

TOWARDS A MODERN UK-EU TRADE RELATIONSHIP

Moving beyond the UK-EU Trade and Cooperation Agreement

December 2020

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INTRODUCTION

In 2019, the UK and EU traded £672 billion of goods and services, or a little short of £2 billion per day, making it one of the world's largest trade flows. That flow will change markedly from January 1 with the end of the Brexit transition period. The agreement just reached between the UK and EU, while superior to WTO terms, will initially mean considerably higher barriers to this trade.

Trade between developed economies in the 21st century is diverse and complex, a web of connections created by goods and services crossing and re-crossing borders, following national and international regulations as appropriate. From research to food, computer games to university students, trade has become far greater than the traditional notion of a factory in one country producing goods to be sold in another.

Modern trade relations between countries reflect this diversity and typically consist of a networked system of agreements of different types, shared membership of regional and national organisations, and regular dialogues on various matters between governments at different levels. There are, for example, more than 100 agreements in place between the EU and Switzerland and, although an extreme case, it is typical for countries to have multiple engagements with each other.

The new UK-EU Trade and Cooperation Agreement puts in place a framework with some essential elements such as the absence of tariffs, basic rules on business travel, and a structured dialogue. However, it falls far short in supporting modern trade, in particular in tackling non-tariff barriers. While such shortcomings are not uncommon – most Free Trade Agreements (FTAs) are to an extent 'skinny' – modern trade relations and, indeed, UK-based businesses, need much more.

This report views the Trade and Cooperation Agreement as a foundation on which both sides can build a more mature relationship, and lays out the top ten priorities for further development. Some were proposed in negotiations, by both sides, but dropped for reasons of time or politics. Priorities are discussed in sections looking at regulations, tariffs and other market access barriers, including cooperation at the WTO, and issues around movement of people, finishing with a conclusion on how this could happen.

EXECUTIVE SUMMARY

The immediate priority in UK-EU relations is to implement the Trade and Cooperation Agreement effectively, minimising disruption to existing flows. Implementation will however be insufficient to safeguard current trade, and with this in mind, the UK and EU should look to develop the relationship in the following areas:

1. Secure **data adequacy** and deepen provisions on digital trade
2. Establish **regulatory dialogues**, starting with financial services, as part of financial services equivalence
3. Develop **new trade rules for modern challenges**, such as climate change, animal welfare and anti-microbial resistance
4. Maintain **membership of European standardisation bodies**
5. Reach **Mutual Recognition Agreements** to address testing of industrial goods, and veterinary equivalence for food products
6. Explore **membership of major European regulatory bodies** on issues such as aircraft safety (EASA)
7. Expand **cumulation of rules of origin** for preferential tariffs either with Japan or PEM (Pan-Euro-Mediterranean) countries
8. Reconsider **UK participation in Erasmus**
9. Re-establish **mutual recognition of professional qualifications**
10. Cooperate in **renewing the global trade system**

Such a package would not be akin to membership of the single market and customs union. Rather, it would place UK and EU relations on a more appropriate footing than a thin trade deal, something the UK Government has recognised in a number of areas. This does involve, in particular, deeper cooperation on regulations, to support trade.

The new agreement is underpinned by a regular programme of dialogue between the UK and the EU. It will be through this that the two sides can start to build a renewed relationship and, potentially, deeper agreements.

MODERN TRADE RELATIONSHIPS

A single trade agreement is insufficient for a modern trade relationship

International trade is traditionally viewed as the product of a single goods manufacturer being sold to another country. In the 21st century, however, this represents a shrinking percentage of total trade, once we consider the complexity of modern goods and services. Instead, trade today mostly takes place in a complex global network of goods and services producers, whose work is combined into a final package for consumers. For example:

- The 30,000 components that go into a modern car, which are typically combined with services such as maintenance, financing and satellite navigation systems
- The increasingly sophisticated food producers of the Netherlands, whose products depend on sophisticated IT systems
- Global research communities responsible for producing pharmaceutical products

All of these activities, as well as the finished products and services, are subject to regulations, laws that must be followed, which can be set at various levels from regions of a country, to those agreed in global membership bodies such as the World Trade Organisation (WTO). Producers must demonstrate they meet the laws of the countries in which they operate and sell, whether this is for services or goods. For manufacturers there is typically a testing process, sometimes facilitated by reference to using voluntary best-practice standards.

