

Future EU-UK trade relationship

SUMMARY

The withdrawal of the United Kingdom (UK) from the European Union (EU) came into effect on 1 February 2020, following the large majority gained by the Conservative Party, led by Boris Johnson, in the UK general election in December 2019. The transition period began on the same day and is due to run until the end of 2020. During this period, although no longer part of the EU institutions, the UK remains in the customs union and single market, and within the jurisdiction of the Court of Justice of the EU (with some exceptions). Negotiations during the transition period are aimed at reaching agreements that will shape the future EU-UK relationship in a range of domains, and especially that of trade.

In the Political Declaration accompanying the Withdrawal Agreement, the EU and the UK 'agree to develop an ambitious, wide-ranging and balanced economic partnership'. However, some major obstacles have surfaced. The UK insists that it is unwilling to submit to EU Court of Justice jurisdiction, and demands autonomy in its regulatory and trade policies. The UK indicates that it seeks a free trade agreement similar to that agreed between the EU and Canada: comprehensive, but very different to the previous relationship. The EU has taken note of the UK objectives, but emphasises that the deeper the trade agreement, the more UK regulations and standards must align with those of the EU. To the EU, alignment is essential to preserve a level playing field, on the grounds that the EU and UK are close neighbouring economies and strongly interconnected. The European Commission's 3 February 2020 recommendation for a Council decision authorising the opening of negotiations on the future relationship confirms this approach.

In this context, time is critical. The Withdrawal Agreement allows for an extension to the transition period, but the UK Withdrawal Act explicitly prohibits extension. In addition, to allow for ratification, the trade agreement should be ready well ahead of the end of the transition period. The Commission recommendation insists on including fisheries (a highly sensitive area of negotiation), in the new economic partnership and that related provisions should be established by 1 July 2020. Time-constrained negotiation may give rise to a limited economic and trade agreement that covers only priority areas, rather than the ambitious single comprehensive agreement sought under the Political Declaration and Commission recommendation.



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Background

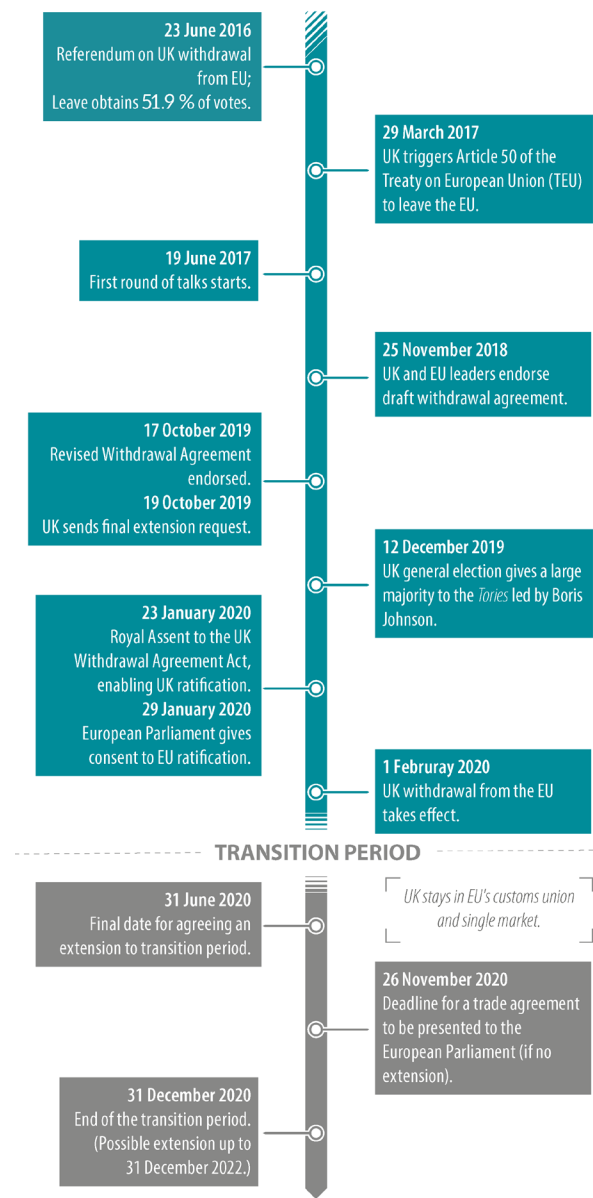
On 23 June 2016, the United Kingdom voted to leave the European Union, and notified the European Council of its intention, in accordance with Article 50 of the Treaty on European Union (TEU), on 29 March 2017. Although the then Prime Minister, Theresa May, and EU leaders sealed a withdrawal agreement in November 2018, she was unable to muster a majority for it in the House of Commons. The prolonged deadlock in the UK Parliament over the Withdrawal Agreement Bill led the UK and EU to agree on three extensions to the two-year negotiating period. Under a new Prime Minister, Boris Johnson, the Conservative Party won the December 2019 general election by a considerable majority. Subsequently, royal assent was given to the UK Withdrawal Agreement Bill on 23 January 2020. The European Parliament gave its consent to the Withdrawal Agreement on 29 January 2020. As a result, UK withdrawal from the EU took effect on 1 February 2020. Under the agreement, a transitional period runs from that date until the end of 2020. During this period, the EU and the UK will negotiate their future relationship in various areas; with a [trade deal](#) set to be the highest priority.

