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A Road to Nowhere: Why the UK-EU Reset is Not the Answer



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Foreword by Rt Hon The Lord Frost CMG



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Glossary



AI: Artificial Intelligence	GPSR: General Product Safety Regulation
BoT: Balance of Trade	IP: Intellectual Property
BTOM: Border Target Operating Model	ITC: International Trade Centre
CAP: Common Agricultural Policy	LCA: Life-cycle Assessment
CEAP: Circular Economy Action Plan	LUF: Levelling-Up Fund
CE: Conformité Européenne	MFN: Most Favoured Nation
CCP: Common Commercial Policy	MHRA: Medicines and Healthcare Products Regulatory Agency
CJEU: Court of Justice of the European Union	MiFID II: Markets in Financial Instruments Directive II
CMA: Competitions and Markets Authority	MRA: Mutual Recognition Agreement
CPTPP: Comprehensive and Progressive Agreement for Trans-Pacific Partnership	NTB: Non-Tariff Barrier
CSRD: Corporate Sustainability Reporting Directive	OIM: Office for the Internal Market
DBT: Department for Business and Trade	PRA: Prudential Regulation Authority
DCMS: Department for Culture, Media and Sport	REUL: Retained EU Law
DEFRA: Department for Environment, Food and Rural Affairs	REUL (2023): Retained EU Law (Revocation and Reform) Act 2023
DIT: Department for International Trade	R&D: Research and Development
EC: European Commission	ROO: Rules of Origin
ECJ: European Court of Justice	SI: Statutory Instrument
EEA: European Economic Area	SME: Small or Medium-sized Enterprise
EEC: European Economic Community	SPS: Sanitary and Phytosanitary
EFTA: European Free Trade Agreement	TCA: Trade and Cooperation Agreement
EP: European Parliament	TFEU: Treaty on the Functioning of the European Union
ESPR: Ecodesign for Sustainable Products Regulations	TTIP: Transatlantic Trade and Investment Partnership
ESS: Export Support Service	UKCA: UK Conformity Assessed
FCA: Financial Conduct Authority	UK REACH: UK Registration, Evaluation, Authorisation and Restriction of Chemicals
Fintech: Financial Technology	UKGT: United Kingdom Global Tarriff
FTA: Free Trade Agreement	UKSPF: UK Shared Prosperity Fund
FSMA 2023: Financial Services and Markets Act 2023	USMCA: United States-Mexico-Canada Agreement
GATS: General Agreement on Trade in Services	WEO: World Economic Outlook
GMO: Genetically Modified Organism	WTO: World Trade Organisation

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Foreword



Britain's vote to leave the European Union back in 2016 represented a wish to take back control. It was a bold assertion of sovereignty, restoring our ability to set our own laws, control our own borders, and shape our own economic, regulatory, and trading destiny.

That vision was achieved in the 2019 Withdrawal Agreement and the 2020 Trade and Cooperation Agreement, which I negotiated. Those two agreements did not of course give us everything we wanted, and we were particularly hamstrung by the British establishment's determination to collaborate with the EU in keeping Northern Ireland under some aspects of EU trading law. But it gave Britain the necessary tools for independence: control of our borders, our laws, and our finances. Over the past five years, the prognostications of gloom have all been unfulfilled, and Britain has, almost by stealth, got used to being outside the EU.

Yet the Labour Government elected in 2024 plans to disrupt this emerging settlement once again. Driven by its own progressive supporters' angst at being separated from the EU, and their social agony at being condemned to the non-EU queue at airports, it has embarked on a wholly unnecessary "Reset" of our relationship with our European neighbours.

The Government's approach has not been thought through. Its pursuit of the Reset appears to have been underpinned by the naive assumption that the EU would grant concessions simply because Labour's heart was in a different place to the Conservatives', and because they had not originally championed Brexit. This was a misreading of how the EU negotiates. Whatever the atmospherics, the EU is always tough.

And so it has proven. We can now see from the *Renewed Agenda for European Union – United Kingdom Common Understanding*, agreed on 19th May this year, that Keir Starmer has fallen into the same trap as Theresa May and Rishi Sunak: making substantive concessions in return for warm words and negotiating "achievements" which are on the EU's terms, not Britain's. The Government pre-emptively agreed to guaranteed EU access to British fishing grounds for twelve more years simply to get into the talks. Once they were in, they failed to hold any line that mattered.

Despite Labour's manifesto commitment to the contrary, Britain is rejoining the Single Market for agrifood and must apply EU laws in our farming and food sectors whether they trade with the EU or not. EU courts will have the final say on disputes. Far from starting a renaissance in Britain's farming sector, the effect of this deal will be to make it much easier for the EU—a much bigger, more diverse, and more expensive agricultural producer—to export to us.

Similarly, we are committed to joining the Single Market for electricity, the EU's carbon trading scheme, and their plan to put tariffs on carbon-unfriendly goods, the so-called Carbon Border Adjustment Mechanisms, once again with the EU courts having jurisdiction. Britain also commits to Net Zero obligations "at least as ambitious as the EU".

Having resisted and resisted, the Government capitulated and agreed to the principle of a youth mobility scheme. They claim there will be a cap on numbers, but the text says no such thing, and

the EU does not want one.

