Brexit discussion document: NPF, 17/02/18

Summary

1. There are broadly three types of future relationships with the EU after Brexit: 'near full membership' of the single market where we accept the obligations of single market rules, for example as part of the European Economic Area (EEA); a free trade agreement (FTA); or a trade relationship based on World Trade Organisation (WTO) rules.

2. Official estimates of the economic cost of an FTA are 5 per cent of GDP each year after 15 years. The EEA option would cost 2 per cent and the WTO option 8 per cent. If we assume that annual GDP growth is 2% then these figures are consistent with a cumulative loss of GDP of about £500bn over 15 years by choosing an FTA instead of single market membership (EEA).[1] By comparison Labour's National Transformation Fund would invest £250 billion in infrastructure over 10 years.

3. The fiscal impact of an FTA is in the order of £30-45 billion per annum in foregone tax revenue by 2031: roughly equivalent to a quarter of the UK's present day annual NHS budget. The EEA option would cost c.£10-20bn and the WTO option c.£45-60bn, per annum.[2]

4. The EU will not allow cherry picking of certain parts of the single market rules. Therefore because of (A) Labour policy on freedom of movement and (B) doubts about EU state aid rules – the logic of current Labour stance implies leaving the single market, after a transition period, and aiming for an FTA agreement ('tariff free access' to the single market) outside of most single market rules;

5. The EU have recently suggested that to ensure a 'level playing field' they'll insist that even a FTA like that with Ukraine or Canada will have an enforcement mechanism to prevent selective state aid. Therefore, if implemented, to escape state aid rules Labour would have to choose a WTO-rules type Brexit;

6. Within the single market (EU and EEA) it is possible to have an active industrial policy, provide state aid to strategic industries, renationalise privatised utilities, and set up new publicly owned companies. EU rules affect how such policies are designed, not whether they are possible *per se*;

7. While it might be possible to make minor changes to freedom of movement within single market rules, like requiring migrants to find work within a limited period, there is a fundamental trade-off between ending freedom of movement and the economic cost of choosing a FTA-type Brexit.

Summary: key questions for the National Policy Forum:

a) Is ending freedom of movement worth the economic cost of 5 per cent of GDP after 15 years and the loss of tax revenue of perhaps £30 billion per annum?
b) Countries such as Norway which remain part of the single market via the EEA but are outside the EU are consulted on new regulations but have less influence than EU members. Would such a relationship (not a 'rule maker', nor a pure 'rule taker') work for the UK?
c) Are there any proposed Labour industrial policies which genuinely could not be done within single market rules? And, if so, does the scale of the proposed increase to economic growth or well-being from that policy outweigh the cost of leaving the single market?
d) As all of the Brexit options are damaging, should Labour support another referendum which has remain on the ballot paper?

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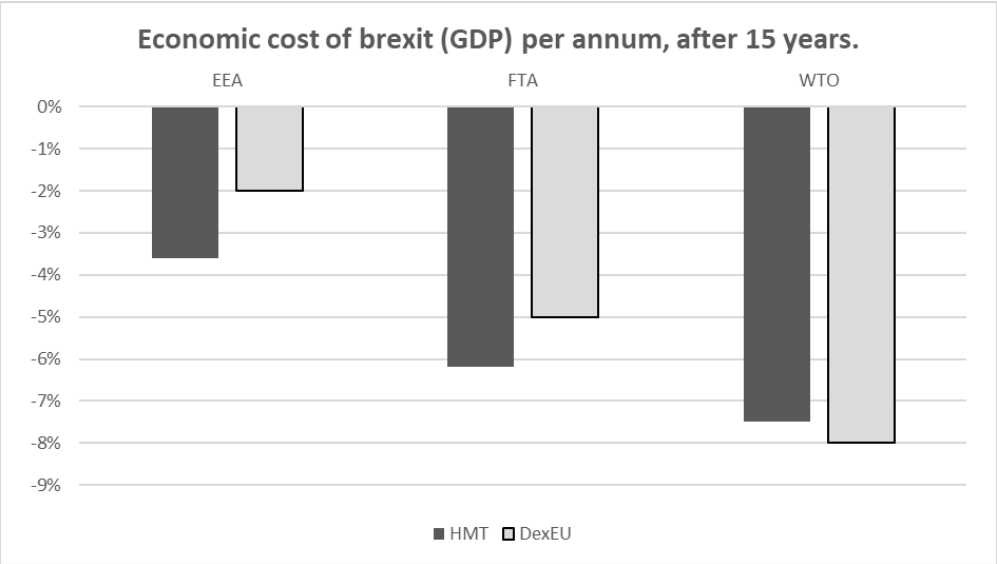
Economic and fiscal impact