State of play and positions

The transition period – also called the implementation period – can be extended by one or two years, provided both parties agree, including on any necessary conditions for an extension, in particular financial, by 1 July 2020. However, the UK's EU Withdrawal Agreement Act prohibits any extension of the transition period ([Section 33](#)), thus an extension would require a further act of Parliament to repeal that provision. During the transition period, the UK will no longer be a Member State nor have members in any EU institutions, but will remain in the customs union and the single market, providing time for the EU and the UK to negotiate new agreements to govern their future relationship.

The [Withdrawal Agreement](#) between the EU and the UK is accompanied by a [Political Declaration](#), which is neither an integral part of the Agreement, nor legally binding. The Political Declaration declares the parties' intentions with regard to their future relationship and should serve as a framework for negotiations. In particular, the introduction asserts that the EU and the UK are determined to work together to safeguard the rules-based international order, the rule of law and the promotion of democracy, and high standards of free and fair trade and workers' rights, consumer and environmental protection, as well as to cooperate in combating internal and external threats to

Box 1 – Timeline of UK withdrawal



their values and interests. The partnership will be 'comprehensive, encompassing a Free Trade Agreement (FTA), as well as wider sectoral cooperation'. The partnership will be 'underpinned by provisions ensuring a level playing field for open and fair competition'. The scale of the commitments will depend on the scale of the future relationship. The new agreement will take the economic inter-relationships between the EU and the UK into account, as well as geographic proximity.

The European Union position has been relatively consistent over time. On 13 December 2019, the day after the UK general election, the [European Council](#) expressed the desire to establish as close as possible a future relationship with the UK. This future relationship will have to be based on a balance of rights and obligations and ensure a level playing field. The EU position is aligned with the Political Declaration. Commission President Ursula von der Leyen has maintained a similar stance. During Parliament's 29 January 2020 [plenary session](#), von der Leyen expressed the desire to forge a close partnership with the EU's neighbour, and that an 'unprecedented zero-tariffs, zero-quotas' trade agreement could be considered. However, a precondition is that EU and UK businesses continue competing on a level playing field: 'we will certainly not expose our companies to unfair competition'. Therefore, the greater the UK commitment to upholding EU labour and environmental standards, the better the access to the EU's market, adding that 'it is our common interest to have as close as possible a partnership'.

In its 29 January 2020 [resolution](#), the European Parliament notes that the objectives outlined in the Political Declaration on the future EU-UK relationship are aligned with those of Parliament's [resolution](#) of 14 March 2018, which called for an association agreement. The Parliament also expressed its willingness to transform the Political Declaration into a document with greater formal and legal character, setting out the aim of establishing an association.

The UK position, however, has varied over time as the combination of its objectives and its 'red lines' was incompatible with the EU's laws and principles (see Box 2). In a UK [policy paper](#) published in July 2018, the government of Theresa May affirmed that the UK objective was to participate in the customs union without imposing border restrictions. The main concern was the creation of long queues at the border for verification of imports. The UK's demand that it nevertheless preserve independence in trade policy and regulation among other things, was incompatible with the principles of the customs union and single market. Today, UK Prime Minister Boris Johnson has repeatedly said that the UK seeks a [Canada-style FTA](#) that focuses on goods and services, and allows the UK to preserve its own trade policy and regulatory autonomy. In its written [statement to Parliament](#) on the future relationship between the UK and the EU, published on 3 February 2020, the UK government seems to suggest that a Canada-style deal is indeed intended as a 'take-it or leave-it' proposal.¹