And finally, Britain has to pay: for the right to be governed by the EU on agrifood and energy, and to rejoin the Erasmus student scheme.

All this seems to have been conceded to get a security and defence agreement which does not contain much of either of those things, and for an uncertain degree of access to the EU via eGates at airports.

In short, this deal gives away important British interests for very little in return. It begins the process of bit by bit bringing this country back into the embrace of the Single Market and customs union.

It could have been so different. It was the EU who wanted the security and defence pact, not Britain, since even in their current state, British military and diplomatic assets would add punch to the EU's foreign policy. Britain could have used this to extract worthwhile, if limited, improvements to the TCA. For example, better conformity assessment processes for manufactured goods, more relaxed border formalities, and equivalence for agrifood trade—all measures that would reduce friction without compromising autonomy.

The only way to understand this approach is to assume that Labour were never interested in finding a balance of gains and concessions. They merely want to take a step closer to the EU, probably to a Swiss-style model based on significant alignment. Their “Reset” shows every sign of achieving this.

This report by the Prosperity Institute shows the alternative route that should, and still could, be taken, and presents a compelling case for three complementary strategies consistent with Britain's independence and regulatory freedom.

The report rightly identifies the UK's domestic economic challenges as the primary barriers to growth, rather than our trade relationship with the EU. Thus, the first set of recommendations are on domestic deregulation: regulation-free zones for emerging technologies such as artificial intelligence, financial technology, and synthetic biology; streamlined approval processes; and a common-law, outcomes-based regulatory framework.

But trade matters, so the second recommendation is for a diversified international trade strategy, and one which recognises that we already have a free trade agreement with the EU. Britain should build on its accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the recent trade deal with India, and prioritise a comprehensive trade agreement with the United States, its most significant bilateral partner, to unlock billions in economic potential. British strengths in services—financial, legal, and educational—allow us to build growing and resilient trade networks.

The third recommendation is to find a pragmatic path to maintaining deep market access to trading partners without compromising sovereignty: mutual recognition agreements (MRAs) in sectors such as car manufacturing, chemicals, and food standards, and regulatory divergence in high-growth areas like digital services, biotechnology, and financial services.

The EU's declining global market share and burdensome regulations make it an increasingly unattractive anchor for Britain's economic future. By contrast, the opportunities of Brexit, as

set out in this report, offer a path to prosperity that aligns with our strengths as an innovative, services-driven economy.

This report challenges the defeatist narrative that closer EU alignment is inevitable or desirable, and offers instead a vision of a confident, sovereign UK that embraces its global potential. Almost certainly the Labour Government will not be listening. But I commend this analysis to its eventual successors currently devising policies in opposition, and to all who seek the prosperous, independent Britain we voted for in 2016.

The Rt Hon The Lord Frost CMG

Former Cabinet Minister and Chief Negotiator for Exiting the European Union

Executive summary



The threat of realignment

This report explores the economic consequences to the United Kingdom of closer alignment with the European Union. The main focus is the economic and regulatory policies associated with the recent 2025 UK-EU “Reset”. Matters of national security and defence policy have been addressed in other Prosperity Institute publications.

In 2021, the UK-EU Trade and Cooperation Agreement (TCA) was enacted. Although it could have been improved upon, the UK retained its sovereignty and obtained a feasible settlement that allowed it to engage with the EU without losing regulatory autonomy.

Now, in 2025, the United Kingdom is embarking on a renegotiation of its relationship with the EU. Known as the UK-EU “Reset”, this could lead to the UK’s realignment with a wide range of EU regulations. This would be to the detriment of British sovereignty, regulatory and trade independence, and overall prosperity and growth.

On 19th May 2025, the text of the Reset was published, entitled *A renewed agenda for European Union – United Kingdom cooperation Common Understanding*. With the exception of granting the EU continued access to British fishing waters until 2038 and the potential easing of border checks through eGate access, no firm agreement was actually made. Instead, the Reset remains a direction of travel. Policies to be agreed include the proposed youth experience scheme between Britain and the EU, joining the Erasmus+ programme, a veterinary agreement to align British and European sanitary and phytosanitary (SPS) rules, and the UK’s realignment with EU industrial carbon prices. Additional to the “Reset”, it seems likely that the UK will also align with EU product regulations via powers in the Product Regulation and Metrology Act.

Each of these pose threats to British sovereignty and regulatory autonomy, and to Britain’s independent trade policy. Realigning with EU standards in these areas may also harm trading relations with existing and future trade partners.

The alternative

Instead, the UK should negotiate for targeted improvements to the TCA, in keeping with proposals in 2020 that reduce friction on priority areas (e.g. reducing barriers to rules of origin (ROO) recognition on manufactured goods), without compromising on regulatory autonomy, sovereignty, and trade independence. The UK should maintain its current arrangement with the EU while focusing its efforts on building trade relationships with other allies, most importantly the United States of America. By prioritising regulatory autonomy on aspects of trade policy (e.g. SPS rules, carbon pricing via EU ETS, and product standards), the UK will be better able to pursue economic growth through domestic economic reform, while maintaining strong relationships with its partners in Europe and the wider world.

