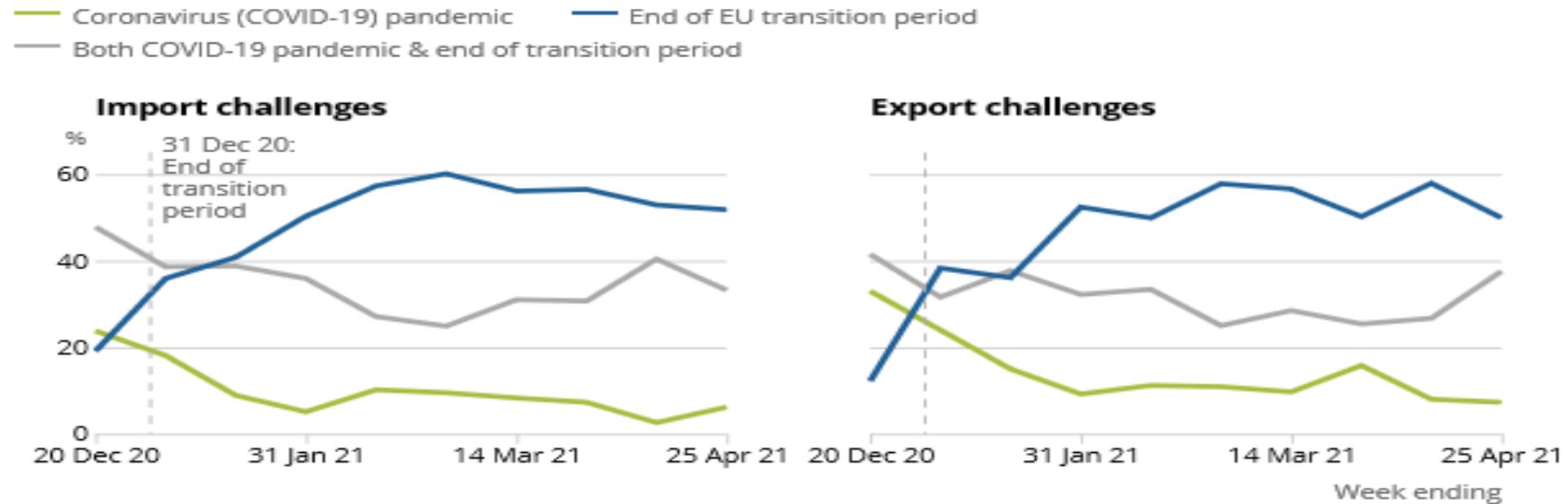


Note: Goods excludes unspecified goods. Services data is only available to the third quarter of 2021.

Source: ONS

Covid muddied the picture but Impact of Brexit vs Covid on Trade was clear

Percentage of currently trading businesses that have reported experiencing challenges, weighted by count, December 2020 to April 2021