Deal versus no-deal scenarios

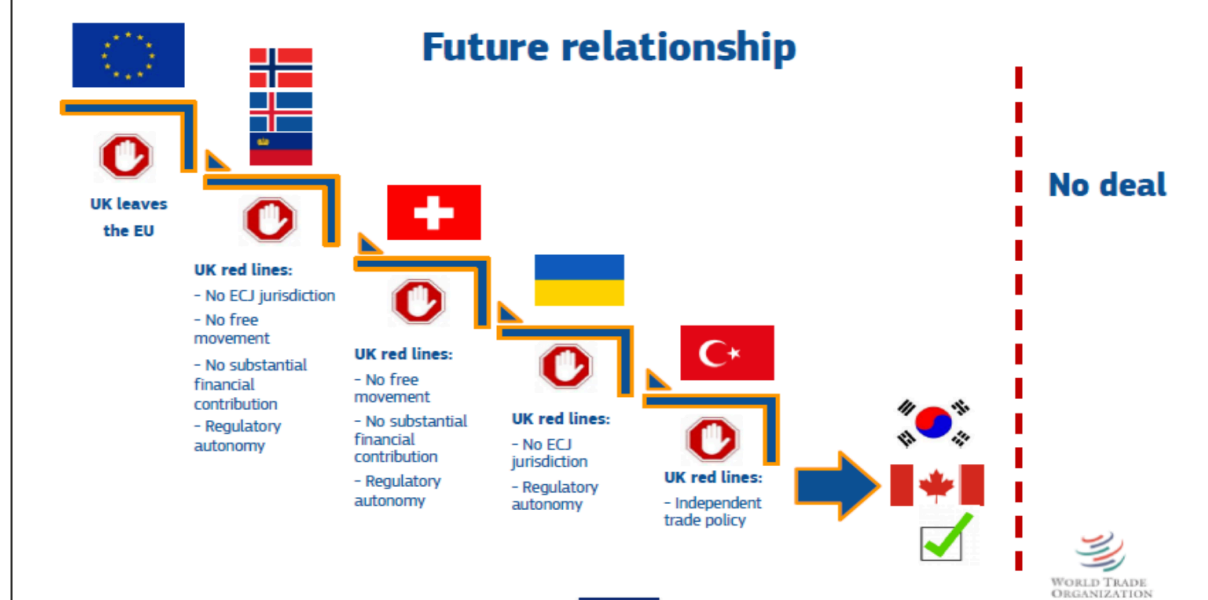
A deal scenario

The [European single market](#) provides for four indivisible freedoms, those of: goods, services, capital, and labour. In practice, with neither tariffs nor border controls, firms can freely invest and establish in any country, and workers' mobility is guaranteed. The single market relies on the mutual recognition of production standards, but also labour skills certification, albeit not necessarily entirely harmonised. The single market also acknowledges the EU legal system and the role of the Court of Justice of the EU (CJEU). The single market encompasses the EU Member States plus Iceland, Liechtenstein and Norway through the European Economic Area (EEA), as well as Switzerland by means of bilateral treaties.

The [EU customs union](#) guarantees access of goods and services between Member States without tariffs and quotas. All EU Member States are in the customs union and the EU has three additional customs unions with Andorra, San Marino and Turkey. Although goods benefit from free movement in the EU customs union, a border is typically present, and zero tariffs and quotas may not apply to all sectors. In addition, because there are generally no tariffs in the customs union, EU commercial policy with countries outside is centralised and delegated to the EU, under the *common commercial policy*. The customs union implies that there is a single border with the rest of the world, countries within it therefore all apply the same tariffs to international trade. This feature is essential to prevent a single country from establishing lower tariff agreements with external countries and becoming a gateway to the customs union. Finally, free movement of capital and labour are not covered under the customs union and require separate agreements.

Box 2 – UK demands and EU laws

The slide below was presented by the EU's chief negotiator, Michel Barnier, at the European Council on 15 December 2017 ([TF50 \(2017\) 21](#)), and shows how the UK's 'red lines' intersect with EU laws and principles and thus shape the future EU-UK trade relationship. In particular, the UK rejection of EU Court of Justice jurisdiction disqualifies the UK from access to the single market, and the UK demand for an independent trade policy disqualifies its membership of the customs union.



Finally, [EU free trade agreements \(FTAs\)](#) are trade agreements between the EU and external (third) countries. According to the current UK position, an FTA is the most likely future trade relationship between the EU and the UK (see Box 2). However, FTAs vary significantly in their content and substantive rules, which are always the outcome of negotiations between the parties. There are also major differences between FTAs and the customs union and single market that an FTA could never match. Most notably, even though most, if not all, tariffs are reduced to zero, goods are still subject to border checks for customs verification. Among other things, exporters must demonstrate the origin of manufactured products that justifies the application of preferential tariffs. The exporter must also demonstrate that goods comply with EU standards, and goods are subject to verification by importing countries at the border.

