

# Policy Briefing

## TCA, Non-tariff Measures and UK Trade

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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 study how increased frictions due to non-tariff measures (NTMs) have impacted on the UK trade in 2021 after the end of the Brexit transition period when the EU-UK Trade and Cooperation Agreement (TCA) was put in force.

Using the UNCTAD-WTO I-TIP database on NTMs linked to COMTRADE data on bilateral imports at the HS6 digit level in 2012-2021, we quantify sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT) and licensing requirements (LCN) by computing their ad valorem equivalents (AVE). We use synthetic control difference-in-difference methodology to estimate the overall TCA effect and gravity modelling to estimate the NTM effects.

### Key findings

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 month 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.

### Authors



**Jun Du**

Aston Business School  
[j.du@aston.ac.uk](mailto:j.du@aston.ac.uk)



**Oleksandr Shepotylo**

Aston Business School  
[oshepotylo@aston.ac.uk](mailto:oshepotylo@aston.ac.uk)

## Policy implications

Our findings point to specific aspects of UK-EU trade frictions that represent UK's steepest costs of exiting from the EU and overall highlight the importance of domestic policy and measures in the near term.

### ***For policy***

Trade frictions due to SPS measures are acute problems due to the EU exit. Reducing some of the NTMs between the EU-UK, by exploring mechanisms such as equivalence in SPS measures or other ways to reduce businesses' burden to the minimum level possible.

More complicated and challenging are the technical barriers to trade, but they could potentially cause significant damage to the UK economy. Maintaining and broadening the established arrangements of the current TCA provision, despite of being limited, on some form of mutual recognition of specific practices or international regulations for selected sectors, should be the ambition of UK government to ease the TBT trade barriers.

Future EU-UK co-operation is critical and mutually beneficial but require political will and strong leadership.

In the short and medium term, supporting firms, especially small and medium sized firms, to continue to access the global markets, while enabling the economy to take advantage of the welfare-enhancing benefits from trade becomes imperative. Given the welfare gains of new FTAs are expected to be limited and effective only in the long term, UK domestic policies should be the focus to improve the competitiveness of exporters and their ecosystem.

### ***For Businesses***

Continued alignment with the EU regulations was a demand from many businesses throughout the Brexit process, and it is expected to be still important post Brexit. This must be conveyed to policy makers.

In the short term, preparedness and adaptability have rewarded and will continue to reward businesses facing challenges and disruptions. The need for learning and training remains paramount.

In the medium and longer term, businesses will have to stay competitive to retain access to the global market, to perform better in it, and to gain more benefit from it. This is the case for all firms even if the ways to achieve it may differ. In addition, businesses need to consider adopting new business models through which they can balance the need for lean production with resilience, as well as weighing up economic, social, and environmental gains. Despite the many considerable challenges, there are boundless avenues where opportunities for breaking through are present.

Full paper link: <https://www.enterpriseresearch.ac.uk/our-work/publications/>