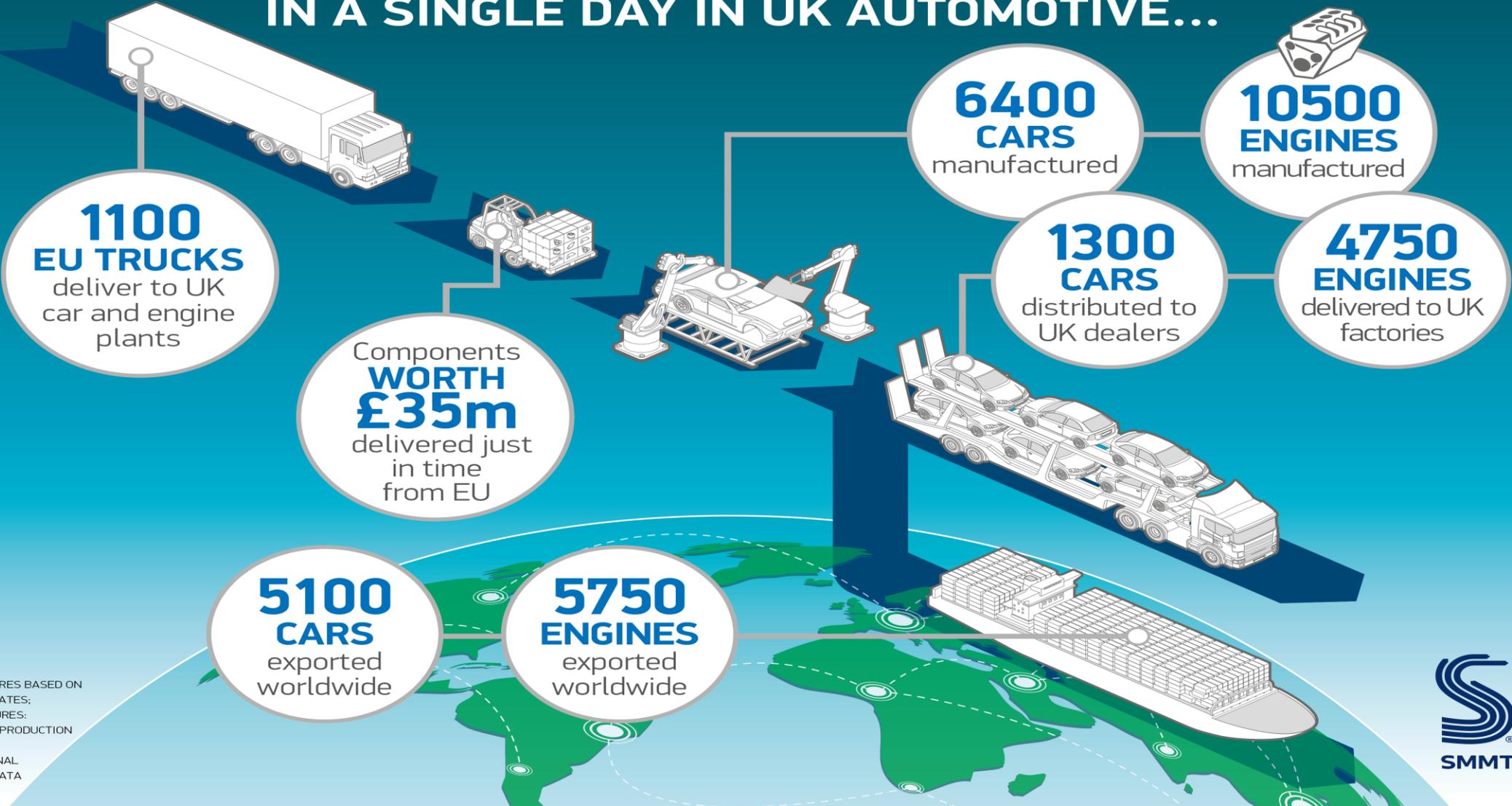
Source: Office for National Statistics - Business Insights and Conditions Survey

What were the benefits of being in the EU..

- A large market of 500m, easy geographical access across the sea, Membership of single market meaning free movement of people, goods, services and capital **(though not member of the Eurozone)**
- Encouraged competition and therefore need to innovate, hence higher need for investment and therefore productivity
- Greater ability to expand and enjoy economies scale as labour supply constraint eased. NAIRU lowered, wages and prices under greater control and inflation lower as a result. Growth could accelerate therefore without causing too much inflation.
- Consumer choice increased, including as a result of regulation- open skies, mobile market across Europe, cabotage, common regulations, common external tariffs(customs union) etc.
- UK had various opt outs but was member of, Horizon Europe (Research), Euratom Research and Training, ITER fusion and Copernicus (satellite system) European Arrest Warrant and more..

How it was..

IN A SINGLE DAY IN UK AUTOMOTIVE...



IMPORT FIGURES BASED ON SMMT ESTIMATES;
OUTPUT FIGURES: SMMT FROM PRODUCTION AND EXPORT
INTERNATIONAL EXCHANGE DATA



Membership of the EU: caveats..

Still no complete single market in

- Capital markets,
- Banking
- Digital

And different pension laws , industrial structures, cultures and wealth. All making market less than complete but still the largest Free Trade Area globally