A no-deal scenario

Because an extension of the transition period is prohibited by the UK Withdrawal Act, the chance of a transition ending with no trade deal has increased. Under this scenario, the EU Member States and the UK would lose preferential access to their respective markets, and World Trade Organization (WTO) rules would inevitably apply. The core WTO regime is the most-favoured nation (MFN) rule. This prevents any country from applying better terms to trade with one country than to others, unless as part of a preferential trade agreement. In October 2019, the UK Department for International Trade published the [list of tariffs](#) that would have applied if no withdrawal agreement had been reached. It suggests that most imports from the EU to the UK [would bear no tariffs](#). Nevertheless, tariffs would be maintained to protect specific industries, including agriculture (beef, lamb, poultry and some dairy products), finished cars (not car parts), ceramics, and bioethanol. [The UK government](#) has acknowledged the need to maintain some import tariffs for negotiations on future trade agreements with non-EU countries.

The UK's published scheme aims for a compromise between protecting vulnerable sectors and keeping prices down for consumers. The scheme envisages that 88 % of imports by value would bear zero tariffs (80 % today). Under the new scheme, 82 % of UK imports from the EU would be tariff-free (100 % during the transition period). Some 92 % of imports from non-EU countries would be subject to zero tariffs (56 % today).

In comparison, the latest available WTO [Trade Policy Review of the EU](#) (2017) reports that 26 % of tariff lines were duty free in the EU. In addition, the EU applied an average MFN tariff of 14.1 % on agricultural products, the highest being on dairy products (35.6 %), followed by sugars and confectionery (26.8 %). Non-agricultural products are subject to a 4.3 % average tariff, the highest average tariff being on fisheries (12.2 %) and clothing (11.6 %). Note that transport equipment is subject to an average 5.0 % tariff.

The [Confederation of British Industry](#) (CBI) estimates that 90 % of UK goods exports to the EU by value would face tariffs in a no-deal scenario. The CBI estimates that the average tariff on UK exports to the EU would be 4.3 %, while the average tariff on imports from the EU into the UK would be around 5.7 %.

Current EU-UK trade and potential economic effects

EU-UK trade

The UK market is highly reliant on trade with the EU – 45 % of total UK trade (imports plus exports) of goods and services takes place with the EU. It is a relatively open country; as of July 2019, the UK's year-over-year total trade amounts to around 61 % of GDP (ca €1 450 billion). The UK is a net importer from the EU, but a net exporter to non-EU countries. The UK's current account surplus with the United States of America (USA) amounts to ca €50 billion, accounting for nearly a third of the former EU-28 current account surplus with the USA ([€162 billion](#)).

According to the UK [Department for International Trade](#) (DIT), in 2018 the UK's trade of goods (export plus imports) occurring with its top five trading partners represent more than 80.1 % of its total trade (Table 1). The EU-27 is by far the UK's largest trading partner (52.2 %), followed by the USA (11.1 %). Other major trading partners include China (8.4 %), Norway (4.6 %) and Japan (3.8 %). Canada and Australia, often cited in the UK as potential FTA partners, represent 1.5 % and 0.8 % of the UK's trade, respectively.

Table 1 – UK's main trading partners (goods), imports and exports (2018)

Country	Trade	Imports	Exports
EU-27	52.2 %	54.3 %	49.3 %
USA	11.1 %	8.5 %	15.8 %
China	8.4 %	8.8 %	7.1 %
Norway	4.6 %	4.2 %	6.0 %
Japan	3.8 %	2.0 %	2.8 %
TOTAL	80.1 %	77.8 %	81.0 %

Source: [UK Department for International Trade](#), [Office for National Statistics](#), and author's calculations.

The latest statistics, published by the UK [Office of National Statistics](#) in December 2019, confirm the trend of a shift in UK exports away from the EU, as growth in exports to non-EU countries (+6.3 %) was five times greater than exports to the EU (+1.3 %). In addition, the share of non-EU exports is far larger in services (60.2 %), and the USA remains the leading destination for UK goods and services. Finally, trade in goods represents 50.4 % of total UK trade. Even though the share is high, the UK has a lower share than most of the EU Member States.