The overwhelming majority of problems facing the British economy are related to domestic policy, not its trading relationship with the EU. Being outside the EU's regulatory orbit means that the UK can address these problems in full, if it wishes. However, remaining within this orbit would compound these problems, invite new ones, and restrict our ability to solve either.

By maintaining trade and regulatory independence, the UK can continue to agree new trade agreements around the world, while embracing a deregulatory policy agenda on the home front, making Britain a more dynamic and welcoming place to do business. If the UK pursues closer regulatory alignment with the EU in sensitive sectors like food, agriculture, or manufactured goods—as proposed in the Reset negotiations—it would face significant constraints on its ability to negotiate advantageous Free Trade Agreements (FTAs) with third countries that operate under different regulatory conditions.

The current Government policy is a contradiction. Attempting to pursue trade sovereignty on the one hand, while moving closer to a dynamic alignment with the EU on the other, is unsustainable. As the Northern Ireland Protocol shows, any further alignment with the EU invites regulatory oversight from EU bodies, undermining the purpose of Brexit. Continued alignment with the EU exposes the UK to regulatory oversight from the European Court of Justice (ECJ), thus undermining parliamentary sovereignty. This would also undermine FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on regulatory matters and the recent US-UK Economic Prosperity Deal (EPD) (particularly in data protection regulations, food and agriculture, and safety), among other bilateral FTAs.

Taking advantage of regulatory and trade independence outside the EU offers the UK new opportunities it would be wise to exploit. As of December 2024, the UK had signed 39 FTAs and rolled over 68 agreements it had with countries whilst it was a member of the EU. These include trade agreements with Canada, Australia, New Zealand, Japan, and many nations on the Pacific Rim. More recently, the UK has secured an FTA with India and an Economic Prosperity Deal with the USA, our main ally and the world's largest economy.

Sovereignty is a fundamental ingredient of Britain's prosperity. Instead of realigning with the EU and placing Britain's economic eggs in a European basket, the UK should make a virtue of its unique position in global trade. The economic benefits of realignment with the EU will likely be illusory. In the long run, British prosperity will suffer from such a surrender of sovereignty. It is a road to nowhere, and the UK should change course.

Summary of recommendations



This report serves a dual purpose: first, to evaluate the practical and economic implications of exchanging British regulatory autonomy for regulatory realignment with the EU; second, to identify the opportunities presented by an independent trade policy and streamlining deregulation.

In light of those findings, the following three approaches are recommended. Each would be worth pursuing individually; however, their benefits would be maximised and reinforced if adopted in full.

Domestic deregulation

The UK should pursue less burdensome domestic regulation to increase competition, innovation, and economic growth:

- Exercise the powers in the Retained EU Law (Revocation and Reform) Act 2023 to remove from British legislation any EU-imposed regulations that do not serve British economic interests, thereby restoring a common-law, principles-based and outcome-based approach to regulation and facilitating trade sovereignty in place of the EU's process-driven model.
- Create light-regulation innovation sandboxes and incubators in emerging technologies including, but not exclusive to, artificial intelligence (AI), financial technology (fintech), and synthetic biology.
- Liberalise the requirements of the UK Conformity Assessed (UKCA) marking and UK REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) to implement streamlined approval processes for innovative products which can be delivered more quickly and efficiently than the EU's own assessment procedures.
- Use the Product Regulation and Metrology Act to recognise the most innovative and competitive product standards in the world, instead of aligning with the EU.

Diversified trade strategy

The UK should pursue a trade strategy based on trade diversification that maintains market access with the EU while accelerating the pursuit of opportunities elsewhere:

- Prioritise trade negotiations with the USA and Indo-Pacific economies, particularly those participating in the CPTPP, to reduce relative economic dependence on the EU.
- Develop specialised trade initiatives focused on services exports to emerging markets, leveraging the UK's strengths in financial, legal, and educational services.
- Eliminate all import tariffs on goods which are not produced in the UK and negotiate tariff reduction deals in sensitive sectors with allied economies where there is no comprehensive trade agreement in place.

Selective and mutual cooperation with allies

The UK should establish a framework for regulatory cooperation and mutual recognition of standards with allies in the EU and elsewhere:

- Negotiate high-trust mutual recognition agreements (MRAs) with partners such as the EU in sectors where recognition provides clear mutual benefits, including automotive manufacturing, chemical, and food standards.
- Maintain regulatory divergence in high-growth sectors including digital services, biotechnology, and financial services, where the UK enjoys many existing competitive advantages.

1: Out and into the world? Britain's regulatory and policy path since Brexit



Main points

- *Brexit was fundamentally a matter of sovereignty and democracy. By leaving the European Union, the British people hoped to restore democratic control over government.*
- *Outside the European Union, the United Kingdom is free to pursue an independent trade and regulatory policy, with the current partial exception of Northern Ireland.*
- *Since leaving the EU, while divergence and deregulation has been relatively limited, the UK has managed to sign a number of important new trade deals.*

Context and background

Britain joined the European Economic Community (EEC) in 1973. From then on, trade policy was carried out collectively, on Britain's behalf, through European institutions. The UK could no longer negotiate its own trade agreements.