All of this complexity, together with the regulations, has delivered an unprecedented choice of safe products at good prices for consumers. However, it has also led to concerns of unfair competition from countries that don't follow the rules, affecting domestic producers. Those same producers could also be disadvantaged by discriminatory practices in other countries, for example with regard to regulations, or if other countries reach agreements to remove obstacles to their trade.

For traditional goods producers in the time before extensive regulation, the only significant issue was tariffs, the import taxes levied on their products. Recognising that increased trade delivered better choice and lower prices for consumers, tariffs were steadily reduced after the creation of the General Agreement on Tariffs and Trade in 1947. But modern trade barriers are different, involving regulations or testing procedures, barriers to the movement of people providing services, restrictive rules of origin (making it harder to combine products sourced from different geographies) and infringement of intellectual property rights.

The best Free Trade Agreements cover some of these issues, but remain predominantly focused on tariff reduction and rules for trade. They typically do not remove many of the barriers to trade between parties in a manner satisfactory to them. Instead, countries typically cooperate through a network of agreements, regional and international bodies, and dialogues. These are the relationships that support modern trade, and are of particular importance to neighbours. Trade between neighbours remains cheaper than that between distant countries – hence, for the UK, EU trade will remain significant.

Thus, to support a modern trade relationship between the UK and EU, we will need more than a single agreement. Cumulatively, it was only membership of the EU that could remove virtually all trade barriers, with the single market aligning regulations and the customs union removing tariffs. However, there is much that can be done between a thin FTA and membership, and this report identifies some priority areas.

THE UK-EU TRADE AND COOPERATION AGREEMENT

The UK-EU agreement focuses on tariff removal and fair competition, not non-tariff barriers

The centrepiece of the UK-EU Trade and Cooperation Agreement is the absence of tariffs and quotas for products traded between the parties, so long as these meet the specific rules to demonstrate they originate within the UK or EU (rules of origin). The 100 per cent elimination of tariffs is unusual in a trade agreement, since sensitive agricultural products are typically excluded. In the case of the UK and EU, this reflects the lack of time available to discuss every product, and the existing absence of tariffs.

Tariff elimination is always accompanied in trade agreements by rules to ensure fair competition and, in the case of the UK-EU agreement, these go further than any previous example for any country. The UK and EU have agreed to non-regression of existing labour and environmental commitments, strong rules on state aid, and potential action to be taken against future divergence, known as the rebalancing clause. This will provide strong incentives for the UK in particular not to diverge significantly from the EU in these areas.

If the agreement goes beyond normal practice in goods tariffs and level playing field conditions, it is slightly weaker than normal in terms of addressing regulatory differences (which result in what are known as non-tariff barriers) and services. There is no significant mutual recognition, whether of goods or professional qualifications, between UK and EU. In theory, the services provisions allow considerable UK market access but, in practice, these are heavily caveated by member state reservations of varying types. There are similarly weak provisions in public procurement, though these at least go beyond the WTO Government Procurement Agreement.

Many other subjects are covered within the agreement, as befits such a broad economic relationship. These include energy, fisheries, aviation, haulage, other land transport, social security and justice. There is also a section on UK participation in EU programmes, though the specifics of the UK choosing to participate in the Horizon science research programme as well as some others are covered elsewhere.

As is normal, the agreement establishes a governance structure including committees and dispute mechanisms. It is interesting to note that, while dispute provisions are common in previous agreements, these have in the past hardly been used. A trade agreement is very much a framework for future cooperation rather than a detailed manual, and typically issues have been resolved informally. We must wait to see whether this will change for the UK-EU agreement.

There has been considerable interest in how the UK and EU reached this agreement, and who were the winners and losers. The negotiators may have opinions but, for the rest of us, this is impossible to say. However, thanks to statements and draft texts from both parties, we do know that both had to compromise in different areas, and there were areas in which both had wanted to go further. Whether because of time or politics this was not possible; but this desire to go further on the part of both parties provides a good basis for developing further agreements to support the modern trade relationship. This is likely to come in the form of new stand-alone agreements that in some way link into this one, based on relationships that officials will now start to develop in implementing this UK-EU Trade and Cooperation Agreement.