Table 2 – EU-27 main trading partners (goods), imports and exports (2018)

Country	Trade	Imports	Exports
USA	14.2 %	11.2 %	17.1 %
China	13.3 %	17.9 %	9.1 %
UK	13.0 %	10.3 %	15.5 %
Russia	6.1 %	8.4 %	4.0 %
Switzerland	6.0 %	5.3 %	6.6 %
TOTAL	52.6 %	53.1 %	62.5 %

Source: [DG Trade Statistical guide \(July 2019\)](#), [COMEXT](#).

European Union trade dependence on the UK is far lower. According to the Commission [Directorate-General for Trade Statistical Guide](#) published in July 2019, the UK represented 5.2 % of EU-27 total trade of goods, 6.6 % of exports, and 4.3 % of imports in 2018. Total EU trade with the UK represents 3.8 % of EU GDP. Generally speaking, EU countries mostly trade internally, with 56.4 % of trade taking place intra-EU. Table 2 shows extra-EU trading shares. The UK represents 13.0 % of total extra-EU trade, ranking third behind the USA (14.2 %) and China (13.3 %). In addition, the EU's goods trade balance with the UK is positive (€122.8 billion) and represents 0.9 % of GDP. The EU trade balance with the UK is the second largest, after the USA (€138.9 billion), and is far ahead of Switzerland (€33.2 billion). Finally, the UK takes 15.5 % of total EU exports, well behind the USA (17.1 %).

UK trade negotiations with non-EU countries.

The UK has made an effort to reduce its trade dependence vis-à-vis the EU and mitigate the economic impact of EU withdrawal.² The UK DIT established the [Trade Agreement Continuity](#) programme to ensure 'continuity' of some of the existing agreements between the EU and other countries. While these agreements were aimed at securing a back-up in case of no withdrawal deal

being agreed, today they reveal the potential international trade position of the UK following transition. As of early February 2020, the UK DIT has announced [continuity trade agreements](#) (rollovers) with 20 countries, accounting for GBP109 billion and 80 % of the total UK trade value currently benefitting from EU FTAs.³ These agreements account for 7.2 % of UK exports of goods and 8.4 % of imports. Those agreements which have not been rolled over accounted for 8.1 % of UK goods exports in 2018, and 6.1 % of imports.

Even though it is a large UK trading partner (1.7 % of UK exports), [Canada](#) declared that it will not seek to roll over EU trade arrangements with the UK post-Brexit, preferring to fall back on the WTO tariff schedule announced by the UK. Canada may change its position should an agreement be reached between the EU and the UK, and the UK WTO schedule be modified. [Japan](#), another major trading partner with an EU FTA, has also resisted continuity arrangements, as it believes it can obtain far better trade terms from the UK than it did with the much larger EU.

In July 2019, the UK DIT published the results of a [large-scale consultation](#) of businesses, civil society, trade experts and the public, showing significant support for FTAs with Australia, the United States, and New Zealand, in particular, in relation to the potential opportunities in the digital and services sectors. Nevertheless, some of the respondents, mainly from civil society and campaign groups, expressed concerns about the impact of these potential trade agreements on the National Health Service (NHS), as well as on food standards. The UK has already signed mutual recognition agreements with Australia, New Zealand and United States, which recognise one another's conformity assessments.⁴

Expected economic effects of the two scenarios

Generally speaking, studies and simulations have shown that the weaker the EU-UK trade agreement coverage is, the larger the impact on EU and UK economies is likely to be. Rationales relate to the direct UK exports to the EU on the one hand, and on the integration of the UK in global value chains on the other.

In April 2016, prior to the referendum, the [UK Treasury](#) published modelling which showed that a negotiated bilateral agreement (using the advanced Switzerland, Turkey and Canada models) would result in a drop in total trade volumes amounting to 14-19 %. If there were no trade agreement, the fall in trade volumes could amount to up to 17-24 %. The [World Bank](#) published a study in 2017, showing that the UK had substantially benefited from its EU membership with regard to trade. The UK nearly doubled its trade in services and increased its participation in global value chains by 30 %. The study also showed that trade between the UK and the EU would decline, whether an FTA deal were signed or not, from 6% to 28 % in value added; the less deep the future EU-UK economic and trade relationship, the more trade is expected to decline in value-added terms.

