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BREXIT: IMPACTS ON UK AND EU TRADE

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EXECUTIVE SUMMARY

The UK is holding a referendum on whether to continue its membership of the European Union. If more than 50% of voters say “Leave”, Britain will head for the exit door. That would trigger one of the biggest shake ups in the EU’s history and throw the UK and its European partners into unchartered economic and legal territory. One of the key questions is how Brexit would affect the UK’s access both to the European Single Market and to wider global markets.

We examine five models for the future trading relationship between the UK and EU if Brexit occurred. The models are: Norway, Switzerland, Turkey, Canada, and Australia. Each has its pros and cons, and many factors would determine the UK’s preferred option. Indeed, the UK could aim to maximise its trade potential with a hybrid model of its own.

The UK would face one major decision. If the country aimed to maintain full access to the EU Single Market under a Norwegian or Swiss model, the UK would need to continue to adopt a wide range of EU legislation, contribute to the EU budget and be open to the movement of EU nationals with greatly reduced influence over the EU law-making process. On the other hand, without full access to the Single Market under a Canadian or Australian model, UK exporters would face greater barriers to trade with the EU, with the associated risk of major job losses.

Even once the UK decides on its preferred model, it cannot be guaranteed. Trade agreements require two or more partners, and the transition process would be full of legal, economic and political uncertainty. In Europe, Britain’s exit terms would be shaped by the powerful national interests of 27 Member States and the European Parliament, each with their own preferences for post-Brexit trade.

At the same time, countries outside the EU may be unwilling to continue their free trade regimes with the UK without a renegotiation. While the UK would be a large market with substantial negotiating power, it may not be able to win back the same level of market access previously negotiated by an even larger EU. If the UK does decide to separate from the EU, the divorce proceedings will be long and rocky.

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INTRODUCTION

The UK referendum on Brexit – Britain's exit from the European Union – is one of the most important moments, not only for the United Kingdom and its place in the world, but also for the rest of Europe. If the British people vote to leave the EU on the 23rd June this year, it will have far reaching and unpredictable ramifications for UK trade and the economy, and potentially for the future of the European project itself.

In January 2014, the Centre for Trade and Economic Integration (CTEI) published one of the first analyses of Brexit as a Graduate Institute Trade and Investment Law Clinic Paper '*The future of the United Kingdom in Europe: exit scenarios and their implications on trade relations*'.[1] Here, we revisit that paper and summarise the key impacts on UK trade if Britain were to leave.

THE UK'S TRADING POSITION TODAY

EU Member States benefit from the cross border free movement of goods, services, labour and capital within the EU. All EU citizens, including the British, have the right to travel, live and work in other EU countries. The also UK participates in EU decision making, including the formulation of common policies designed to make the Single Market effective.

As part of the EU, the UK is a relatively open economy, with cross-border trade an important driver of UK growth and jobs. Furthermore, the EU is the most important market for UK importers and exporters. The UK exported £305.2 billion worth of goods in 2015 and imported a value of £411.9 billion. During 2014-15, 38 to 49% of all UK exports were destined for EU markets; meanwhile, the UK imported 49% to 55% of its total imports from other EU Member States.[2] Around half of EU imports into the UK are intermediate goods, which require further processing or manufacture in the UK before final consumption.

From the EU's perspective, about 10% of exports from other Member States are to the UK. The UK's trade deficit with the EU, which was £62 billion in 2014, is a source of demand for EU countries. This makes the UK a large and important market for the rest of the EU.

Cross-border trade in services also plays a significant role for the UK and EU economies. Whilst the UK has a deficit in trade in goods, it has run a surplus in trade in services with the EU every year since 2005; the surplus stood at £15.4 billion in 2014.[3] Total exports of services to the EU were worth £58.7 billion in 2014. The EU is also a major source of inward investment into the UK: between 2005 and 2014, the EU accounted for 44% of foreign direct investment flows into the UK.

