

1.4 TRADE: OPTIONS FOR THE FUTURE

The UK has to make decisions on two issues in relation to the future of trade:

- How do we want to trade with the EU after Brexit?
- How do we want to trade with countries outside the EU?

At the moment, both of these matters are decided by our membership of the EU:

- How we trade with the EU is shaped mainly by our membership of the Single Market.
- How we trade with countries outside the EU is shaped by our membership of the Customs Union.

After Brexit, we have three basic options on each of these issues:

- We could seek to stay in the Single Market and/or the Customs Union. It's possible in principle for the UK to stay in one or these but not the other, or in both of them, or in neither of them.
- We could seek our own negotiated relationship with the Single Market and/or Customs Union.
- We could seek no deal with the EU.

The rest of this sheet gives you some more information on these options.

OPTIONS FOR TRADING WITH THE EU

The UK could seek to stay in the Single Market; to agree a special trade deal with the EU; or to have no deal. A special trade deal could take many forms. Here, we will describe two kinds: one detailed, the other limited. That means that we describe four options in total.

1. **Option 1: Staying in the Single Market.** Staying in the Single Market would allow the UK to continue to trade very freely with the countries of the EU. It would also require the UK to continue to follow Single Market rules on things like workers' rights, product standards, and environmental standards. Those rules include free movement of people, so the UK would not be able to tighten immigration controls on EU citizens. UK citizens would still be able to live and work in the EU.
2. **Option 2: A detailed trade deal between the UK and the EU.** A detailed trade deal would cover both tariffs and non-tariff barriers to trade. This would maintain very free trade between the UK and EU countries – though almost certainly less free than today. It would require the UK to agree many rules with the EU through negotiations. This is the approach the UK government wants. But it's unclear what kind of deal can be reached, or how long it will take.
3. **Option 3: A limited trade deal between the UK and the EU.** A more limited trade deal would continue tariff-free trade between the UK and the EU, but wouldn't cover much else. Maintaining tariff-free trade is important for some sectors of the economy, such as agriculture and car manufacturing. But other sectors – such as services – wouldn't be helped so much. There is also a danger that non-tariff barriers to trade would gradually rise over time. A deal like this

would leave the UK much freer than the first two options to decide its own rules. But some people worry that efforts to make the UK competitive in markets outside the EU could lead to a weakening of workers' rights or environmental standards.

4. **Option 4: No trade deal with the EU.** What happens if the UK does no deal on trade depends on the next issue – what arrangements the UK seeks for its trade with countries around the world. So we will return to the 'no deal' option after we have considered that issue.

OPTIONS FOR TRADE RELATIONS AROUND THE WORLD

The UK could seek to stay in the EU's Custom's Union, seek a special customs relationship with the EU, or seek no kind of customs deal.

- **Option 1: Staying in the Customs Union.** Some people want the UK to stay in the Customs Union even if it leaves the Single Market. They think being part of a large bloc like this helps get good trade deals with countries around the world. Others disagree, saying the need to coordinate among all the member states makes deals slow and cumbersome. Supporters of the Customs Union also say that the absence of customs checks within it makes trade with EU countries easier. Others hope that a special customs arrangement between the UK and the EU (see option 2) could resolve this issue.
- **Option 2: A special customs relationship with the EU.** The UK government wants a deal that will allow goods to cross the UK–EU border with no more than limited customs checks, and allow the UK to strike its own trade deals around the world. It's unclear whether such a deal is possible.
- **Option 3: No customs deal.** We consider 'no deal' options next.

'NO DEAL' OPTIONS

If the UK does no deal with the EU, then trade will have to follow what are called 'WTO rules'. The WTO is the World Trade Organization. WTO rules say that, unless countries have done a trade deal, each WTO member must charge the same tariffs on imports from all other WTO members – it can't charge higher tariffs on imports from one country and lower tariffs on imports from another country.

So if the UK and the EU strike no deal, we will have to charge the same tariffs on imports from the EU as from elsewhere. The EU will have to charge the same tariffs on UK imports as on other imports.

The EU will almost certainly extend its current tariffs to the UK. The UK will have a choice. It could use current EU tariffs as the starting point and charge these on imports from the EU as well as from outside the EU. Or it could end tariffs on imports from all countries.

Few people think it would be a good idea for the UK to scrap all import tariffs without getting anything in return from other countries. But some experts argue for 'unilaterally' scrapping our tariffs on some things. They say this would help reduce prices in the UK and turn the UK into a global trading nation. Others think the UK should not give away its bargaining chips like this. They say that, if we did so, UK producers could be undercut by imports from countries with lower product standards or weaker protection of workers' rights.