The UK withdrawal is also expected to have an impact on national wealth in the UK and the EU, although at varying degrees. A 2017 study by [Econpol](#) showed that a no-deal scenario would result in a loss of 1.5 % in real GDP per capita in the UK, and of under 0.5 % in EU countries. In a scenario in which a comprehensive FTA is agreed, the impact is mitigated in the UK to a 0.6 % loss, and with an average of a 0.11% loss in the EU. Of EU Member States, Ireland, Luxembourg, and Malta would be worst hit in all scenarios. Ireland would be most affected, with a GDP per capita loss of 2.1 % under a no-deal scenario, and 1 % under a deal scenario. The study shows that the UK signing FTAs with non-EU countries, including the USA, Canada, and Japan, would have little impact on its loss in GDP. Another empirical study published in [VOX](#) suggests the UK gained substantial benefits from EU membership. The authors find that the decline in UK GDP per capita relative to EU founding Member

States that preceded accession halted after it joined the European Communities, and remained relatively stable between 1973 and 2010.

Specific and related issues

Rules of origin and standards

The rules of origin to be applied in FTAs are determined by the parties, and constitute a non-trivial issue in negotiations. An FTA institutes preferential rules of origin, and exports that do not comply with the rules are subject to WTO tariffs. There are a number of [definitions of rules of origin](#). For products that are not wholly obtained or produced in the countries under a FTA, the value-added approach is standard. For instance, under the Comprehensive Economic and Trade Agreement between Canada and the European Union (CETA), a car is considered to originate in the EU or Canada if not more than 50 % of the value of the materials are imported from outside Canada or the EU respectively. Nevertheless, a large number of operations are defined as 'insufficient' to confer origin on a product. For instance, dusting, sorting and packaging Colombian coffee in Canada is insufficient to confer Canadian origin.⁵ Moreover, in FTAs, rules of origin must be proved by exporters, incurring additional paperwork, and are verified at the border, extending transport duration. For all these reasons, rules of origin will have significant effects on the EU-UK supply chain, although the extent of these effects will depend on the content of the FTA.

In addition, FTAs define the degree of standard alignment between parties. Without mutual recognition, certification issued by the UK will not be recognised by the EU and vice versa. Even though the UK is currently compliant with EU regulation, regulations may diverge over time, creating regulatory barriers, especially in food safety and consumer protection. There is a general trend for EU FTAs to be more demanding regarding harmonisation of standards, with a view to preserving fair competition and a 'level playing field'. Specific chapters in an FTA provide details, and typically include the safety of goods and protection of the environment. Compliance with EU standards is also verified at the external border. Regulatory alignment also involves labour markets, public procurement and state subsidies to private companies. These areas are typically supervised by joint committees.

The EU-Canada CETA is often cited as a model. Nevertheless, even CETA provides a degree of regulatory alignment and freedom of movement between the two countries. For instance, CETA provides for the mobility of workers and the mutual recognition of professional certification. It also opens up public procurement markets. In the field of technical standards, the parties cooperate to ensure that technical regulations are compatible. Conformity assessment is mutually delegated to competent bodies in each jurisdiction – EU firms can thus receive approval from competent bodies located in the EU to export to Canada. In the sanitary and phytosanitary (SPS) regulation domain, the importing party accepts the SPS measure of the exporting party as equivalent to its own if the exporting party demonstrates that its measures achieve an appropriate level of SPS protection. CETA therefore aims at convergence; mutual recognition is not automatic and may be subject to negotiation.

Fisheries

At the end of the transition period, the UK will withdraw from the [common fisheries policy](#) (CFP) and become an independent coastal state. This withdrawal will also mean the end of the free movement of persons, including fishermen. [European Council guidelines](#), adopted on 23 March 2018, affirm that in the overall context of a possible FTA, existing reciprocal access to fishing waters and

resources should be maintained. The [Political Declaration](#) accompanying the withdrawal agreement states that the parties will use their 'best endeavours to conclude and ratify their new fisheries agreement by 1 July 2020 in order for it to be in place in time to be used for determining fishing opportunities for the first year after the transition period.' As set out in the [European Council guidelines](#), and more recently in the [Commission recommendation](#) of 3 February 2020 on a mandate, negotiations on fisheries will take place within the context of the overall economic partnership, including a direct link with negotiations on trade in goods under the proposed ambitious FTA. In its statement to the UK Parliament, the [UK government](#) insists that the UK will become an independent coastal state at the end of 2020 and any agreement must reflect this reality. The UK would, like Norway, Iceland and the Faroe Islands, have annual negotiations with the EU on access to waters and fishing opportunities, and will consider a mechanism for cooperation on fisheries matters.