8. Labour recently forced the publication of the Government's secret Brexit economic analysis. These were produced by DexEU working with economists across government. They found that after 15 years a WTO rules-type Brexit lowers GDP by 8%, a free trade agreement by 5% and near full membership of the single market by 2%. These figures are broadly comparable with the pre-referendum analysis of HM Treasury. However, the DexEU analysis also included small but positive GDP effects from possible free trade agreements with the US (0.2%), China, the Gulf, India and south east Asian countries (0.1% to 0.4%). Achieving these deals are not foregone conclusions within the 15-year time period.

9. The government analysis finds a hierarchy of effects – the further the UK travels from single market membership, the greater the economic impact. This hierarchy of effects and these figures below are broadly comparable to those which have been produced by the Mayor of London, the Scottish Government, and reputable independent economic analysts like the National Institute of Economic and Social Research and the Centre for Economic Performance at the London School of Economics.



10. The figure above shows the economic growth foregone, compared to remaining in the EU (HMT analysis) or current government forecasts (DexEU), over a 15-year period. (While the economy will be larger in fifteen years – due to population and productivity growth – it will not be as large as it could have been).

11. Another way at looking at this data is that, if we assume that otherwise the UK economy would have grown at 2% (the recent average), choosing a FTA type Brexit knocks the economy onto a lower growth

path for at least 15 years of 1.65% GDP growth on average, compared to average GDP growth of 1.86% if single market membership is retained.

12. By converting these losses into GDP at market prices, it is possible to put these percentages into context. The following figures should be regarded as rough figures to show orders of magnitude, rather than precise predictions.[3] By 2030 in an FTA the UK economy would be about £120 billion smaller each year, in the single market it would be about £50 billion smaller each year, and in a WTO rules type Brexit GDP would be about £200 billion lower, than otherwise. If we add up each year's foregone GDP, then after 15 years the cumulative loss in an FTA is about £800 billion and in the single market it is about £300 billion. I.e. choosing the FTA path rather than the EEA path leads to an economy which is about £500 billion smaller after 15 years. To place this into context, Labour plans for the National Transformation Fund to inject into the UK economy £250 billion over 10 years in infrastructure investment.

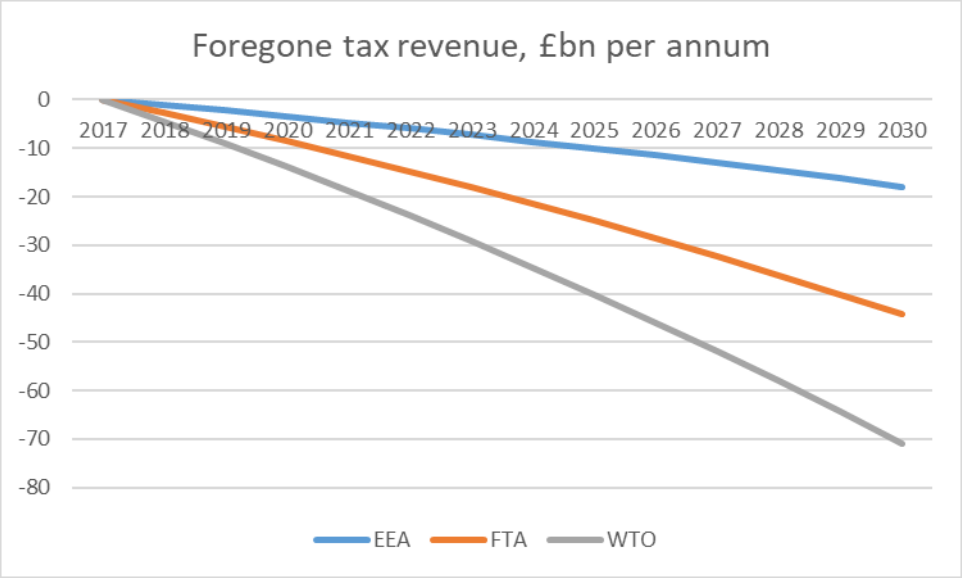
13. The government analysis also included a regional breakdown of lower GDP after 15 years:

Region	Single Market	FTA	WTO
East Midlands	-1.8%	-5%	-8.5%
Eastern	-1.8%	-5%	-8%
London	-1%	-2%	-3.5%
North East	-3%	-11%	-16%
North West	-2.5%	-8%	-12%
South East	-1.5%	-4.5%	-7.5%
South West	-1%	-2%	-5%
West Midlands	-2.5%	-8%	-13%
Yorkshire & Humber	-1.5%	-5%	-7%
Northern Ireland	-2.5%	-8%	-12%
Scotland	-2.5%	-5.5%	-9.5%
Wales	-2%	-5%	-8%

14. The DexEU Brexit analysis also provides a breakdown of the effect on different industrial sectors. Here the analysis takes 'non-tariff barriers', for example differences in regulations (like the differences between chemical regulations in the US and the EU) and expresses them as if they were a regular tariff. In addition to divergent regulatory standards, other non-tariff barriers include extra customs checks, rules of origin regulations, and added paperwork. Non-tariff barriers would be lowest if the UK stayed in the single market and customs union. Tariff equivalent of non-tariff barrier costs, by sector:
    - Machinery, equipment and energy: 2% to 6%
    - Chemical, rubber and plastic: 6% to 12%
    - Other manufacturing: 5% to 12%
    - Motor vehicles: 5% to 13%
    - Food and drink: 8% to 16%
    - Agriculture: 8% to 17%
    - Construction: 0%
    - Business services: 0% to 6%
    - Other services: 2% to 10%
    - Financial services: 5% to 10%
    - Defence, education and health: 6% to 16%
    - Retail and wholesale: 7% to 20%
    - Agriculture 8% to 17%

15. The fiscal impact of different forms of Brexit is cumulative, like the 'magic of compound interest', only in reverse. The chart below shows the effect of different types of Brexit on tax revenues. Initially the tax foregone is not enormous, but by 2030 the FTA option leads to foregone tax revenues each year in the order of £30bn to £45bn per year. This is equivalent to one quarter to one third of the present day UK NHS budget.

16. The chart below shows an estimate of annual tax revenue foregone in each scenario compared to a counterfactual of tax revenue raised from an economy experiencing of 2 per cent annual GDP growth. This analysis assumes tax revenue as a proportion of GDP to be 37.4 per cent (to be consistent with previous HMT modelling). If the proportion of tax receipts to GDP were higher, the tax revenue foregone would be higher still. Again, these figures should be regarded as showing orders of magnitude rather than precise forecasts.



17. Added up over a fifteen-year period the cumulative total tax revenue foregone (not shown in the chart above) increases dramatically. With the FTA type Brexit around £100 billion in tax receipts is foregone by 2025, rising to £270 billion by 2030, compared to the counterfactual. Choosing an FTA rather than remaining a 'near full' member of the single market leads to a cumulative total of tax foregone of about £200 billion after 15 years.[4]

18. In 2014 the NHS estimated it needed an extra £30 billion per year by 2021 to cope with an ageing population. Much expenditure on the NHS and other public services counts as current, day-to-day spending. Lower than otherwise expected tax revenue may lead to difficult decisions needing to be made if Labour's current fiscal credibility rule is to be maintained. This states that: Labour will close the deficit on day-to-day spending over five years; Labour make sure government debt is falling at the end of five years; and Labour will borrow only to invest.