PRIORITIES – REGULATIONS

The UK must prioritise removing non-tariff barriers through mutual recognition and equivalence

Meeting different regulations and going through extra checks for different countries costs businesses money, and potentially reduces competitiveness. This threatens their ability to sell in other countries, and particularly their place in global value chains. Under World Trade Organisation rules, countries are allowed to regulate differently as long as this takes place in a non-discriminatory manner, and distorts trade as little as possible. WTO rules do little to remove non-tariff barriers.

The UK Government highlighted regulatory sovereignty as a key principle for future EU relations, underplayed the cost of non-tariff barriers, but still asked for mutual recognition in areas such as testing of industrial goods and professional qualifications. Given this somewhat confused signalling and the limited time available, it is unsurprising that little was achieved. However, it does suggest that much more can be gained, and that the UK Government does not in fact have a red line preventing this.

If the Government is prepared to reduce regulatory sovereignty to support UK business, then there are many ways in which modern economies cooperate on regulation. In doing this, the Government should work with UK business to identify those areas likely to be most important in retaining UK economic strength. It should also be noted that, as Northern Ireland will continue to follow EU regulations, there will be less divergence within the UK if we remain close to the EU in different areas of regulation.

Mutual recognition and equivalence

The exact meanings of the trade terms ‘mutual recognition’ and ‘equivalence’ differ in terms of the context, but are essentially mechanisms to allow goods and services produced in a country with one set of regulations to be sold in another, with fewer or no checks. There are a variety of agreements that should be considered in this area to supplement the UK-EU agreement:

- **Mutual recognition** – these avoid double testing of a product by allowing results in one country to be considered adequate in the other. The UK asked for these in negotiations, as the EU has existing agreements covering many different sectors such as pharmaceuticals, machinery and toys¹. The EU was not keen apart from in pharmaceutical inspections, possibly concerned about future UK regulatory intent. It should be possible for the UK to provide sufficient reassurance
- **Veterinary equivalence** – agreements that reduce or eliminate inspections on food products, which in reality account for the greater percentage of products checked on entry to a country. The EU has a number of such agreements² but, in this case, it seems the UK may not have asked for something similar due to concerns about regulatory freedom. Given EU agreements with countries such as Canada and New Zealand which significantly reduce inspections, similar agreements should be possible for the UK
- **Professional qualifications** – see below
- **Data adequacy and financial services equivalence** – these are both unilateral in the EU context, which means they can be granted rather than be the subject of agreement. Data adequacy decisions³ allow for the transfer of personal data from the EU without further protection. Financial services equivalence for the EU involves a far more complex set of decisions, which covers both

¹ https://ec.europa.eu/growth/single-market/goods/international-aspects/mutual-recognition-agreements_en

² https://ec.europa.eu/food/safety/international_affairs/trade/agreements_en

³ https://ec.europa.eu/info/law/law-topic/data-protection/international-dimension-data-protection/adequacy-decisions_en

access to the market and regulatory supervision⁴, in a number of different areas. In the case of data, a temporary agreement is in place for the next six months, during which time the UK commits to continuing with existing regulations. For financial services, the UK is waiting for an EU decision. Both should be a UK priority.

It is possible that, in some areas of regulation, the EU and UK could agree to go further. For example, there had previously been suggestions of a financial services mutual recognition agreement, which could come closer to replicating the access UK companies have under the EU single market. These were reportedly rejected by the EU, which believed too much of the thinking was ill-formed and could amount to cherry-picking the single market.

An EU desire to see some of the UK financial services sector relocate to the EU may have played a part. Though there are undoubtedly difficulties with such a proposal, it should be a longer term aspiration given the importance of the sector, accounting for close to 10 per cent of UK exports.

For a year after the end of the transition period, the UK will continue to accept products with the EU's CE marking⁵. This is a more informal way of regarding products from another market as safe, as well as helping integration between Northern Ireland, where the CE marking will still be used, and the rest of the UK, which will use a UKCA marking. Extending this period could be another way to encourage continued trade integration.

