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### EXECUTIVE SUMMARY

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# TCA, Non-tariff Measures and UK Trade

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## ABSTRACT

The UK exit from the EU generates additional trade costs between the two parties, and the new trade costs are largely non-tariff related. We calculate ad valorem equivalents (AVE) of non-tariff measures (NTMs) and estimate their impact on the UK trade in 2021 after the end of the Brexit transition period. Using the synthetic control difference-in-difference methodology we find that the EU-UK Trade and Cooperation Agreement (TCA) had a strong, negative, and significant impact on UK bilateral trade with the EU countries, leading to 22% reduction in exports and a 26% reduction in imports. UK trade with non-EU countries has not been significantly affected. The increased trade frictions due to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures as a result of entering the TCA played an important role in the decline of UK exports to the EU. On average for the first six months of 2021, a 1% increase in AVE SPS results in a 13-15% reduction in exports to the EU, and a 1% increase in TBT leads to a 2-3% reduction in exports. This amounts to a staggering reduction of UK exports by £12.4 billion (15.6% relative to the first half of 2019 or 70% of the total documented reduction in the EU exports) over this period by a simple back-of-envelope calculation. These effects are spread across a range of industrial sectors and in all EU countries/export destinations. The results hold to a range of robustness tests and do not appear to be “teething problems”. Further, no such effect is found for UK imports from the EU, likely due to the absence of border checks in the UK. Evidence suggests that UK products subject to a higher level of SPS being diverted towards the non-EU destinations, while the same cannot be said for products with higher TBT measures. Our findings point to specific aspects of UK-EU trade frictions that represent the steepest costs of Brexit and overall highlight the importance of domestic policy and measures in the near term.