The UK waters are home to rich fish stocks. [70 % of UK-caught fish](#) is sold to the EU. The UK has a seafood [trade surplus](#) with the EU, with the main importers being France, Ireland, Italy and Spain (France alone takes nearly 40 % of UK seafood produce). Without an agreement, the current UK fishing opportunities in EU waters would be redistributed amongst EU Member States. The main objective of the EU is to conserve a sustainable fishing policy, continued reciprocal access, stable quota shares, consultation, and management mechanisms.

Financial services

A second priority area designated under the Political Declaration is financial services. At the end of the transition period, the [UK will leave the EU 'passporting'](#) system for banks and financial services. The passporting system enables financial firms that are authorised in an EU Member State to trade freely in any other. There are nine different 'passports', which demand the implementation of specific regulatory rules.⁶ Non-EU financial firms face regulatory barriers to providing banking and investment services to customers in the EU. Some EU legislation provides for 'third-country' regimes, which allow non-EU financial institutions to offer a limited number of services in the EU, if their home country regulatory regime is accepted by the EU as being 'equivalent' to EU standards. However, these regimes only apply to a limited number of financial services.

Giving equivalence to non-EU country financial institutions has become highly sensitive since the 2008 financial crisis. The tightening of financial services regulation that followed emphasised reduction of contagion and systemic risks as the core objective. Therefore, 'connecting' the EU financial system with another system should not result in an increase in systemic risks. In addition, an uneven regulatory burden would expose EU institutions to unfair competition. For these reasons, the new Commission Vice-President responsible for financial services, [Valdis Dombrovskis](#), insists that the EU is willing to grant the UK access through a system of 'equivalence' decisions, depending on UK regulatory soundness and alignment. The draft [negotiating mandate submitted by the Commission](#) on 3 February 2020 recommends that the key instrument to regulate interaction between financial systems will be the unilateral equivalence frameworks.

An essential aspect of EU financial regulation is regulation of derivative instruments. Due to their sizeable amount and the cross-border nature of many transactions, derivatives are a source of contagion and systemic risks that require cautious regulation and supervision. Following the 2008 crisis, prudential rules were established so that transactions on derivative instruments take place through central counterparties (CCPs). By acting as intermediaries between sellers and buyers, CCPs are essential to reducing transaction risks and foster effective and orderly functioning of financial

markets. Currently, despite the existence of EU CCPs, the CCP industry is dominated by three [major UK clearing houses](#), which are essential to the European financial system.

EU CCPs are subject to [EU regulation](#) and supervised by the [European Securities and Market Authority](#) (ESMA). A CCP established in a non-EU third country needs to be recognised by the EU supervisor, the [European Securities and Market Authority](#) (ESMA), to offer clearing services to EU customers. Prior to recognition, the Commission must adopt an implementing act determining that the supervisory arrangements of the non-EU country imposes requirements equivalent to those of the EU.⁷ Some cooperation arrangements must also be in place between ESMA and the authorities of the non-EU country.

Procedure and next steps

Britain's post-Brexit negotiations with the European Union will be conducted by 'Taskforce Europe' which will report to Prime Minister Boris Johnson. The taskforce replaced the [Department for Exiting the European Union](#) which ceased to exist on 31 January 2020. Taskforce Europe is led by David Frost, a diplomat and former business lobbyist; [David Frost](#) was Boris Johnson's adviser on Europe and participated in day-to-day negotiations with the EU; he is known for his support for UK withdrawal from the EU.

The role of the UK Parliament will be limited. Under the UK Withdrawal Agreement Act, the government is not accountable to the Parliament, and does not need Parliament's approval for its negotiating objectives. Boris Johnson has a large majority in the House of Commons, making backing from the Parliament almost certain. In addition, on 1 February 2020, the UK DIT published proposals for the [process for making FTAs](#), which underline that making international treaties, including FTAs, is a function of the executive carried out in exercise of the Royal Prerogative.

On the EU side, the '[Task Force for Relations with the United Kingdom](#)' (UKTF) was established on 16 November 2019, as part of the European Commission's Secretariat-General. It replaces the Task Force for the Preparation and Conduct of the Negotiations with the United Kingdom under Article 50 TEU, which was created on 1 October 2016 to lead withdrawal negotiations. Michel Barnier continues as head of the new task force. His deputy is now Clara Martínez Alberola. The task force coordinates the Commission's work on all strategic, operational, legal and financial issues related to the UK withdrawal from the European Union. It operates under the direct authority of Commission President Ursula von der Leyen and in close cooperation with the Secretariat-General, all Commission services concerned and the European External Action Service (EEAS).