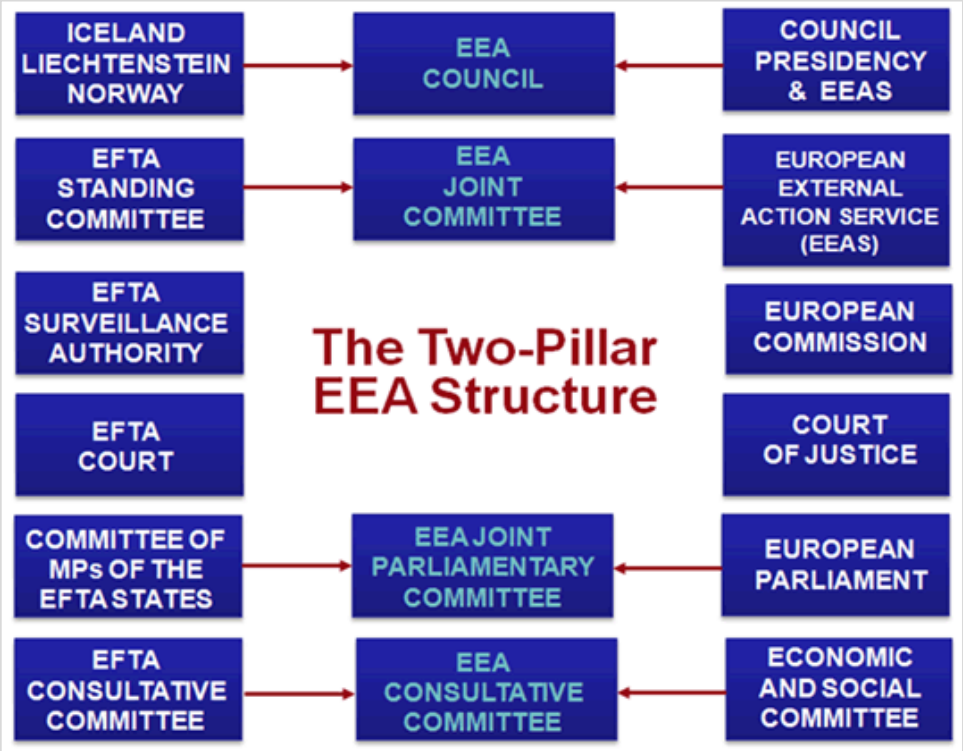
Questions for the National Policy Forum:

a) Would Labour's economic plans, e.g. the National Transformation Fund or National Investment Bank, need to be adjusted to compensate for the loss of hundreds of billions of pounds of potential GDP?
b) What pressure would the foregone taxes, in the context of rising demand related to an ageing population, place on Labour's fiscal rule?

Rule-taking, rule-making and decision shaping in the single market

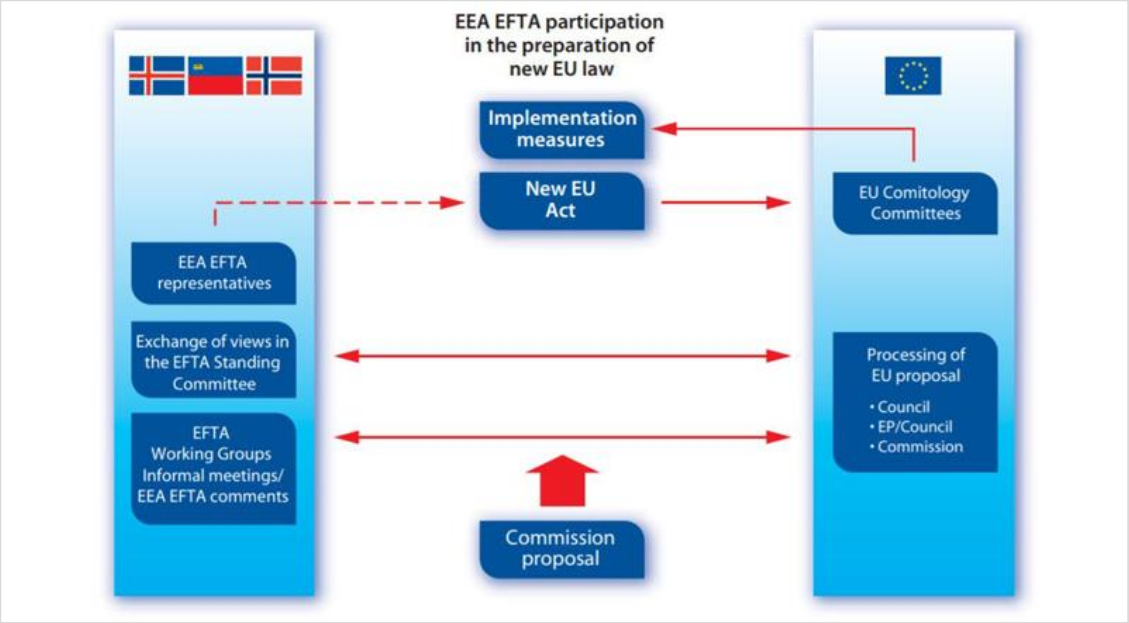
19. It is possible to be a near-full member of the single market through membership of the European Economic Area, like Norway. In EEA states policy issues which don't affect the single market are outside the influence of the EU. EEA states do not participate in EU cooperation on justice and home affairs, agriculture and fisheries, economic and monetary union, or foreign affairs and security policy.