Dialogue and Membership of Regulatory Bodies

Many countries have established dialogues with major trade partners to discuss how they can reduce trade barriers caused by differing regulations. One of the most prominent examples is the Canada-United States Regulatory Cooperation Council, which has an extensive work programme to try to coordinate regulations and minimise business impact⁶. Australia and New Zealand have gone further in creating a Single Economic Market which, although short of the EU single market, involves considerable integration⁷. Even the UK Government has conceded that "Differences in regulations between countries can create some of the biggest barriers to trade" and committed to "work with a wider range of international partners to help solve global issues, [and] reduce regulatory burdens on exporting businesses..."⁸

Following this lead the UK should prioritise regulatory dialogues with the EU to see how we can best minimise regulatory barriers. One sector where this will be of particular use is financial services, where the UK is likely to continue to be a major supplier to the EU, but a mutual recognition agreement seems at this unlikely as discussed above. Both parties aim to agree a Memorandum of Understanding by March 2021, which will be welcome. Aligning regulatory and supervisory structures, and managing divergence where required, should be advantageous for both parties. Other areas in which such cooperation should be prioritised include trade and climate change (see below), data and digital trade, and consumer safety.

Beyond regulatory cooperation, the UK should seriously consider membership of EU regulatory bodies in sectors where it is unlikely that the UK will wish to diverge. One very good example is the European Aviation Safety Agency (EASA) which, along with the US Federal Aviation Administration (FAA), is one of the big two global aviation regulators. The UK Government chose to announce Britain's departure from this body in March, apparently due to the relationship between EASA and the European Court of Justice. This decision was condemned by UK industry, which believed it would damage UK competitiveness and the

⁴ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/international-relations/recognition-non-eu-financial-frameworks-equivalence-decisions_en

⁵ <https://www.gov.uk/guidance/using-the-ukca-mark-from-1-january-2021>

⁶ <https://www.canada.ca/en/health-canada/corporate/about-health-canada/legislation-guidelines/acts-regulations/canada-united-states-regulatory-cooperation-council.html>

⁷ <https://www.mfat.govt.nz/en/countries-and-regions/australia/new-zealand-high-commission/single-economic-market/>

⁸ <https://www.gov.uk/government/news/international-regulatory-cooperation-for-a-global-britain>

prospects of those working in the sector. Some provisions are included in the Trade and Cooperation Agreement but, given that ECJ oversight is no longer a strict UK red line (see Horizon, below), membership or a bilateral agreement with the EU are both potential options that should be pursued⁹.

In general, there are many EU regulatory agencies which are potentially open to UK membership, as illustrated by the Institute for Government¹⁰. Refusing to participate in any agency on principle is an ideological position which will damage UK industry. A more reasonable approach will be to consider UK interests, and where we are likely to want to diverge or remain aligned with EU regulations. Where it is the latter, membership of the relevant body should be the preferred approach.

Standardisation and international bodies

Voluntary standards underpin Government regulations relevant to global trade. In particular, in both the EU and UK, adherence to standards can provide a presumption that products meet regulations. Outside of formal Government control, this area has been a quiet UK success story.

BSI, the UK standards body, is a leading participant in the European standards bodies CEN and CENELEC, and the International Standards Organisation (ISO), ensuring a strong link between UK industry and internationally adopted standards. CEN and CENELEC have 34 countries represented, a membership going beyond EU countries, and are therefore open to the UK.

At this stage UK membership has been confirmed until the end of 2021, and there is no reason that this should not continue as long as Government standardisation policy remains broadly unchanged. This should be another Government priority.

There are many other international standard-setting bodies, for example the misleadingly named United Nations Economic Commission for Europe (UNECE) that sets international standards in a number of areas, including many related to the automotive sector. These act as key reference points, and the UK should seek to enhance its role in such bodies, working with the EU and other parties to benefit UK production.

Similarly, we should increase engagement with the OECD (Organisation for Economic Co-operation and Development), another international body that helps facilitate international best practice and standards. In both cases we will need to be aware that EU members are typically the predominant single voice, and we will therefore need to establish a productive relationship recognising that reality.