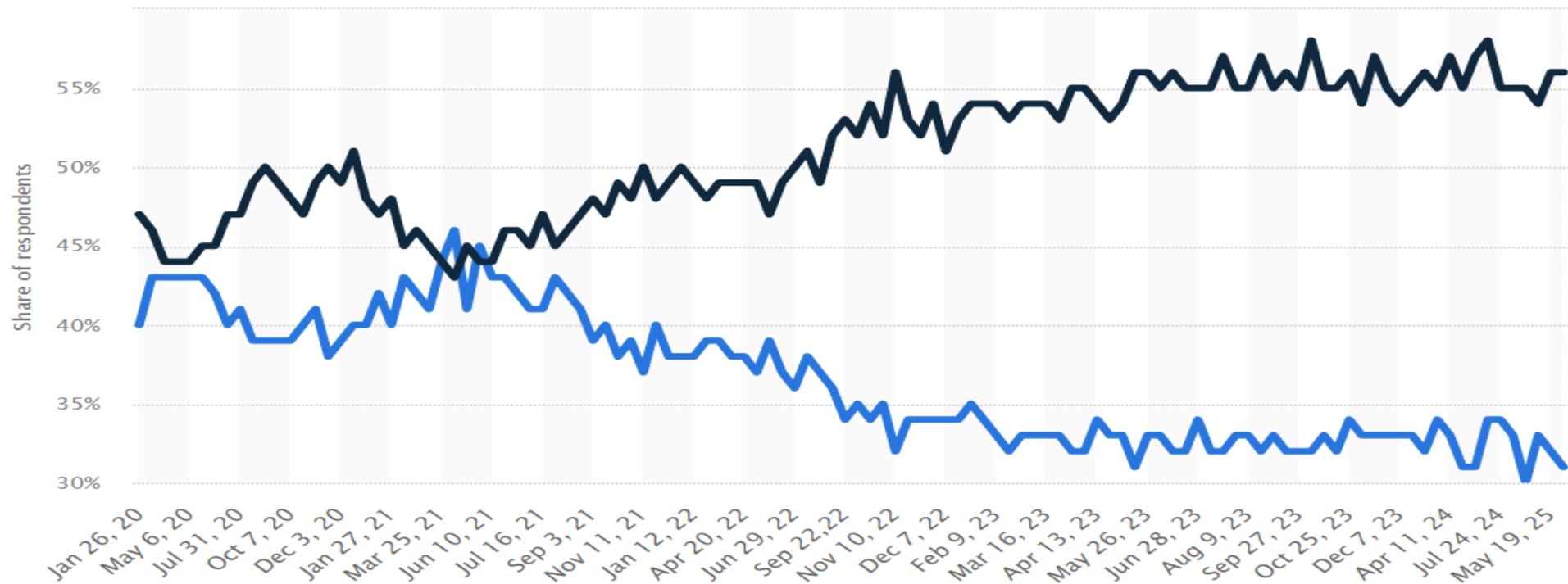
But- national freedom of deciding foreign policy and defence and tax policy though the EU's stability and growth pact generally acted as constraint limiting in theory :

- Debt to GDP ratio to 60%
- And deficit to GDP ratios to 3%

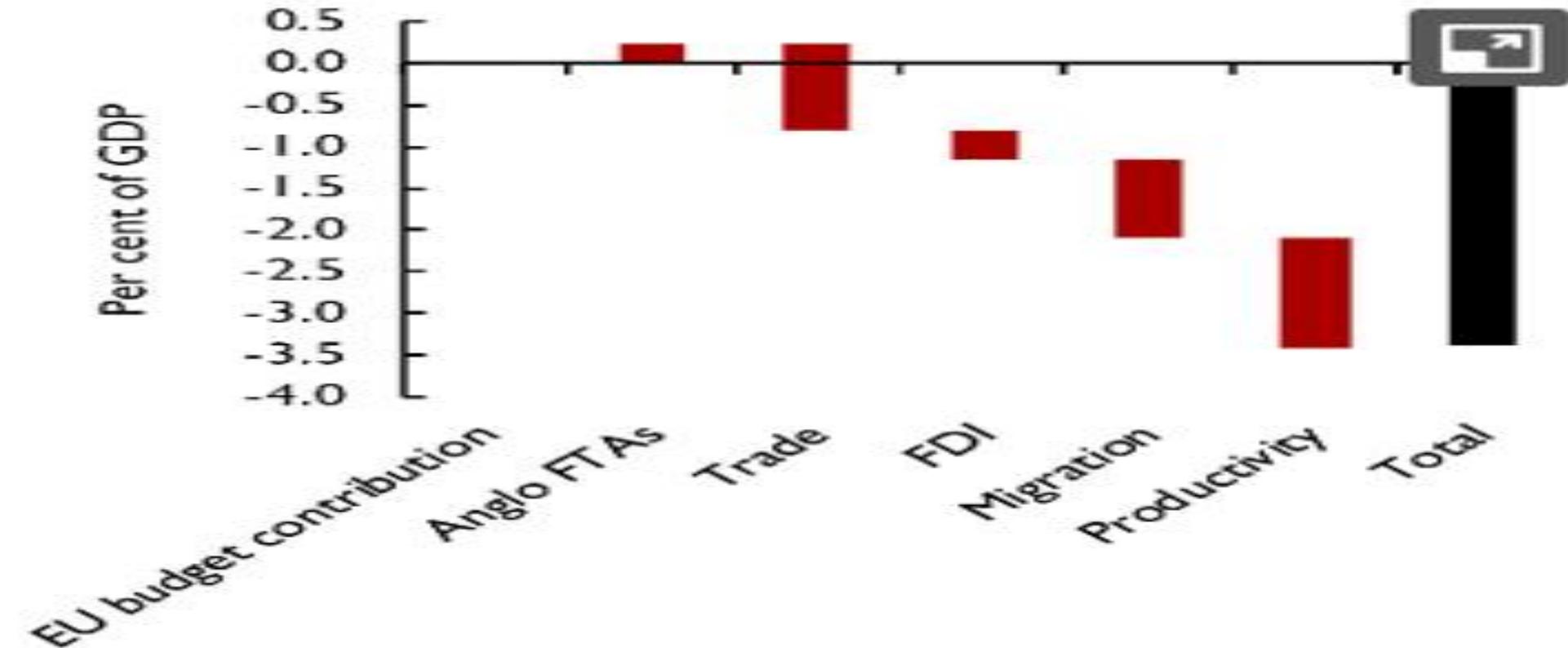
And this exacerbated impact on Europe and the Eurozone of the financial crisis of 2008/09 and influenced mood in the UK against membership of the EU .