As the EU's Single Market deepened and the EU's control over trade and regulatory policy expanded, questions of sovereignty became a prominent theme in British politics. Subsequent EU treaties, including the 1992 Treaty of Maastricht, widened the scope of EU trade competence, covering, among other things, services, intellectual property (IP), and investment.¹

The creeping competence of EU rules over Member States increased with the Lisbon Treaty in 2007. This vested exclusive trade competence to the EU in services, IP, and investment policy.² Consequently, trade agreements concluded by the EU became increasingly complex, with implications for a larger number of domestic policy areas.³

This trend continued after the global financial crisis of 2008. With the rise of emerging economies

1 Sophie Meunier and Kalypto Nicolaïdis, "Who speaks for Europe? The delegation of trade authority in the EU", *JCMS: Journal of Common Market Studies* 37, no. 3 (1999): 477-501. ([link](#))

2 M.H. Guimarães, "EU FTAs and divided sovereignty: transformative shifts in trade authority," *Perspectivas - Journal of Political Science*, Special Issue (2022): 56-67; M.A. Pollack "The end of creeping competence? EU policy-making since Maastricht", *JCMS: Journal of Common Market Studies*, 38 no. 3 (2000): 519-38. ([link](#))

3 The landmark Court of Justice of the European Union (CJEU) ruling in 2017 on EU trade competencies established a shared trade competence between the EU and its Member States in a manner that moderately dilutes EU trade competences and accords some independence to Member States in trade negotiations (see Guimarães, "EU FTAs").

and changing patterns of trade, some British politicians⁴, business leaders, and civil servants believed the UK needed more flexibility to pursue its own trade interests⁵. In part, it was the rise of China and the growing importance of services trade alongside the emergence of new digital trade issues, which motivated this development.

The EU's negotiations⁶ with the United States for the Transatlantic Trade and Investment Partnership (TTIP) between 2013 and 2016 highlighted the limited ability of individual EU Member States to influence EU trade policy from within. Britain's particular trading interests, including financial services and digital trade, were not properly represented in EU negotiations.⁷ This was compounded by EU and US negotiators being at loggerheads on the disciplinary protocol of financial sector regulations, with the EU wanting more punitive measures on a variety of financial malpractices.⁸ British interests were not served as Britain was unable to advocate effectively for a middle ground that would have better suited its competitive position as a major international financial centre.

Trade and sovereignty were prominent themes in the 2016 Brexit referendum. Proponents of leaving the EU argued that an independent trade policy would allow Britain to negotiate its own trade deals to better suit British economic interests. As Dominic Cummings said in an oral evidence session before the EU referendum to the Treasury Select Committee: "Our basic argument with Vote Leave is that after we vote to leave, we will take back control. We will have a normal free trade deal with our friends in Europe, but without adding to that a whole raft of other regulatory arrangements, which tends to benefit established players."⁹

After the 2016 referendum, there were intense negotiations to roll-over existing EU trade agreements to ensure continuity for British businesses. The roll-over exercise was designed to maintain the trade relations the UK held with individual countries while it had been a member of the EU.¹⁰ As of 2025, the UK has forged bilateral trade agreements with over 70 countries.¹¹

Britain's post-Brexit trade strategy has focused on sectors that it believes have comparative

4 On 25 October 2011, a bid to grant a referendum on the UK's membership of the EU was defeated by 483 votes to 111 (BBC, "EU Referendum: Rebels lose vote in Commons", 25 October 2011 [\[link\]](#)).

5 Giving oral evidence to the Treasury Select Committee in March 2016, prior to the referendum, then-MP Boris Johnson argued that EU membership hindered British broad trade interests, emphasising that the UK had 1700 officials capable of drawing up FTAs with potential partners. (Treasury Committee, "The economic and financial costs and benefits of UK membership of the EU", oral evidence, 23 March 2016, HC 499. [\[link\]](#)).

6 Although negotiations were ongoing between 2013 and 2016, the EU officially termed TTIP obsolete in 2019.

7 Simon Johnson and Jeffrey Schott provide an extensive commentary on the difference between EU and US negotiators concerning regulatory policies on the financial sector. This included the impact of new US rules in light of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), and what constitutes "necessary" transaction costs (Simon Johnson and Jeffrey Schott, "Financial Services in the Transatlantic Trade and Investment Partnership", Policy Brief PB13-26, *Petersen Institute for International Economics*, October 2013 [\[link\]](#)).

8 V.K. Aggarwal and S.J. Evenett, S.J., "The Transatlantic Trade and Investment Partnership: Limits on negotiating behind the border barriers", *Business and Politics*, 19 no. 4, (2017): 549-572. [\[link\]](#)

9 Treasury Committee, "The economic and financial costs and benefits of UK membership of the EU", oral evidence, 20 April 2016, HC 499. [\[link\]](#)

10 Dominic Webb, "UK progress in rolling over EU trade agreements", House of Commons Briefing Paper 7792, 13 December 2019. [\[link\]](#)

11 Department for Business and Trade, "The UK's trade agreements", 27 August 2025. [\[link\]](#)

advantages, such as financial services¹², creative industries¹³, and advanced manufacturing.¹⁴

Brexit has restored British sovereignty over trade and regulatory policy. Realigning with the EU, or pursuing greater divergence, both present trade-offs of their own.¹⁵ These include the necessity of aligning with foreign regulations to ensure greater integration and access to the EU market, as explicitly noted in the Reset document.