⁹ <https://blogs.lse.ac.uk/brexit/2020/09/08/the-uks-independent-aviation-safety-regulator-will-come-at-a-cost/>

¹⁰ <https://www.instituteforgovernment.org.uk/explainers/eu-agencies>

TARIFFS AND WIDER GOODS TRADE ISSUES

The UK and EU should cooperate to modernise trade rules, in particular around climate change

As suggested above, Free Trade Agreements do not represent modern trade particularly well, focused as they mostly are on tariffs relating to the production of a good in one country and sold to another. As well as focusing on regulations, the UK should also prioritise updating international goods trade rules in areas of common interest. These could include :

- Reshoring manufacturing, which could be supported by more flexible rules of origin for zero tariffs,
- Encouraging climate friendly trade, e.g. the introduction of carbon border adjustment measures to ensure imported and domestically produced goods meet similar environmental standards
- Updating animal trade rules similarly to ensure issues such as antimicrobial resistance are considered for imports as well as domestic production

Rules of Origin and other bilateral issues

The absence of tariffs should help UK and EU manufacturers to compete against imports, which should be assist the plans of both to encourage domestic industrial production, or rebalancing. However, tariffs are zero only if they meet rules of origin requirements and are claimed as such by importers. Only 78 per cent of EU goods exports to countries covered by its network of Free Trade Agreements use the reduced tariffs within them¹¹. There are a number of reasons why this may happen, such as the difference between the tariff and preferential rates being higher than the cost of certifying qualification for preferential rate, not meeting the required qualifying rules of origin, or the complexity of meeting different qualifications in different agreements.

One way to encourage greater use of preferential tariffs is to arrange for cumulation, basically meaning that products can be considered to qualify for zero tariffs even if significant percentages come from elsewhere. Thus the EU is at the centre of the Pan-Euro-Mediterranean (PEM) convention on cumulation of rules of origin, which means that, for trade between member countries, which consists of nearly all European countries (Belarus and the UK will be the exceptions), goods from any of them can count towards meeting appropriate rules of origin thresholds. Joining this system should considerably facilitate UK trade and our role in European supply chains, though there are concerns that some UK goods using non-European ingredients may not qualify under these rules.

As an alternative, the UK-Japan and EU-Japan Free Trade Agreements both contain provisions which could ultimately create a situation where materials from any of the three could be combined and still qualify for preferential tariffs. At this stage it is the EU which has been resistant to this idea, but that could be tested if the UK and Japan can find incentives for the EU. This and PEM should, however, be seriously considered by the UK Government in the future to reduce barriers to trade as part of a modern approach.

One of the prime benefits of an FTA will be customs cooperation between UK and EU border agencies. This should be particularly useful for the heavily used Dover-Calais and Holyhead-Dublin routes. One win for the UK in talks was to mutually recognise UK and EU Authorised Economic Operator (AEO) schemes, to ensure that trusted traders, typically those passing through borders most regularly, are able to take advantage of fewer checks. In the past, UK businesses have been slow to sign up for AEO status, and this is one of many areas of implementation that the Government needs to focus on.

¹¹ <https://english.bdi.eu/article/news/the-preference-utilization-rate-of-eu-free-trade-agreements/>

Wider Goods Trade Issues

The UK and EU share a number of trade policy challenges where cooperation should be beneficial. These include emerging issues, such as the extent to which domestic action on challenges such as climate change and antimicrobial resistance should also be reflected in rules for imports, and the future of the WTO, which has been struggling for some time in various ways. It should be noted that, like many other issues already discussed, bilateral UK-EU action is not exclusive: both parties can choose to work with others. However, it should be easier in a number of ways to work together than with others.

It is likely that one of the biggest issues in trade policy in the next four years will be climate change, in particular carbon border adjustment mechanisms. The principle behind this is to ensure that domestic carbon pricing does not penalise domestic production at the expense of imports, which are thus subject to a similar mechanism. This is complicated and still under discussion in the EU, but implementation looks more likely with a US President also concerned about the issue. The UK should seek to work with the EU on the issue, particularly given the Prime Minister's stated commitment to carbon neutrality.

A similar issue (of ensuring domestic regulation does not incentivise imports produced to lower standards) comes in agriculture, in particular animal welfare and the overuse of antibiotics, creating antimicrobial resistance. The Trade and Cooperation Agreement includes loose commitments to cooperate on both issues which could easily be lost among other issues. However, these seem to be UK priorities, and working with the EU could help set new rules which others could in turn adapt. This should then help UK producers as well as meeting UK policy priorities.