But mood has changed "In hindsight, do you think Britain was right or wrong to vote to leave the European Union?" *Source, Statista*

(January 2020 to June 2025)

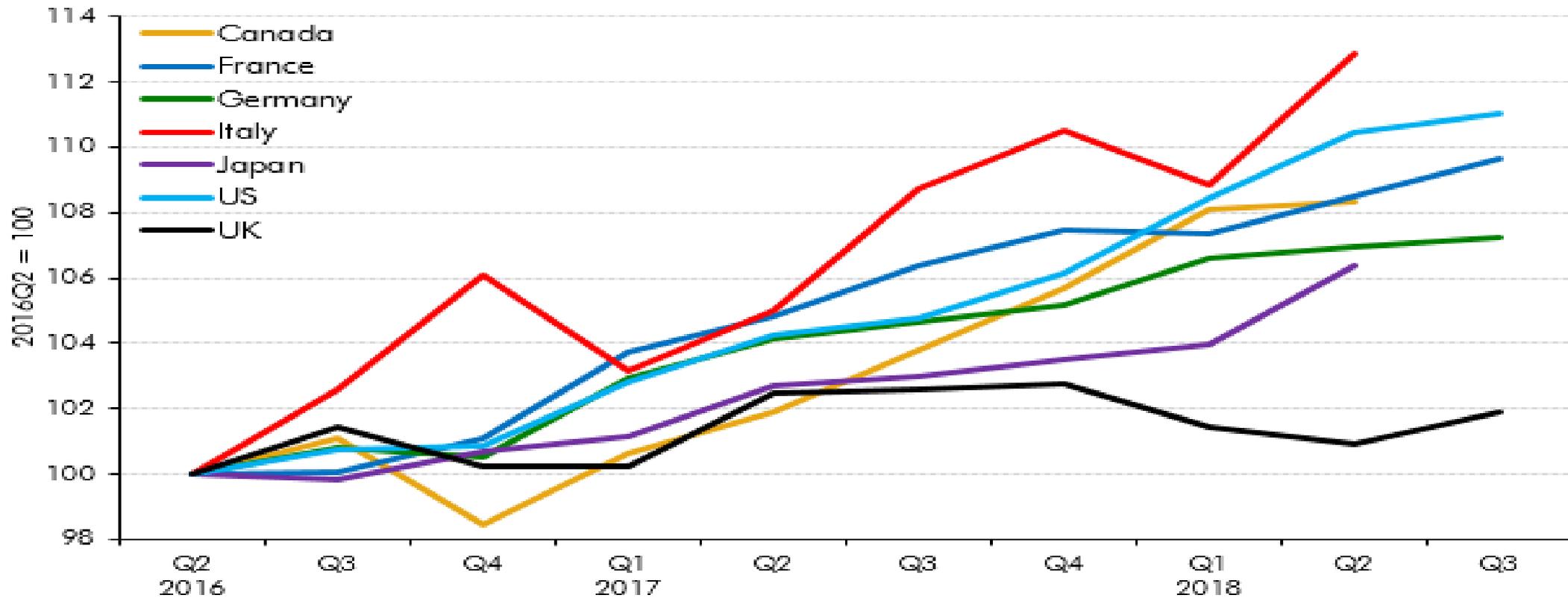


BREXIT: a lot of early analysis proved correct - % likely impact on GDP of a free trade agreement over 10 years compared to status quo-i.e. EU membership of the single market and customs union