The [European Parliament](#) will be involved in negotiations on the future relationship through the UK Coordination Group, which replaced the [Brexit Steering Group](#) as of 1 February 2020. The UK Coordination Group is led by [Foreign Affairs Committee](#) Chair [David McAllister \(EPP, Germany\)](#), and will liaise with the [EU UKTF](#) and coordinate with the Foreign Affairs Committee as well as the [International Trade Committee](#) and all other competent committees. The Parliament will follow the work of the EU negotiator Michel Barnier, continuing to influence the negotiations through resolutions. In this new phase, that of negotiating an international economic and trade partnership, Parliament's committees will follow the procedure closely. The Committee on International Trade (INTA) will be particularly involved in the economic and trade partnership agreement, and the INTA Chair is a permanent member of the UK Coordination Group. The final agreement will require the consent of the Parliament for EU ratification.

On 13 December 2019, the [European Council](#) invited the Commission to submit a draft comprehensive mandate to the Council on the future relationship with the UK, immediately after

the latter's withdrawal. On 3 February 2020, the Commission submitted a [recommendation](#) (COM(2020) 35) for a Council Decision authorising the opening of negotiations for a new partnership with the UK, which the Member States are expected to adopt during the General Affairs Council on 25 February 2020. Only then will the Commission be in a position to negotiate.

The Commission's recommendation is divided into four parts: initial provisions, economic, security, and institutional and horizontal arrangements. The economic part is the largest section and includes, among others, chapters on goods, services, financial services, and fisheries. The recommendation states that the partnership should be comprehensive, encompassing a free trade agreement as well as wider sectoral cooperation. It should include provisions on fisheries and be underpinned by 'robust commitments' ensuring a level playing field for open and fair competition. The proposed free trade agreement should ensure no tariffs, fees, charges with an equivalent effect or quantitative restrictions across all sectors, provided that a level playing field is ensured through robust commitments.

The European Parliament adopted a [resolution on the proposed mandate](#) during its February plenary session. In its resolution, the Parliament 'underlines its determination to establish a relationship as close as possible with the UK', but notes that that relationship would need to adhere to a set of principles, including, in particular 'level playing field' provisions. The resolution also underlines the importance of striving to reach 'full continuation of the citizens' rights guaranteed under the withdrawal agreement', and calls for the establishment of a joint parliamentary body to 'monitor the implementation of the future agreement'.

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Felbermayr G., Fuesr C., Gröschl J. and Stöhlker D., [Economic Effects of Brexit on the European Economy](#), EconPol Policy Report (04), November 2017.

ENDNOTES

- ¹ In its introduction the Statement says: 'The question ... is whether the UK and the EU can agree a deeper trading relationship on the lines of the free trade agreement the EU has with Canada, or whether the relationship will be based simply on the Withdrawal Agreement deal agreed in October 2019, including the Protocol on Ireland/Northern Ireland'.
- ² The Treaty on the Functioning of the European Union (TFEU) gives the European Union **exclusive competence** in the area of the common commercial policy ([Art.3\(e\) TFEU](#)), and prevents Member States from negotiating and concluding trade agreements. The common commercial policy covers international trade and foreign direct investment ([CJEU Opinion 2/15](#)).
- ³ See also [UK Progress in Rolling-Over EU Trade Agreements](#), House of Commons Library, 13 December 2019. The list of (groups of) countries include the Andean countries, CARIFORUM trade bloc, Central America, Chile, Eastern and Southern Africa (ESA) trade bloc, Faroe Islands, Georgia, Iceland and Norway, Israel, Jordan, Kosovo, Lebanon, Liechtenstein, Morocco, Pacific states, Palestinian Authority, Southern Africa customs union and Mozambique (SACUM) trade bloc, South Korea, Switzerland and Tunisia.
- ⁴ A mutual recognition agreement is one in which countries recognise each other's conformity assessments. When conformity assessments are applied to products, they are tested to an established performance standard. Inspections, quality management, surveillance, accreditation and declarations of conformity also take place.
- ⁵ CETA describes the criteria for determining 'sufficient' and 'insufficient' production in the [Protocol on Rules of Origin and Origin Procedures](#), Articles 5 and 7, respectively.
- ⁶ Passporting chiefly relates to the Capital Requirement Directive (CRD) and the Markets in Financial Instruments Directive (MiFID). Harmonised regulation allows provision of services in corporate banking, market intermediation, private banking, and payment services.
- ⁷ Title IV of the [European Market Infrastructure Regulation](#) (EMIR) which lays down rules on OTC derivatives, central counterparties and trade repositories.

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eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

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