[1] Fernekeß, K., Palevičienė, S. and Thadikkaran, M. (2014) The future of the United Kingdom in Europe: exit scenarios and their implications on trade relations. Trade and Investment Law Clinic Paper CTEI-2013-01.
[2] HM Revenue and Customs Trade statistics.
[3] UK Office for National Statistics.

Table 1. Some key characteristics of the UK's membership of the EU

Key characteristics	The UK as an EU member
Influence on Single Market rules	High
Duty free access to EU Single Market in goods	Yes
Access to EU Single Market in services, labour and capital	Yes
Freedom of movement	Yes. UK nationals are free to work in other EU countries, and workers from other EU countries are free to work in the UK. The UK is not part of Schengen, which means that border controls with the rest of the EU still exist.
Independent policy making	Mixed. UK initiates sovereign domestic policy, and also participates in formulating EU policies.
Financial contribution to EU budget	Yes
Ability to establish independent international trade policy	No. The UK takes part in formulating the EU's external trade policy and participates in the EU's trade agreements.

LIFE AFTER BREXIT – DEGREES OF SEPARATION

If the UK voted to exit the EU, the UK would need to consider the alternatives to membership. Five potential models exist: (1) the Norwegian model, through the European Economic Area agreement (2) the Swiss model as a series of sectoral agreements (3) the Turkish model, through a customs union (4) the Canadian model, through a bilateral Free Trade Agreement (FTA) or (5) an exit without any bilateral agreement as is currently the case with Australia. The models are discussed in order of increasing degrees of separation from the EU.

MODEL 1: NORWAY MODEL – JOINING THE EEA

The European Economic Area (EEA) agreement between Norway, Iceland, Liechtenstein and the EU allows access to the EU Single Market with free movement of goods, services, workers and capital and vice versa. The EEA Agreement requires its members to adopt EU law relating to the Single Market: notably, in the areas of social policy, consumer protection, environment, statistics and company law. EEA countries can express their views on these policies and legislation but they cannot vote and are not present in the EU institutions.

However, EEA members do not participate in other EU policies, such as agriculture, fisheries, or judicial affairs, and are free to establish their own international trade policy within the European Free Trade Area (EFTA). EEA countries also contribute to the EU's budget in order to reduce social and economic disparities between regions; the amount is calculated according to the size of the EEA member's economy plus an administrative cost. The EEA countries are also part of the European Free Trade Area (EFTA) and establish a common trade policy: EFTA countries usually negotiate international trade agreements together as a bloc.[4]

Table 2. Some key characteristics of UK policy based on the Norway model

Key characteristics	Under a Norway model
Influence on Single Market rules	Low
Duty free access to EU Single Market for goods	Yes
Access to EU Single Market in services, labour and capital	Yes
Freedom of movement	Yes
Independent policy making	Mixed. EEA members adopt EU policies in the areas of social policy, consumer protection, environment, statistics and company law. However, EEA members do not follow EU policies on Common Agricultural and Fisheries Policies, Customs Union, Common Trade Policy, Common Tax Policy, Common Foreign and Security Policy, Justice and Home affairs, and Economic and Monetary Union.
Financial contribution to EU budget	Yes
Ability to establish independent international trade policy	Yes

The core benefit of this model is that it would allow the UK to retain unfettered access to the EU Single Market. The UK would be able to conduct its external commercial policy and could negotiate free trade agreements with non-EU nations. However, the UK would have to make a substantial financial

[4] It is worth noting that Switzerland is a member of EFTA but not the EEA. While generally negotiating Free Trade Agreements (FTAs) as part of the EFTA bloc, EFTA members can also negotiate FTAs bilaterally (e.g. Iceland with China, Switzerland with Japan and China).

contribution to the EU and EEA membership would extend some EU policies to the UK with minimal influence over their formulation.

EEA members make an annual financial contribution to the EU: the total EEA contribution between 1994 and 2014 was around €3.27 billion.[5] Norway's contribution is comparable to the UK's contribution as an EU member: in 2016, Norway's payments in relation to its membership of the European Single Market and other EU programmes it takes part in will come to around £620 million or £119 a head.[6]

EEA membership would give the UK no role in EU decision making. The EEA countries have to adopt all the EU laws and policies relating to the operation of the Single Market. In the ten years to 2014, around 7,000 EU legal acts were incorporated into EEA law. All these laws would have to be adopted by the UK as an EEA member, with having only a limited right to be consulted on their formulation.