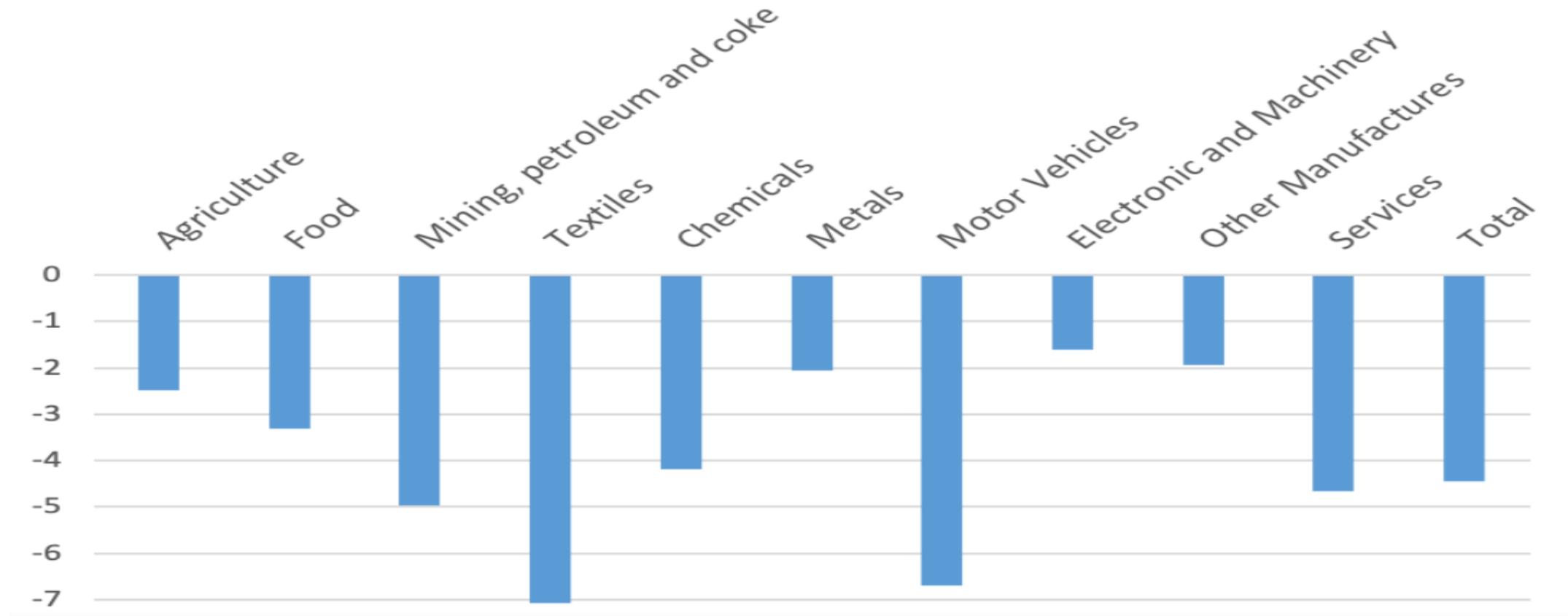
Source: NIESR, NiGEM simulation.

Indeed Brexit vote exacerbated legacy of low investment due to the uncertainty of what was to come, and productivity, which was slowest in the G7 post Brexit to pandemic, is still suffering today -*OBR*
<https://obr.uk/box/g7-growth-investment-since-eu-referendum/>