20. Being a 'near-full member' of the single market, whether through EEA membership or possibly through a bespoke deal, would minimise the economic cost of Brexit but would entail accepting freedom of movement in some form, and following single market rules on state aid. These two aspects are discussed later in this paper. Below the institutional arrangements are set out: which have implications for whether the UK is a 'rule maker', 'rule taker', or 'decision shaper'.



21. The EEA states are also part of EFTA, the European Free Trade Area, which also includes Switzerland. The constituent parts of EEA/EFTA mirror those of the EU. The EEA Council is akin to the EU Council. Like the EU Commission the EFTA Surveillance Authority oversees the enforcement of single market rules. Disputes are adjudicated by the EFTA Court, which is broadly analogous to the European Court of Justice. While the EFTA court has to pay 'due account' to ECJ rulings, sometimes the traffic is two-way; some EFTA court rulings are influential at the ECJ.

22. It is sometimes said that in the EEA that the UK would become a 'rule taker' rather than a 'rule maker'. It is certainly true that outside of the EU, the UK would lose its vote and its veto, as it would no longer have a seat at the European Council or MEPs. It is also true that the EEA follows, rather than sets, single market rules made by the EU. However, EEA member states are part of a formal consultative process which is taken seriously by both the EEA and EU. The EFTA refers to this as 'decision shaping'.



23. If the UK wished to remain part of the single market (including accepting its obligations including freedom of movement) but did not want to join the European Economic Area, then it might just be feasible to create a bespoke structure. However, while the form might be different (one could envisage a UK-EU court, a joint authority akin to the EFTA surveillance authority, and a formal consultation mechanism such as a joint council) it is almost certain that the EU would insist that the new structure would function very much like the EEA, that the four freedoms would be indivisible, and that the UK would have to be very closely aligned with both current and future single market rules. It is unclear whether a bespoke single market membership model akin to the EEA would be possible to negotiate with the EU, as the Conservative government quickly ruled this option out and so this idea hasn't formed the basis for any meaningful public discussion.

Questions for the National Policy Forum:

a) Outside the EU there is a trade-off between the ability to influence rules and the economic costs of Brexit. Under WTO rules the UK would have wide discretion in making its own regulations but at a high economic cost. As a near full member of the single market much of the economic pain would be avoided and the UK would have 'decision shaping' influence but not a formal vote and veto – would that be acceptable to a future Labour government?

b) Should Labour policy be to aim for membership of the EEA, or a bespoke arrangement in which we are near full members of the single market (including accepting freedom of movement and single market state aid rules), or the 'tariff-free access to the single market free trade agreement' which is implied by the desire to end freedom of movement?

Northern Ireland border

24. The Joint Report on the phase 1 deal between the UK and EU contains several passages which will influence the UK's relationship with the single market. Paragraph 43 restates the UK's commitment to avoiding 'any physical infrastructure'.

> 43. The United Kingdom's withdrawal from the European Union presents a significant and unique challenge in relation to the island of Ireland. The United Kingdom recalls its commitment to protecting the operation of the 1998 Agreement, including its subsequent implementation agreements and arrangements, and to the effective operation of each of the institutions and bodies established under them. The United Kingdom also recalls its commitment to the avoidance of a hard border, including any physical infrastructure or related checks and controls.

25. Nowhere on the EU's current external border has no physical infrastructure. For example, there are border posts between Sweden (EU) and Norway (EEA single market but not customs union) and between Switzerland (EFTA) and France (EU). Given the UK's stated desire to leave the customs union and single market this fact underlies the EU's scepticism that either the overall deal or special technical solutions will be found. Therefore, paragraph 49 of the Joint Report on the phase 1 deal specifies a backstop in which Northern Ireland will align with certain single market and customs union rules. The EU takes a wide view of which rules are necessary to achieve alignment, the UK government a narrow view.

> 49. The United Kingdom remains committed to protecting North-South cooperation and to its guarantee of avoiding a hard border. Any future arrangements must be compatible with these overarching requirements. The United Kingdom's intention is to achieve these objectives through the overall EU-UK relationship. Should this not be possible, the United Kingdom will propose specific solutions to address the unique circumstances of the island of Ireland. In the absence of agreed solutions, the United Kingdom will maintain full alignment with those rules of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation, the all-island economy and the protection of the 1998 Agreement.
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> 50. In the absence of agreed solutions, as set out in the previous paragraph, the United Kingdom will ensure that no new regulatory barriers develop between Northern Ireland and the rest of the United Kingdom, unless, consistent with the 1998 Agreement, the Northern Ireland Executive and Assembly agree that distinct arrangements are appropriate for Northern Ireland. In all circumstances, the United Kingdom will continue to ensure the same unfettered access for Northern Ireland's businesses to the whole of the United Kingdom internal market.