MODEL 2: SWISS MODEL – SECTORAL AGREEMENTS

A second option available to the UK would be to enter into a series of bilateral agreements with the EU, such as the EU-Switzerland model. Switzerland has concluded more than 120 sectoral agreements with the EU, giving it access to the EU Single Market without losing its autonomy in areas outside the agreements.

Like the Norwegian model, Switzerland has to adopt a number of EU policies and legislation without participating in the decision-making process and also contributes to the EU budget. Nonetheless, the Swiss model allows Switzerland to negotiate the particular areas in which it wants to have bilateral relations with the EU, and allows Switzerland to set its own international trade policy either as part of European Free Trade Area or bilaterally.[7]

As part of the negotiations with the EU, Switzerland contributed 550 million Swiss Francs per year during 2007-13. Consequently, the UK's contribution to the EU under this model could be significantly less than it pays as an EU member.

However, there are major obstacles for the UK to implement the Swiss model. First, EU law is an active system which is flexible and constantly evolving, while the Swiss model is static in nature. This would mean that new bilateral agreements as well as amendments would be necessary with every change in relevant EU laws. This is a bureaucratic and time-consuming process. Additionally, there are no effective dispute resolution mechanisms under these agreements. The EU has insisted that these institutional arrangements are improved before Switzerland can gain any further access to the Single Market (e.g. for electricity). However, these negotiations are currently in deadlock following Switzerland's referendum to limit the free movement of people from the EU.

In addition, the UK would still be bound by EU laws on areas covered by the agreements, while not having a say in the formulation of these laws. The Swiss model would only provide the UK a right to be consulted in the formation of the EU laws that would have to be incorporated.

Finally, the bilateral agreements were originally intended as a temporary feature and the EU's approach to Switzerland has since evolved: hence the EU's insistence on an institutional framework

[5] Norway's Mission to the EU.

[6] InFacts assessments using data from Norwegian Embassy to the UK.

[7] Switzerland is not part of the European Economic Agreement (EEA) but it is part of the European Free Trade Area (EFTA).

agreement covering bilateral relations with Switzerland. Given its pitfalls, it seems highly unlikely that EU would accept the Swiss model again, particularly with a former EU Member such as the UK.

Table 3. Some key characteristics of UK policy based on the Swiss model

Key characteristics	Under a Swiss model
Influence on Single Market rules	Low
Duty free access to EU Single Market for goods	Yes
Access to EU Single Market in services, labour and capital	Mixed. Switzerland has access to some services, and movement of people through Schengen.
Freedom of movement	Yes. Although there is a political impasse over this issue between Switzerland and the EU.[8]
Independent policy making	Mixed. Switzerland has to adopt some EU policies and laws.
Financial contribution to EU budget	Yes
Ability to establish independent international trade policy	Yes. Swiss trade agreements are normally conducted as part of the EFTA bloc. However, Switzerland has also negotiated Free Trade Agreements bilaterally, e.g. with Japan and China.

MODEL 3: TURKEY MODEL – CUSTOMS UNION

A third option for the UK is to enter into a customs union with the EU. The EU-Turkey customs union is restricted to industrial goods, with all customs duties, quantitative restrictions and other charges for these goods being eliminated. Turkey accepts the external tariff of the EU, known as the common external tariff (CET). Turkey does not contribute to the EU budget and does have the ability to set its own policies independently of the EU. However, because it shares a common external tariff with the EU, Turkey in effect is obliged to follow EU trade policy in industrial goods.

Unlike the Norwegian and Swiss models, a customs union would allow the UK to limit the free movement of EU migrants and to participate in fewer areas of EU policy. However, the model does

[8] In 2014, the Swiss voted in a referendum to restrict the number of non-Swiss nationals entering the country and to give preference to Swiss citizens in the job market. Implementing the vote is contrary to the Free Movement of People Agreement and jeopardises the country's entire series of bilateral treaties with the EU. The EU has refused to renegotiate free movement with Switzerland, leading to a political and legal deadlock.

not provide the UK with access to the EU's services markets, which are particularly important for the UK economy.