Any decision to return to the orbit of EU regulation would have to consider the merits of potentially reducing trade friction against the costs of upending newly established trading partnerships and the political, economic and constitutional implications of abandoning regulatory and trading autonomy.

The current UK regulatory landscape

Since leaving the EU, British regulatory policy has been made up of a mixture of legacy EU law and new British laws. The EU Withdrawal Act 2018 ended the application of EU law in the UK and enabled the British Government to establish its own regulatory regimes, independent of the EU.¹⁶ Since Brexit and the activation of the Trade and Cooperation Agreement (TCA), the Government has been able to pursue regulatory reform independently of the EU, with the current exception of within Northern Ireland, which remains bound by some EU regulations, following the replacement of the Northern Ireland Protocol with the (theoretically) permanent Windsor Framework. The process of transferring existing EU law into British domestic legislation in the EU Withdrawal Act 2018 aimed to provide continuity while allowing for subsequent divergence.¹⁷ The Act created a new category of law, Retained EU Law (REUL), but provided no expiry date, or general indication for when it may be removed.

Trade policy transformation

The biggest change of policy since Brexit has been in trade, with the UK leaving the Single Market and the EU's Common Commercial Policy (CCP) and developing its own independent trade policy.

The CCP was the mechanism by which the European Commission (EC) strategically engaged in EU trade negotiations. In the post-Lisbon Treaty era, a joint ratification by both the European

12 In June 2019, the Conservative Government under Boris Johnson launched the Future Regulatory Framework (FRF) review of British financial regulation to enable the City to exploit Brexit opportunities. This was heralded by Government ministers as Big Bang 2.0 for the City of London.

13 The Department for Culture, Media and Sport (DCMS) laid out in 2023 how the creative industry would support the government towards its 2023 Growth Vision (Department for Culture, Media, and Sport, *Creative Industries Sector Vision*, June 2023, CP 863. [\[link\]](#))

14 The Advanced Manufacturing Plan (2023) is a policy paper by the Sunak Government extolling the UK's advanced manufacturing capabilities while setting out a plan to invest in the future of manufacturing through international collaboration and removing barriers to entry in a bid to boost competitiveness and attract international investors (Department for Business and Trade, *Advanced Manufacturing Plan*, 26 November 2023. [\[link\]](#))

15 With the exception of Northern Ireland, which is in practice a part of the EU's Customs Union due to the Northern Ireland Protocol.

16 This Act essentially provided the groundwork for what a British regulatory system would be, without EU interference. On the other hand, it created the foundation for 'retained EU Law', which is currently a burdensome aspect of regulatory practice in trade relations.

17 This is called 'onshoring' and it allows for EU laws that applied to the UK at the time of Brexit to maintain their status within British law, thereby ensuring legal continuity. See Clifford Chance, "Onshoring EU Financial Services Legislation Under the European Union (Withdrawal) Act 2018", July 2018. [\[link\]](#)

Parliament (EP) and Council is needed before any aspect of the CCP can be implemented.¹⁸ However, the EU Parliament's International Trade Committee (ITC) obtained procedural powers enabling it to shape the commercial framework, and expanded its intra-parliamentary powers to act on legislative issues regarding implementation of the CCP. The ITC became especially powerful during the TTIP negotiations and obstructed many of the UK's ambitions for the proposed agreement. As such, leaving the EU became an opportunity for the UK to pursue a trade policy overhaul in those advanced British interests.

The formation of the Department for International Trade (DIT)¹⁹ and the passing of the Trade Act 2021 laid the foundation for an independent British trade policy. This enabled the UK to pursue its "Global Britain" agenda: forging new trade, economic and diplomatic relationships outside the EU. These relationships have manifested in the negotiation of multiple FTAs, the establishment of the UK Global Tariff (UKGT), and most recently, the design of new trade facilitation vehicles. Policy priorities have shifted towards the Indo-Pacific, a move crystallised in the 2021 publication of the UK's defence strategy document titled *The Integrated Review, Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy*, and the UK's accession to CPTPP in December 2024.²⁰

Regulatory policy

Article 114 of the Treaty on the Functioning of the European Union (TFEU) (commonly known as the Lisbon Treaty) serves as the primary legal basis for adopting measures to harmonise national laws in order to ensure the establishment and functioning of the internal market. When the EU acts under Article 114, the adoption of such harmonisation measures typically follows the ordinary legislative procedure as set out in Articles 289 and 294 TFEU—where the European Commission proposes legislation, and the European Parliament together with the Council of the EU (representing the Member States) jointly amend and adopt the final act. Ultimately, Member States' sovereignty is severely curtailed by the application or implementation of EU regulatory standards, thereby limiting their capacity to formulate regulations that reflect their domestic and democratic interests in areas of EU competency.