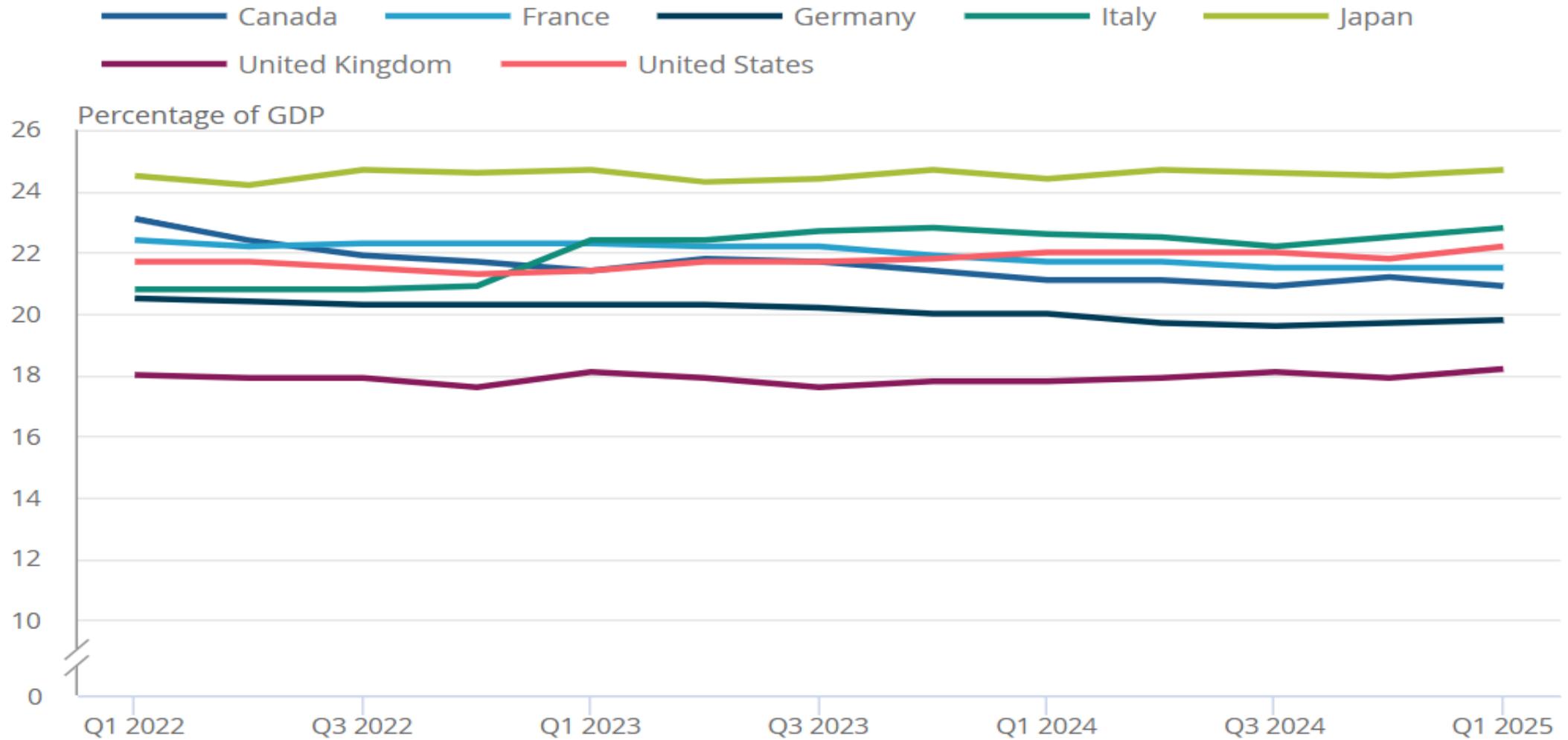


Source: OECD

That was reinforced later by estimates of **negative** long-term impact of an FTA with the EU on sectors, despite absence of tariffs- *Alan Winters, Surrey University UKTPO, 2020, modelled on a 2014 baseline*)



And indeed following Brexit UK Gross fixed capital formation as % of GDP remains lowest in the G7



So:

<https://www.sciencedirect.com/science/article/abs/pii/S0014292123002623#:~:text=In%20our%20baseline%20model%2C%20UK,of%20extensive%20and%20intensive%20margin.>

Though data distorted by Covid in ensuing years, Centre for European Reform analysis suggests that by the second quarter of 2022 ..based on its doppelganger approach (*which looked at what growth would have been compared to the countries we were closest to pre- Brexit*)..

Brexit had reduced :

GDP by 5.5%,

Investment by 11%,

and Goods trade by 7% by the second quarter of 2022.