Table 4. Some key characteristics of UK policy under the Turkey model

Key characteristics	Under a Turkey model
Influence on Single Market rules	None
Duty free access to EU Single Market for goods	Mixed. For industrial goods only.
Access to EU Single Market in services, labour and capital	No
Freedom of movement	No
Independent policy making	Yes. But international trade policy effectively dictated by EU.
Financial contribution to EU budget	No
Ability to establish independent international trade policy	No

The greatest challenge of this model for the UK is in relation to international trade policy. A customs union would require the UK to have a common external tariff with the EU for goods covered by the union that are imported from other countries. As in the case of Turkey, the UK would, in all likelihood, have to accept the EU's external tariff without having much influence over it.

This means that the UK would have to allow free access to goods from countries with which the EU has a Free Trade Agreement (FTA) without reciprocal access being guaranteed. These FTAs may contain a clause stating that the other country should enter into an FTA with the UK as well to ensure reciprocal benefits. In practice however, with the EU-Turkey customs union, other countries have only rarely concluded a free trade agreement with Turkey. This leads to trade imbalances, whereby the goods from the third country enter Turkey without paying any duty while the goods from Turkey entering the other country will pay the duty. Therefore, this model would not allow the UK to establish its own international trade policy and would be detrimental to the UK's balance of trade.

MODEL 4: CANADA MODEL – BILATERAL TRADE AGREEMENT

The fourth option available to the UK would be to negotiate a free trade agreement with the EU. Such an agreement would probably result in most goods and services flowing freely between the UK and the EU, while a number of non-tariff barriers and regulatory barriers would also be removed. Some have cited the EU deal with Canada as a good starting point since it removes almost all tariffs on goods and agriculture as well as substantial commitments on services and on other regulatory issues.

Unlike the EEA and Swiss models, the Canadian model would not require the implementation of EU laws or directives, nor would it require a budgetary contribution. Furthermore, it would not be required to adopt a common external tariff with the EU, as in the Turkey customs union, so the UK would be free to conduct its own international trade policy.

Table 5. Some key characteristics of UK policy under the Canada model

Key characteristics	Under a Canada model
Influence on Single Market rules	None
Duty free access to EU Single Market for goods	Mixed. On average, tariffs would be lower than under the WTO MFN regime and many tariffs could be eliminated.
Access to EU Single Market in services, labour and capital	No. Some services could be included but unlikely to include general provisions on movement of people and capital.
Freedom of movement	No
Independent policy making	Yes
Financial contribution to EU budget	No
Ability to establish independent international trade policy	Yes

However, there are certain disadvantages of the Canada model. First, an FTA with the EU would include free movement of goods and services between the EU and the UK but not the free movement of capital or labour. A substantial UK-EU FTA would be likely to provide provisions on investment that would facilitate the flow of capital, but this would not equate to the free movement of capital, and UK financial markets would therefore be affected.

Second, UK exporters would still have to comply with EU rules and regulations. The appeal of an FTA is to access the Single Market of the rest of the EU. However, this means trading with that market according to the standards and regulations applying there. There could be provisions in an FTA on the equivalence of product standards between the EU and the UK, but it would be unprecedented for that to cover all areas. Unlike being an EU member, UK exporters would have no influence on those rules for its most significant market; they would have to ensure they met EU standards for export as well as UK standards for domestic sale, which might be perceived as more red tape.

Third, the time taken to negotiate FTAs is frequently substantial. EU-Korea negotiations took two years to negotiate, which was unusually rapid for an FTA. The EU-Canada negotiations took around five years, while the agreement has still not been ratified by the European Council or the European Parliament, almost two years after the final agreement was made. Time would be of the essence in order to ensure no disruption to EU-UK trade. However, in all trade negotiations, progress is only as rapid as the slowest partner. In the case of an EU-UK agreement, the negotiations are likely to be hard fought and lengthy, or substantial concessions made.