Since leaving the EU, the UK has gradually started to diverge from the EU's policies and approach to regulation. The first policy was to ensure continuity of regulation under the European Union (Withdrawal) Act 2018, which saved EU law and facilitated legislative changes to ensure these rules were still operative in a UK-only context. Continuity gave way to more conscious efforts to strike a new path, with the introduction of the Retained EU Law (Revocation and Reform) (REUL) Act 2023 which provides powers for the simpler repeal or modification of REUL. Coming into force in January 2024, the term 'retained EU law' was updated to 'assimilated law', reflecting the integration of retained EU law into the UK's legal framework.

Since Brexit, public procurement policy has been reformed for more flexibility and for supporting domestic suppliers, complying at the same time with international commitments. The 2023

¹⁸ Prior to the Lisbon treaty, although CCP was conducted with the EU acting as primary negotiator on behalf of its Member States, there were avenues where Member States could advance initiatives independently, albeit that these are subject to ex post approval by the Commission. The process of is referred to as the Ordinary Legislative Procedure (OLP) which is codified in Article 294 of the Treaty of the Functioning of the European Union (TFEU) See Andrew Moravcsik, "Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach", *Journal of Common Market Studies*, 31 no. 4 (1993): 473–524. ([link](#))

¹⁹ Now the Department for Business and Trade (DBT)

²⁰ HM Government, *Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy*, March 2021, CP 403. ([link](#))

Procurement Act departs from EU procurement principles with a new concept of value for money, public benefit, transparency, and strategic considerations, in contrast to strict procedural adherence.²¹ Although the Act entered force in February 2025, it is still pending full implementation.

The UK has pursued a generally more pro-innovation approach to technology regulation and digital policy, including AI regulation, data protection, and digital markets. While UK General Data Protection Regulation (GDPR) and related provisions continue to uphold restrictive European data protection standards, recent policies have prioritised encouraging innovation and easing compliance burdens through new data legislation. This contrasts with the EU's decision to go the other way, introducing even more stringent policies in the Digital Services Act and Artificial Intelligence Act.

Agricultural policy

The EU's Common Agricultural Policy (CAP) has been replaced by a new regime in the Agriculture Act 2020. The new policy implements "environmental stewardship" and focus on "public goods" by moving away from payments based on land area and towards a system that can reward the public benefits generated by farms and the sustainability of farming practices. The passage of the Genetic Technology (Precision Breeding) Act 2023, to allow gene-editing mechanisms to be employed in plant production and livestock breeding, marks significant divergence from the EU to support UK agrifoods production. Given that the UK is currently a small exporter of agricultural products, and produces mainly for its domestic market, this Act allows greater innovation in the agrifood sector, building, for example on advances in precision breeding of pigs and bananas, which will contribute to more efficient and robust food production.^{22 23}

But what is the impact?

There has been evident regulatory and policy diversion between the UK and EU since Brexit, even if the scale of divergence that might be felt and recognised by individuals, consumers and businesses remains relatively limited. However, the majority of divergence from the status quo since 2021 has come from the EU adding new regulations, rather than by the UK pursuing a bold deregulatory programme or policy agenda. Much more could have been, and could still be, done.

However, the Common Understanding announced in May 2025 threatens to undo the little that has been done and hinder us from going further.²⁴ The EU has secured access to British fisheries until 2038, while also seeking to make the UK conform to its SPS rules, youth mobility scheme, Erasmus+ programme, and carbon pricing via its EU Emissions Trading Scheme (EU ETS).

The potential ill-effects of such regulatory and policy realignment will be explored in Chapters 3 and 4 of this report. First, having laid out the UK's post-Brexit regulatory and policy path, we will survey its post-Brexit trade relationship with the EU and why it signals that realignment with the EU would not be in the UK's economic interest.

| 21 Government Commercial Function, "The Procurement Act - a summary guide to the provisions", policy paper, 16 June 2022. ([link](#))

| 22 Some benefits of this Act include enabling the development of crops that are resilient to pests and disease, enhancing animal welfare with better antibiotics, and increased food production. (Department for Environment, Food, and Rural Affairs, "Rationale for prioritising substances in the UK REACH work programme: 20223 to 2024", 15 February 2024. ([link](#)))

| 23 Kristin M. Whitworth et al, "Improvements in pig agriculture through gene editing", *CABI Agriculture and Bioscience*, 3 no. 41 (2022): 1-16. ([link](#))

| 24 Cabinet Office, "UK-EU Summit – Common Understanding", 19 May 2025. ([link](#))

2. The UK and EU economies and trade since Brexit



Main points

- *Since Brexit, UK-EU trade in goods and services has increased overall, despite the shocks of the COVID-19 pandemic and the war in Ukraine.*
- *While the imposition of new customs processes temporarily hindered trade in goods, trade has recovered overall, and British services exports demonstrated strength and adaptability to new sectoral trends.*
- *Despite increased trade with the EU since Brexit, the EU has been a gradually declining trade partner for the UK since the early 2010s, reflecting its declining buying power and economic strength.*