26. Checkpoints at or near the UK-EU border are almost certainly required if the UK leaves the customs union and – at the very least – diverges from those single market rules relating to plant and animal health (the sanitary and phyto-sanitary regime). Checks of some kind will also be necessary to determine the application of 'rules of origin' for goods. This means that it is almost certain that, to avoid a north-south border, the UK will have to stay in both a customs union and some parts of the single market.

27. If 'any physical infrastructure' is to be avoided on the Northern Ireland - Ireland border, then one alternative is an east-west regulatory and customs border between mainland Great Britain and the island of Ireland. This was anticipated by the Democratic Unionist Party, which insisted on paragraph 50 of the Joint Report, in which the Conservative government rules out this possibility.

28. The Conservative government has promised too many inconsistent outcomes to too many parties. Leaving the customs union and the single market implies a 'hard border' between Northern Ireland and Ireland. If this is to be avoided, then this implies either some sort of special status for Northern Ireland involving an east-west regulatory border or some form of soft Brexit for all the UK. Given the Conservatives desire to leave the single market, then this might take the form of the 'Jersey option' in which many single market and customs union rules are followed for goods (but not services) and agricultural trade, but with little if any formal consultation over shaping future rules, let alone the vote and veto which come with EU membership. (It is unclear whether the Jersey option would be acceptable to the EU.) Both of these options are politically difficult for hard Brexiteers in the Conservative government and /or its DUP allies.

Questions for the National Policy Forum:

a) Is leaving the customs union and single market consistent with the spirit of the Good Friday Agreement?
b) If Labour policy implies leaving a customs union and the single market, then there may need to be a regulatory border between Britain and the island of Ireland – what would the effect of that be on the Good Friday Agreement (GFA), in particular the unionist community's support for the GFA?
c) If an east west border is rejected, should Labour propose the 'Jersey model' – following single market rules for goods, but not services and without freedom of movement – for the whole of the UK?
d) The 'Jersey model', even if accepted by the EU, might mean no influence at all over new regulations. Membership of the EEA gives EEA states a formal consultation in regulations that affect them? How should Labour balance 'voice' (but not vote or veto) in rule-setting against the desire, among some, to end freedom of movement?

The Single Market and Industrial Strategy

29. Concerns have been expressed within several parts of the Labour party about EU rules on competition and state aid. In particular, there are worries that these rules prevent the renationalisation of certain privatised utilities, the creation of new publicly owned enterprises, or an active industrial strategy in which key industries are supported.

30. State aid rules are designed to create a level playing field for companies within the EU and European Economic Area. They prevent *selective* state aid to particular companies. The logic is as follows: why would any one country open up its domestic markets to subsidised foreign competition? The state aid needn't be in the form of subsidies. For example, the EU has used state aid rules to prevent sweetheart tax avoidance deals for multi-national companies: Apple is being forced to pay €13 billion in avoided corporation tax to Ireland.

31. The EU Commission Brexit taskforce recently released its initial thinking on creating a level playing field. Even with a deal in which the UK leaves the single market, the EU proposes that "the EU-UK Agreement will have to include robust provisions on State aid to ensure a level playing field with the Member States." If enacted this means that the only way to avoid state aid rules would be a WTO rules-type Brexit. Unless Labour wishes to accept the economic costs of the hardest Brexit, the Labour party should return to thinking about how to create an active industrial strategy *within* EU state aid rules.

32. Fortunately, there are lots of ways to provide state aid as part of an active industrial strategy. The rules tend to govern how state aid is given, not whether it is given. Many do far more to support their local economies than the UK. For example, Germany, Spain and Italy all support their steel industries within

state aid rules through loan guarantees, taking public stakes or offsetting energy costs. Germany spends 1.22 per cent of GDP on state aid, compared to the 0.35 per cent spent by the UK.