Finally, there would be an administrative cost in accessing the EU Single Market through an FTA rather than as a member of the Single Market. Fewer goods could qualify for duty free access than under the status quo because of rules of origin. Which UK goods can enter into the EU under an FTA would be determined according to the Rules of Origin, which would have to be negotiated by the UK with the EU while concluding the FTA. There is an administrative cost in meeting these rules of origin and of course, any product that did not meet the rules, because of imported components for example, would not benefit from duty-free access to the EU.

MODEL 5: AUSTRALIA MODEL – NO PREFERENTIAL ACCESS

After leaving the EU, the UK could conclude an exit agreement with the EU which does not provide for any further formal relationship, as is currently the case between Australia and the EU. In this scenario, trade relations between the EU and the UK would be covered by WTO rules as they apply between all WTO Members. This would be the default scenario in the absence of any exit agreement with the EU.

Table 6. Some key characteristics of UK policy under the Australia model

Key characteristics	Under an Australia model
Influence on Single Market rules	None
Duty free access to EU Single Market for goods	No. There would be an increase in tariff duties up to Most Favoured Nation rates, as notified to WTO.
Access to EU Single Market in services, labour and capital	No
Freedom of movement	No
Independent policy making	Yes
Financial contribution to EU budget	No
Ability to establish independent international trade policy	Yes

This model would ensure complete autonomy for the UK. The UK would be free to enter into trade agreements with other countries and free to establish national policies in all areas. However, this would also mean that the UK would no longer be part of the European trading bloc and UK exporters would be faced with higher tariffs from the EU and vice versa. This would reduce UK trade with EU countries, and risk substantial job losses in UK export industries from which goods or services would no longer flow freely into the EU.

Furthermore, the intertwined nature of European supply chains could severely affect the UK's trading relations within Europe under this model. Again, UK exporters would have no influence on the rules and regulations applying to its biggest export market. They would have to meet these requirements without discussion. Finally, it is worth noting that Australia has recently agreed to start formal negotiations with the EU for a Canada-style Free Trade Agreement to gain better access to the EU market.

HYBRID MODEL

Each of the five models examined in this policy brief has potential pros and cons. These pros and cons will depend ultimately on the value that the UK places on, for example, continued full access to the Single Market versus free movement of people. Table 7 summarises the key elements of each model.

At the same time, the UK is not restricted to an existing model. The UK could attempt to cherry pick different components from the five models. However, it seems likely that the EU would oppose such a piecemeal approach and would emphasise that the four free movements (of goods, persons, services and capital) are indivisible.

Table 7. Some key characteristics of different models for EU-UK trade

Key characteristics	Status quo	Norway model	Swiss model	Turkey model	Canada model	Australia model
Influence on Single Market rules	High	Low	Low	None	None	None
Duty free access to EU Single Market for goods	Yes	Yes	Yes	Mixed	Mixed	Mixed
Access to EU Single Market in services, labour and capital	Yes	Yes	Mixed	No	No	No
Freedom of movement	Yes	Yes	Yes	No	No	No
Independent policy making	Mixed	Mixed	Mixed	Yes	Yes	Yes
Financial contribution to EU budget	Yes	Yes	Yes	No	No	No
Ability to establish independent international trade policy	No	Yes	Yes	No	Yes	Yes

LIFE AFTER BREXIT – ACCESS TO GLOBAL MARKETS

EXIT FROM EU TRADE AGREEMENTS IN GLOBAL MARKETS

If the UK left the EU, the UK would no longer participate in the EU's trade policy. The UK would not be part of the trade agreements entered into by the EU with non-EU partners, as it is bound by these agreements through its EU membership and territory.[9] Consequently, UK products and services would trade on those markets under less competitive conditions than products and services from EU country rivals.

Given the benefits of international trade agreements for the UK, it is likely that the UK would suggest a renegotiation of those existing agreements with the FTA partner country, who may well also be interested in continued access to the UK after Brexit.