Beyond directly bilateral cooperation, initiatives to revive the World Trade Organisation (WTO) will require EU and UK engagement. It is disappointing that, as yet, the UK has chosen not to join the interim replacement for the WTO appellate body, the Multi-Party Interim Appeal arrangement. This should be a priority unless the new US administration quickly moves to unblock the appellate body, reversing President Trump's policy. The UK should similarly seek, where possible, to assist in stalled plurilateral initiatives including the EU, such as the Environmental Goods Agreement to reduce tariffs on climate friendly goods. It should also be noted that the UK's first independent goods schedules at the WTO, covering goods and in particular agricultural quotas, have yet to be approved by other members. The EU deal should allow this to be swiftly concluded.

TRADE IN SERVICES AND MOVEMENT OF PEOPLE

The UK is strong in services but trade agreements are not – particular focus needed

While the UK retains strong manufacturing capabilities, it is in services that we are considered to be particularly competitive. From science to financial services, professional companies to film production, we genuinely have world leading capability. Indeed, services account for 80 per cent of the UK economy, and nearly 50 per cent of exports.

Although some services are sold globally with few barriers, many are still easier to sell within a home region, in particular those related to movement of people. Services are traditionally poorly served by trade agreements, and the Trade and Cooperation Agreement is no exception. UK restrictions on visas that are now extended to EU citizens are already an issue for the UK services sector. With further restrictions from January 1 largely unaffected by the new agreement the UK Government must find other ways to support UK services exports to the EU.

Movement for Work

There has long been a Brexit contradiction between the demands to control immigration and the encouragement of services exports which are heavily dependent on the ability of individuals to be able to move freely. Freedom of movement between EU and UK will end on January 1 2021 and the provisions to support this in the agreement are limited to temporary movement for work in specific and limited cases. It should be noted that, while free movement is often associated with legal, financial or consultancy services, those likely to be affected include a diverse range of others including musicians and other cultural providers, travel reps, and sports players. If possible, the Home Office should be encouraged to make travel to the UK easier but, in the short term, this seems unlikely. For outward travel in general this is an issue for individual member states – but there are also agreements between the EU and a number of third countries which may be of future use¹².

It may be easier for the UK Government to prioritise the Mutual Recognition of Professional Qualifications, where an ambitious request for a continuation of the EU framework within the agreement was turned down by the EU. This will make it harder for UK employees with equivalent qualifications to provide services in the EU. The Trade and Cooperation Agreement merely provides a framework that may be used for specific mutual recognition arrangements in different sectors. The UK Government should seek to progress these in different sectors, as a priority ahead of similar agreements with further away countries less likely to be used.

There are many subjects that are related to cooperation in the field of people, including cooperation on social security, justice and policing. While not directly related to the subject of trade, these are also areas featured in the agreement, where future cooperation and development can be expected. Road transport, railway services and aviation are similarly included, and there may be opportunities to develop provisions further.

¹² <https://ec.europa.eu/social/main.jsp?catId=470&langId=en>

University and research co-operation

One of the most positive aspects of the Trade and Cooperation Agreement is the confirmation of UK participation in the Horizon Europe research programme, a world leader that the UK could simply not replicate. The UK will have to pay for participation, but doing so means we can continue to be at the heart of cutting edge scientific research¹³. To do this, the UK had to sign up to ultimate oversight of the European Court of Justice, a useful precedent for other programmes or European bodies with which alignment may be beneficial.

The news that the UK had declined to take part in the Erasmus scheme was less encouraging. Thousands of UK students had taken advantage of the scheme each year for exchanges and work placements, delivering personal value to them, and greater value to the economy as a whole (reflected in polling suggesting the scheme to be popular in the UK)¹⁴.

The Erasmus programme also brought EU students to the UK, delivering both short-term financial gains (inbound travel counts as a services export) and longer-term gains through the development of networks of relationships. Such relationships may become particularly important as UK officials cease to spend much time with EU counterparts, even while EU laws remain important to us. The UK's replacement 'Turing' scheme is so far unspecified, but it seems unlikely that it can replicate the benefits. It should be noted that Northern Ireland students will still have access to Erasmus, funded by the Irish Government, just as their rights to Irish passports will enable them to retain rights to work in the EU. This should provide a benefit to Northern Ireland but, alongside different goods regulations, will be another issue separating the province from the rest of the UK.