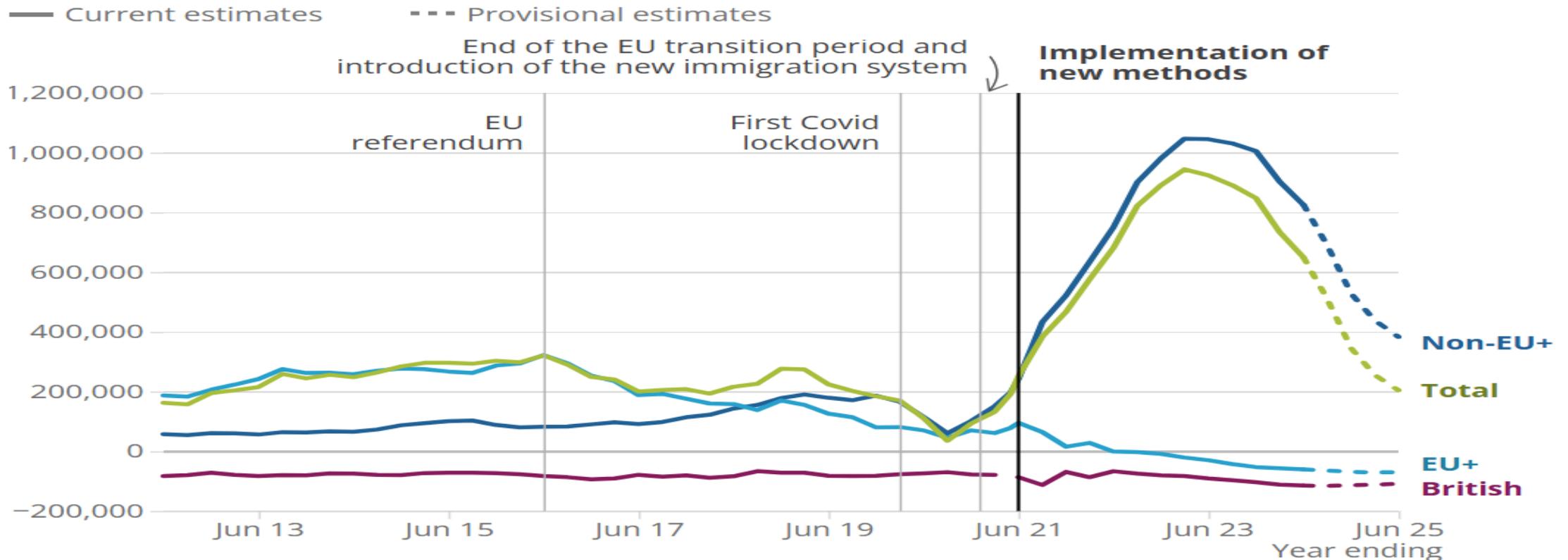
Other trade agreements added very little to GDP

New analysis of impact so far

- New analysis from the National Bureau of Economic Research suggests that:
 - *By 2025, the UK economy is 6% to 8% smaller since 2016 than it would have been without Brexit*
 - *GDP per capita between £2,700 and £3,700 lower*
 - *Annual tax revenue up to £90 billion lower*
 - *investment was reduced by between 12% and 18%, employment by 3% to 4% and productivity by 3% to 4%- skills matter and EU labour lost hurts*
 - *And damage done by having left (for a while) Horizon and Euratom, Erasmus, losing Euroclear ..and more*
 - *But while goods exports to the EU in 2024 fell by 18% in real terms compared to 2019, service exports are 19% higher.*