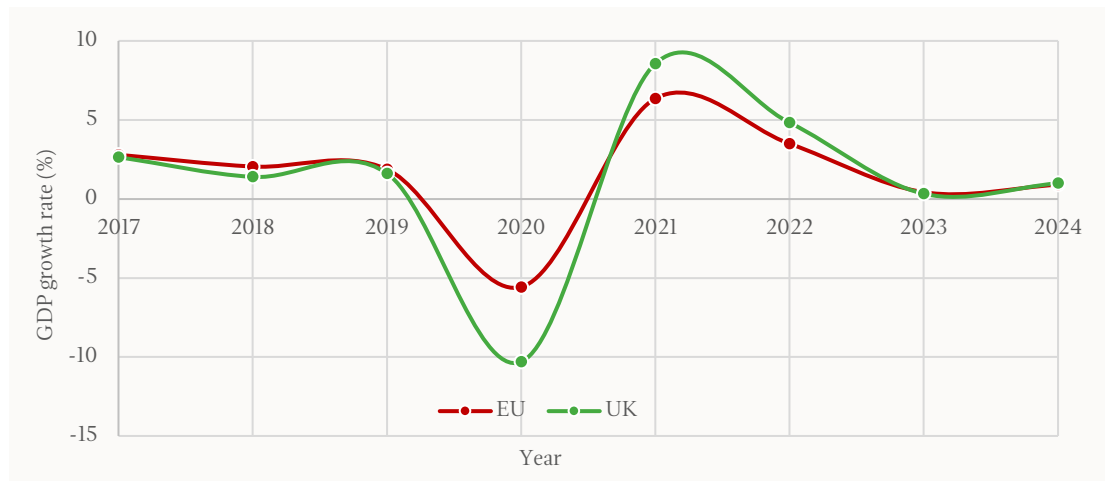
This chapter examines the trade relationship between the UK and EU from around the time of the 2016 Referendum to today, to assess the economic effects of the TCA.²⁵ By analysing the evolving market access conditions and trade dynamics under the TCA, a more comprehensive understanding of the current state of UK-EU economic relations is explored.

This chapter also considers the poor state of the overall EU economy, the implications of regulatory divergence, and the broader economic consequences for the UK and EU.

Quantitative analysis of trade volumes and patterns

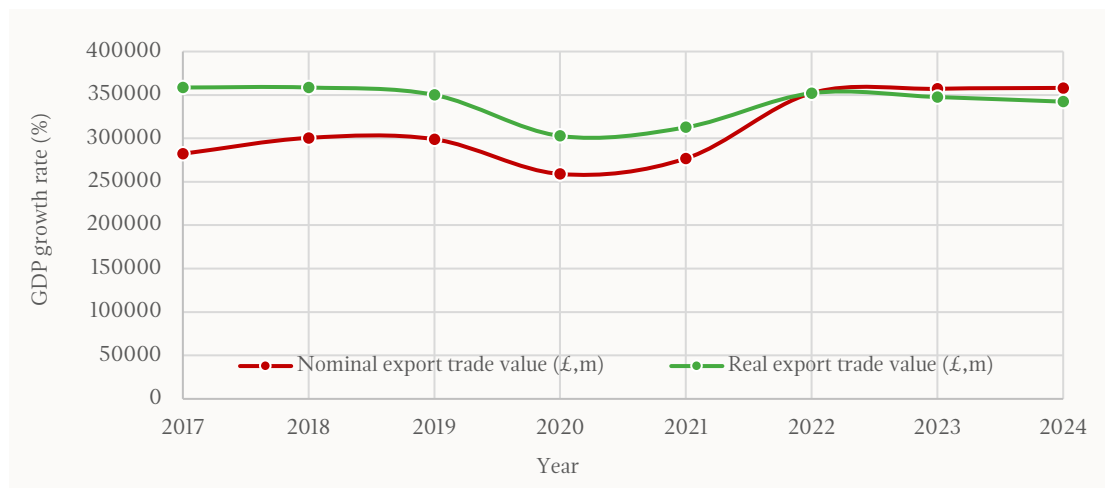
The period 2017-2024 demonstrated the UK's economic adaptability following its decision to leave the EU. While initial uncertainty created short-term challenges, the data ultimately reveals overall British economic resilience and the emerging benefits of regulatory independence. Figure 2.1 compares GDP growth rate between the UK and EU from the period after the referendum (2017) to 2024.

²⁵ Figures presented in this section and elsewhere in the document do not factor in 'the Rotterdam Effect'. In other words, the figures do not consider the end point (final destination) of goods departing the UK, especially those dispatched from the UK making a temporary stop at the port of Rotterdam, Netherlands. Doing so means that we avoid overstating or understating trade figures which can happen when shipments that are just passing from the UK through Rotterdam to other EU countries are counted as Dutch imports or exports, even though they only stop at the port to be moved onto other ships before heading to their true destination.

Figure 2.1: Real GDP growth rates

Source: Eurostat, ONS (2025)

In the immediate aftermath of the referendum, the UK and EU recorded near-identical growth rates (2.7 percent in the UK, 2.8 percent in the EU in 2017). In the ensuing years, before the COVID-19 pandemic, regulatory changes took effect as businesses diversified supply chains and explored new markets. The steep contraction (UK's -10.3 percent versus EU's -5.6 percent in 2020) and rapid recovery (UK 8.6 percent v EU's 6.3 percent between 2020 and 2021) reflected the dominance of services in the British economy, and its ability take advantage of regulatory autonomy outside the EU by introducing a faster programme of vaccine procurement and solving the 2021 haulier shortage via the removal of EU law.²⁶

Figure 2.2: Real vs nominal UK-EU export trade value (£,m)

Source: ONS (2025)

The TCA commenced in January 2021. Throughout 2021, trade increased rapidly following the reopening of the British and European economies after the pandemic. However, UK exports to the EU then declined in 2022. While this may reflect the imposition of customs procedures and the costs associated with UK exporters complying with EU non-tariff barriers, 2022 also saw rapid inflation and a spike in energy prices following the war in Ukraine.