33. Many actions never need to be notified to the EU Commission. Tax systems can treat cooperatives differently, tax rates can be adjusted, and most training and skills policies, and public research and development investments do not need to be notified. There are general block exemptions for many types of aid: for example, public investment in roads, canals, rail, and water distribution networks, local public investments in broadband, research and energy infrastructure, and regional urban development funds. Even state aid which might selectively favour certain companies or groups of companies, which would generally need to be notified to the European Commission (or EFTA Surveillance Authority or a bespoke UK-EU enforcement mechanism), is permitted. In these cases, there needs to be a reasoned public policy case for the aid: showing that the market is failing to deliver, that the aid is in the public interest, that the aid is proportional to the public policy objective, and that the aid is transparent. In detail EU state aid law is complex, but taking a step back, there are a wide range of actions a state can take within the rules. The Conservative government simply chooses not to.

34. Single market rules do not prevent renationalisation. Article 345 of the Treaty on the Functioning of the European Union provides for the principle that individual member states set their own rules on property ownership. European state-owned enterprises include private equity companies, national investment banks and municipal energy companies. Neither is there a one-way ratchet towards privatisation. Within the existing rules the UK renationalised Railtrack and set up a Green Investment Bank and NEST, the publicly owned pension provider. EU rules also allow governments to stop private companies cherry-picking profitable customers from public utilities – which otherwise would unwind the cross-subsidies which underpin universal service obligations.

35. Railways are a slightly special case. Here, the EU's Fourth Railway package would dictate how renationalisation would be done, not whether it can be done. For example, in rail, there would need to be a split between a company operating the tracks and another operating the train services, but both could be publicly owned. Publicly owned companies would have to tender in open competition for rail passenger services. However, governments can set quality, social and labour standards that state-owned companies may in practice be better able to meet. In Germany most rail services are provided by the national publicly owned company or municipal providers.

36. An analysis of Labour's 2017 manifesto found that all its policies would be permissible within EU state aid rules, although two of the proposals, a National Investment Bank and regional energy companies, would need to be structured carefully.

Questions for the National Policy Forum:

a) How should Labour react to the EU's proposal that it insist on state aid rules and an enforcement mechanism even outside single market membership?
b) Are there any existing or potential Labour policies which genuinely could not be done within single market rules? Should the NPF commission and publish independent legal advice to ascertain whether any existing or potential policies might be impossible to achieve under EU/EEA state aid rules?
c) If there are such policies which are impossible under state aid or competition rules, does the scale of the proposed increase to economic growth or well-being from that policy outweigh the cost of leaving the single market?

The Single Market and Immigration

37. There is little evidence that immigration lowers wages of existing UK workers, and plenty of evidence that the UK economy benefits from EU immigration. At its most simple, because many immigrants come in adulthood, when they have been educated elsewhere (and many return before they become elderly), and because they tend to be better educated and more economically active than those born in the UK, EU immigrants (and those from elsewhere) are net contributors to the UK economy and pay in more in taxes than they receive in public services.

38. Nevertheless, the Brexit referendum vote in part reflected concerns about immigration. This led to Labour stating in the manifesto that "Freedom of movement will end when we leave the European Union." Given the EU's refusal to allow cherry picking of the 'four freedoms' which underpin the single market rules, does this stance mean that it is impossible to remain a member of the single market?

39. One approach is to argue that membership of the European Economic Area (which would give the UK near full membership of the single market) could enable the UK to could unilaterally suspend the free movement of labour by triggering article 112 of the EEA agreement, which allows for an emergency brake on any of the four freedoms on the basis of economic, environmental or societal difficulties. There might be a precedent for this. Upon entering the EEA in 1993, Lichtenstein agreed a protocol that enabled the introduction of a quota-based immigration system.

40. However, while not impossible, this is unlikely to work. First, measures imposed using Article 112 must be proportionate to the problem in question. Faced with a political or judicial challenge from the EU any British government would find it difficult to point to an emergency of such a scale which would justify the halting of freedom of movement. This is particularly true at the moment with the UK enjoying relatively high levels of employment, and lower levels of immigration than Germany. Similarly, when negotiating the pre-referendum reforms David Cameron was unable to establish the factual basis of an emergency which would justify pulling the emergency brake. Second, the other parties to the EEA agreement can reciprocate with 'proportionate rebalancing measures' (see Article 114). If the emergency brake was pulled, then the EU would likely take such countervailing measures (it did take retaliatory measures in response to a Swiss referendum vote, not even enacted, to cap EU immigration). It is possible that the EU would react to restrictions on freedom of movement, by suspending parts of the single market important for the UK economy. Third, the Liechtenstein precedent is not a strong one because the agreement explicitly referred to Liechtenstein's unique position as a microstate.