On the one hand, there could be advantages for the UK to negotiate free trade agreements independently outside the EU. The UK could decide the concessions in its trade agreements in accordance with its own economic needs and capacities. It could for example independently decide to grant lower tariffs to some countries than to others. The UK would not have to align its negotiation strategy to the wishes and needs of other EU Member States, which could potentially simplify that part of the negotiation process.

On the other hand, the UK's new position in international trade would entail certain disadvantages. First, the UK would be excluded from an ever-growing web of trade advantages negotiated by the EU over many years. It would have a large set of negotiations ahead just to maintain the status quo and its competitive position vis-à-vis other EU competitors. EU trade agreements are in force with over 50 countries worldwide. Consequently, there could be an unfeasibly large number of agreements to renegotiate in a short timeframe if the current trade benefits are not to be lost. If the UK does leave the EU within two years, then that provides very little time for multiple renegotiations in order to maintain the current trading conditions for UK businesses. To put this in perspective, the vast majority of FTAs negotiated by WTO members in the past have taken more than two years (usually considerably more), and no country has negotiated 50 agreements simultaneously.

In negotiating international trade agreements outside the EU, the UK would not benefit from the economic and political weight of the EU: it would have less bargaining power than the EU as a bloc. The UK has a market of 64 million consumers, compared to over 500 million in the European Union. As a result, while the UK may potentially be able to complete FTA deals more rapidly than the EU, it would almost certainly mean giving greater concessions to trading partners and not attaining such favourable access to the partner's market. For example, while Switzerland agreed an FTA with China relatively rapidly, it still took three years and while Switzerland agreed to abolish over 99% of tariffs on Chinese imports, Switzerland won only 84% of tariff elimination into the Chinese market.[10]

Similarly, while the current EU-India FTA negotiations have dragged on, one of the major reasons has been India's desire to include the movement of service workers from India to the EU (so called Mode 4 movement); a concession that the UK and other Member States have refused. It is unlikely that India

[9] In reality, many FTAs are mixed agreements that fall into the competency of both the EU and individual Member States. However, the bulk of EU trade agreements falls within the territory of the EU, and so if the UK left the EU, trading partners could push for a renegotiation with the UK.

[10] According to the Ministry of Commerce, People's Republic of China.

would change its Mode 4 demands with the UK if the UK began negotiations with India outside the EU.

Finally, this period of uncertainty would weigh on UK businesses and the economy, as the lack of clarity on the UK's trading environment would affect investment.

WTO MEMBERSHIP

Currently, both the EU and its Member States are joint members of the WTO. WTO membership is dependent on the submission of schedules, which are the lists of external tariffs to be applied to the trade in goods and commitments relating to access to services. Assuming the UK does not enter into a customs union with the EU after its withdrawal (the Turkey model), it would no longer be part of the EU's common schedules. Therefore, the UK would have to submit its own new schedules, which would need to be accepted by all other WTO members in consensus and certified following certain procedures. If the UK were to increase import tariffs with third parties following Brexit, then the UK may have to enter into compensation negotiations with those countries affected.

However, the more likely outcome is that the UK would adopt external tariffs similar, if not identical to, the EU schedules, and continue to apply the same concessions and commitments than before Brexit. This option would involve the least amount of effort for the UK with regard to the time and technical expertise invested in the schedules and the least risk of compensation negotiations with other countries.

THE BREAKUP: HOW PAINFUL?

Whatever model the UK preferred would only be the first step in the process in the Brexit process, as the UK would need to negotiate withdrawal with all 27 of its EU partners. This process is unprecedented, and full of legal uncertainty. Crucially, the UK would only be able to succeed in winning an exit deal if both a qualified majority of EU Member States and the European Parliament agreed. This means that the UK would be negotiating not simply with "the EU" but a wide range of actors with power, self-interest and probably a large degree of antipathy. Getting a favourable exit deal for the UK under these circumstances would be challenging to say the least.