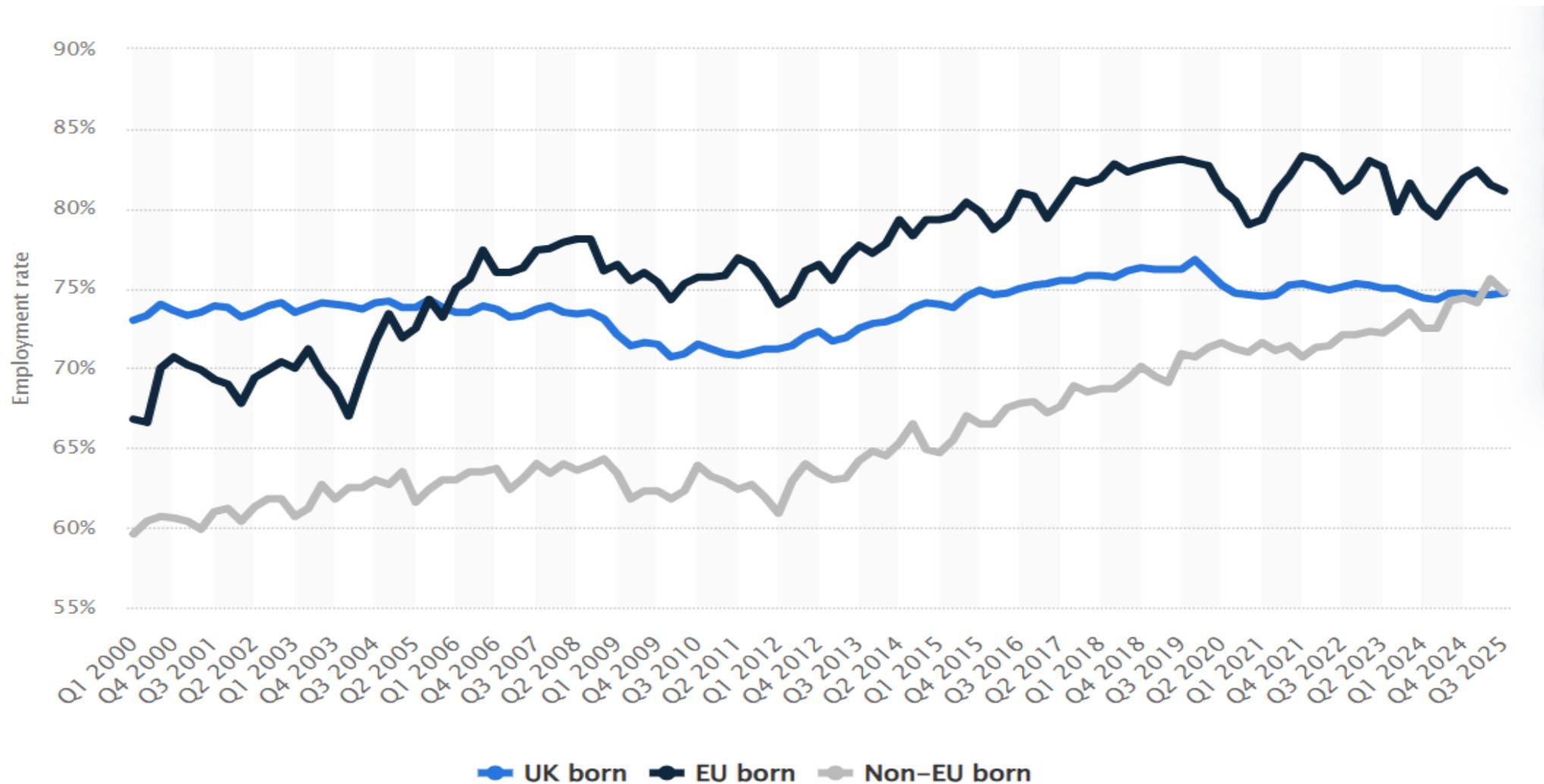
Other impact on labour market: EU net migration now negative, replacing with expensive workers with visas hurts economy

Long-term net migration of non-EU+, EU+, and British nationals in the UK, year ending (YE) June 2012 to YE June 2025



Source: Borders and Immigration data from the Home Office, Registration and Population Interactions Database from the Department for Work and Pensions, and International Passenger Survey from the Office for National Statistics

Employment rate of UK and non-UK born adults in the UK



So now a “Reset” with the EU, started after July 2024 election- Three pillars:

1. “Foreign policy and security cooperation.

2. Safety of citizens. *This covers closer law enforcement cooperation in areas of serious and organised crime, such as counter-terror operations and tackling irregular migration.*

3. Growth and trade. *This included the manifesto commitments to negotiate an SPS agreement with the EU and improve arrangements on mutual recognition of professional qualifications and for touring artists” ...House of Commons Library*

Some progress

Since then: **“Reset” and a UK/EU summit in May 2025..**

- 1. Intention to join EU emissions trading scheme and*
- 2. Join Pan-Euro-Mediterranean Convention on rules of origin, involving the EU and other European and Mediterranean countries.*
- 3. Establish a defence and security partnership*
- 4. Youth mobility scheme*
- 5. Agreement on animal safety regulations , ie new veterinary agreement -‘sanitary and phytosanitary’ (SPS)*

How to further limit impact and help growth

- Rejoin Customs Union and reduce rules of origin issues?
- Speed up youth mobility and extend further to wider population?
- Reduce EU tuition fees?? Being discussed now. Extend regulatory cooperation?
- Adopt the EU carbon tax otherwise tariffs on products will appear as part of the EU's Carbon Border Adjustment Mechanism(CIBAM)?
- Cooperate on tariff issues so as to bolster regional negotiating strength?
- Cooperate more on defence- **and yet last Friday headline was:**
“UK talks to join EU defence fund break down”

Or, basically, rejoin...