International cooperation on services trade

Given the UK is so strong in services trade, it is an area where it makes sense for us to try to work with all potential allies to remove barriers to this trade. One of the most problematic challenges is resolving a difference of opinion between the EU and US on data flows and data protection, which is giving rise to some concern that the UK will struggle to receive a data adequacy decision from the EU while also being able to transfer data to the US, Japan and other economies. It is in our interests to try to resolve the issue, as we stand to lose out if it continues. This will require work with both EU and US.

More broadly, negotiations at the WTO on a new Trade in Services Agreement stalled, in part over this difficulty, and talks over a new e-commerce agreement are proceeding slowly. For either to happen will require the UK to work with the EU. As in many other areas, the road to becoming Global Britain may need to go via a European Britain.

¹³ <https://www.politicshome.com/thehouse/article/the-covid-vaccine-proves-a-confident-global-britain-must-engage-in-international-partnerships>

¹⁴ https://www.bestforbritain.org/new_poll_brits_want_to_keep_access_to_eu_s_horizon_and_erasmus_programmes_in_2021

CONCLUSION – REBUILDING UK-EU COOPERATION

A strong trade relationship needs more than a Free Trade Agreement

The UK's future trading relationship with the EU will continue to be crucial for the UK economy. For most goods and services, it is far easier to compete in a market close to home than one thousands of miles away. More than 50 per cent of the UK's trade is with the EU and associated economies in terms of Switzerland, Norway and Turkey. The EU is at the centre of one of the largest parts of the global value chains that dominate world trade, and it would be reckless to turn our back on this. It is also a dominant global regulator, whose actions will affect our businesses.

Countries that aspire to trade extensively between themselves, which are typically neighbours, build deep relationships. This is why there are examples around the world of Customs Unions and Single Markets. Contrary to some UK thinking, the EU is not a global exception: it has merely gone further than a lot of other regional integration efforts. Nor is the EU particularly protectionist by global standards.

In terms of cooperation with neighbours, there are numerous ways in which this has been done in Europe, from standardisation to the rules of origin for goods trade, and science research funding, to membership of regional regulatory bodies. Nearly every European country takes part in some of these, seeing a benefit that outweighs any cost – even if they do not aspire to membership. It is unrealistic for the UK to stand outside and expect trade with the EU to be maintained.

Slowly, it seems the UK Government has accepted that it does need deeper relations with the EU. Thus the participation in Horizon, with an acceptance that this comes with ECJ oversight. And the request for Mutual Recognition Agreements, and regulatory cooperation in financial services. These are in our interests, but we cannot expect the EU to grant them without further negotiation. Similarly, we should seek to join regulatory bodies where this is in our interests, for example in aviation safety or chemicals management. The UK's decision to go it alone in these areas will be costly for the Government, bad for trade, and offer few benefits that specialists have yet been able to discern.

There need be no contradiction between regional integration and global interaction. Australia and New Zealand have significant ties, including a single market in some areas, but the latter in particular is a leader in seeking global trade cooperation. North American trade ties are strong, but Mexico and Canada still also look outwards. The UK can have a deep relationship with the EU and seek strong relationships elsewhere.

If we can accept the need to go beyond the Trade and Cooperation Agreement, there are many ways to do this – those listed here and others that business, NGOs and others can identify. These may become clearer after the changes in trade come into force on January 1.

The UK Government needs also to establish a new structure to manage European relations, led by a dedicated minister. A regular programme of official and ministerial visits and other events should then support enhanced cooperation. Our shared geography requires regular meetings, and these can be used to review the relationship and consider where it makes sense to do more.

Relations between the UK and EU will take time to stabilise, and we cannot expect both sides to want to agree such a big agenda immediately. Instead, both will need time to consider their best interests, and where cooperation makes sense. There will be domestic opponents in both cases. It is thus important to be clear about the rationale: that we will both benefit from rebuilding ties, economically, politically, culturally.

We will continue to be neighbours, and should seek to be good neighbours and heavy traders. Relations have taken a knock in the last four-and-a-half years, and it is time to start rebuilding them.