Article 50 of the Lisbon Treaty[11] sets out the possibility for withdrawing from the EU. This suggests first that the UK and the EU would have a period of two years to negotiate, after which the obligations on good faith and sincere cooperation expire; and second, if no agreement is reached within two years, the UK may withdraw without any agreement. This period may be understood as a negotiating 'escape clause' if no agreement seems feasible. This means that there is not an absolute obligation for the EU to conclude an agreement with the UK.

It would be in the UK's interest to negotiate a deal that allowed its businesses to continue to access the EU Single Market on similar conditions to EU membership. The onus would be on the UK to negotiate a deal with the EU within the timeframe set out in Article 50 (two years unless all countries agree an extension). If the UK did not secure a deal within that time, trading relations would fall back onto WTO terms (the Australia model), which would effectively raise tariffs for UK importers and

[11] Specifically, that *"the Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period." (Article 50.3 of the Lisbon Treaty).*

exporters. Whilst this is unlikely to happen in practice because of the mutual interest in establishing smooth exit conditions, the onus would be on the UK if it does want to maintain some form of preferential access to the EU Single Market.

There is also the issue of acquired rights to be resolved: the rights of UK citizens and businesses that have been living and operating in other EU countries and those EU citizens and businesses living and operating in the UK. It would be necessary to negotiate some form of transitional arrangement that protects these acquired rights in order to manage an orderly withdrawal. For UK citizens living in the rest of the EU, this will be an important element in the overall exit negotiation. However, the rights for UK citizens who wish to live, work or study in EU countries after Brexit, would seem to be less rosy.

How other Member States will respond to the UK's demands is open to debate. Member States will have a variety of different interests when it comes to UK exit negotiations and, as is ever the case with EU negotiations, a number of seemingly extraneous issues will no doubt be included in order to seal the deal. No negotiation is ever straight forward: EU negotiations classically bundle a number of issues together for effective horse-trading. Looking at the bigger picture, ongoing major crises for the EU such as the euro and sovereign debt, refugees and Russian-Ukraine relations may leave limited appetite to negotiate sympathetically with the UK and its 'self-made' crisis.

A number of issues could potentially have a bearing on the negotiating process, thus modifying the outcome. These could include:

- Would two years be feasible for the UK to set up new policies in the areas of agriculture, fisheries, trade, the environment, civil aviation or would an extension be necessary for domestic practical reasons alone?
- Would Scotland decide to hold a referendum to leave the UK and subsequently join the EU?
- Would international border controls be introduced within the island of Ireland?
- Would European financial services move away from London?
- Would it be easier or more difficult to negotiate a trade deal with the US?

In addition, some Member States and the European Commission would likely be concerned not to set dangerous precedents for other Members or regions to follow the UK's example. The common interest of the remaining Member States will be to deter other exits, and therefore they will not want to be seen to be overly generous in the terms that the UK receives on exit.

CONCLUSIONS

Many uncertainties exist for the UK if the British people vote for Brexit. First, it is unclear what the UK's preferred post-Brexit model would be. Second, there is no guarantee that the EU and trading partners around the world would agree to the UK's preferred model in any case. A better understanding of the post-Brexit options is essential to forming an opinion on how the post-Brexit landscape would be framed.

The UK would certainly face one major decision. If the country aimed to maintain full access to the EU Single Market under a Norwegian or Swiss model, the UK would need to continue to adopt a wide range of EU legislation, contribute to the EU budget and be open to the movement of EU nationals with greatly reduced influence over the EU law-making process. On the other hand, without full access to the Single Market under a Canadian or Australian model, UK exporters would face greater barriers to trade with the EU, with the associated risk of major job losses. This trade-off, and the value that the UK places on economic interests versus sovereignty, is central to the Brexit debate.

Even once the UK decides on its preferred model, it cannot be guaranteed. Trade agreements require two or more partners. In Europe, Britain's exit terms would be shaped by the powerful national interests of 27 Member States and the European Parliament, each with their own preferences for post-Brexit trade. At the same time, countries outside the EU may be unwilling to continue their free trade regimes with the UK without a renegotiation. If the UK does decide to separate from the EU, the divorce proceedings will be long and rocky with full of economic, legal and political uncertainty.

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