41. If the Labour party wanted to remain in the single market and still be seen as restricting freedom of movement, a more hopeful way forward would be to tighten immigration rules either within existing single market rules (examples currently in place in other member states are set in paragraph 42 below) or to request realistic reforms to immigration law which would be within the spirit of single market rules but which would require EU agreement (examples are set out in paragraph 43).

42. The principle of freedom of movement is mostly freedom of movement for workers, not for all EU citizens. Directive 2004/38 sets out the 'categories' of people with an EU-law based right to reside in a host Member State for longer than three months – essentially, workers/the self-employed and their family members, students, and the self-sufficient. It isn't possible to impose quotas or have a points based system within freedom of movement rules. However, other countries in the single market have stricter immigration rules than the UK. Examples of the policies that other countries inside the single market have adopted include:

- Restricting public sector jobs to nationals only;
- Requiring migrants planning to stay longer than a few months to register upon entry with the relevant local authority;
- Requiring all vacancies in sectors where unemployment is above average to be published with the government's own employment service, with applications allowed only from those unemployed people already registered with the service.

43. There is a slight possibility that if the UK remained a near full member of the single market (and within a more conducive negotiating atmosphere than the current government has achieved) that it could negotiate additional changes to freedom of movement rules. These potentially could include:
    - Free movement to look for work coupled with restrictions on how long EEA nationals can remain within the UK if they fail to find employment;
    - Free movement for EEA nationals coupled with a requirement for anyone seeking work to register in conjunction with the issuance of a National Insurance number and be granted a time limited period in which to seek work;
    - Free movement with a prior job offer, whereby employers make a job offer to an EEA national, who then can obtain a work permit;
    - Free movement coupled with a quasi-preferential job advertising system modelled on the new Swiss system. Employers in sectors or regions with above-average unemployment rates must inform local job centres of vacancies and obtain names of job seekers. The theory is that Swiss nationals will be more likely to register with job centres (although any EU or EEA citizen is allowed to do so, enabling the Swiss government to argue that it meets the EU's non-discrimination test).

44. Those opposed to single market membership in the Labour party tend to have doubts about freedom of movement and/or about state aid rules. There are enough ways of renationalising, setting up new publicly owned enterprises and supporting key industries to allay concerns that membership of the single market rules out an active industrial strategy. However, while there are several moderate reforms that can potentially be made to freedom of movement, not all of them might be achievable in negotiations. Fundamentally the party faces a dilemma. We can support ending of freedom of movement or we can avoid much of the economic cost of Brexit through near-full membership of the single market: we cannot do both.

Questions for the National Policy Forum:

a) Should Labour pursue reforms to freedom of movement which either could (a) be achieved within existing rules or (b) which would require the agreement of the EU and EEA in a future negotiation or (c) should Labour break more radically with freedom of movement and accept the economic cost?

[1] Author's own calculations based on current GDP at market prices, projected to grow at 2% per annum for 15 years, and then interpolating alternative growth figures consistent with 2%, 5% and 8% lower GDP after fifteen years. The £500 bn figure represents the cumulative GDP foregone after 15 years in the FTA scenario minus the cumulative GDP foregone in the EEA scenario. Spreadsheet available on request to nickpdonovan@gmail.com.

[2] These estimates are consistent with both the author's own calculations and the original HMT analysis of the long term effects of Brexit, which set out the fiscal impact of Brexit. The HMT analysis estimated a central scenario of £20bn per annum for the EEA option, £36 billion for the FTA option, and £45 billion for the WTO option. The new DexEU analysis has slightly different estimates for GDP loss (the effect of the EEA and FTA options would be slightly less severe, the WTO option more severe). Scaling estimated tax revenue losses to the new DexEU analysis gives annual tax revenue losses of £11bn for the EEA option, £29bn for the FTA option and £48bn for the WTO option. In the author's own calculations, based on the calculations set out in footnote 1, tax receipts are assumed to be 37.4% of GDP, to be consistent with the Treasury analysis. However, the OBR models assume 36.6% in their medium term analysis.

[3] Spreadsheet available on request.

[4] The £200 bn figure represents the cumulative tax revenue foregone after 15 years in the FTA scenario minus the cumulative tax revenue foregone in the EEA scenario.