Trade balances

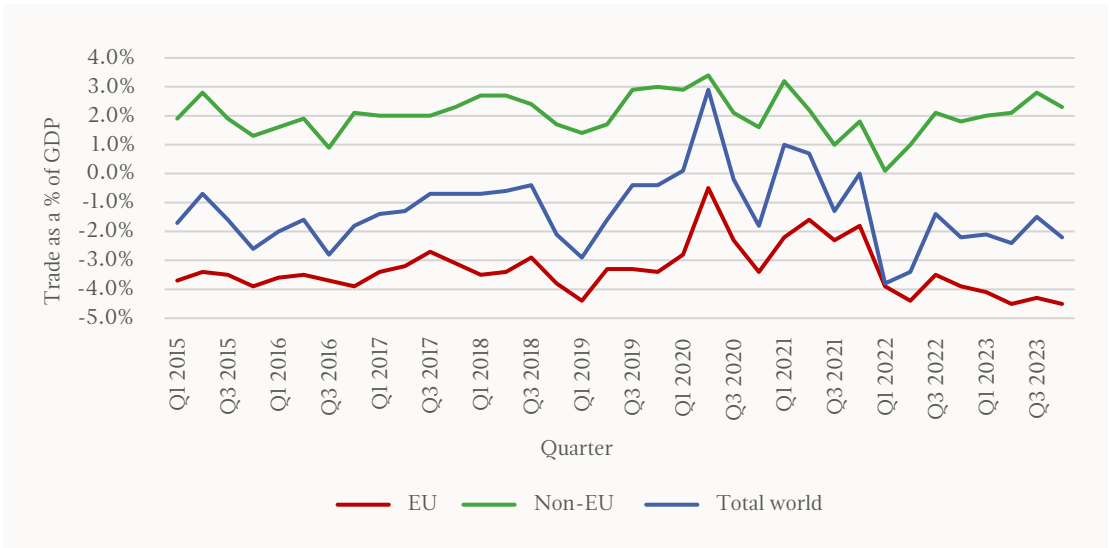
Persistent trade deficits in goods, exceeding trade surplus in services, have maintained a consistent balance of trade (BoT) deficit from the UK to the EU. In the years following TCA commencement, the UK's trade deficit with the EU continued to grow. The trade surplus in services has continued to decline²⁷, especially since 2022, while the trade deficit in goods has grown. This suggests that British businesses in both goods and services are pivoting beyond the EU, due to the higher costs of doing business with partners in the bloc. Nonetheless, the EU bloc remains Britain's largest trading partner while the USA remains Britain's largest single-country trading partner.

Figure 2.3: UK trade balance with the EU (£ billion, seasonally adjusted)



Source: ONS (2025)

Figure 2.4: UK trade balances comparing the EU and Non-EU



Source: ONS (2025)

| 27 While the volume of services trade increases (as shown in Figure 2.5), this growth has been at a declining rate.

While the UK has maintained a negative trade balance with the EU since the referendum (except for the period during COVID-19²⁸), it has sustained a positive trade balance with the rest of the world, as Figure 2.4 shows. This shows the balanced nature of trade which the UK enjoys with its non-EU partners, contrasting with the consistent deficit with the EU as shown in Figure 2.3. Surpluses in both goods and services with the rest of the world show trade as a net positive to GDP since the referendum, at just over 2%. This geographic reorientation away from the EU to the rest of the world manifested more prominently in goods trade than services, since proximity advantages and established commercial relationships meant the UK maintained its strong position as the leading services economy in Europe. This implies the need for a trade strategy that seeks to better diversify our economic partners beyond the EU. The effect of this would be to access faster-growing emerging markets, and boost the UK's long-term resilience thereby propelling our future economic growth.

Services trade and market access conditions

Prior to Brexit, the UK was integrated into the EU's Single Market for services, though this integration was less comprehensive than for goods. The UK's services sector had access across the EU through passporting rights, allowing British firms to trade and operate within the EU without separate authorisation. Even during EU membership, the Single Market for services faced substantial barriers due to regulatory differences amongst Member States, language barriers, non-mutual recognition of professional qualifications, and strict EU data protection laws.²⁹

Although the TCA provided a framework for continued trade between the UK and the EU, including in services, it does not replicate Single Market conditions. Notably, it does not provide for mutual recognition of professional qualifications on the same scale as EU membership, instead establishing a framework for professional bodies to negotiate recognition arrangements sector by sector. Despite the EU's directive mandating the mutual recognition of qualifications between Member States, significant barriers to trade remain, as shown below, especially in sectors such as legal services where cross-border trade within the Single Market lags far behind other services.

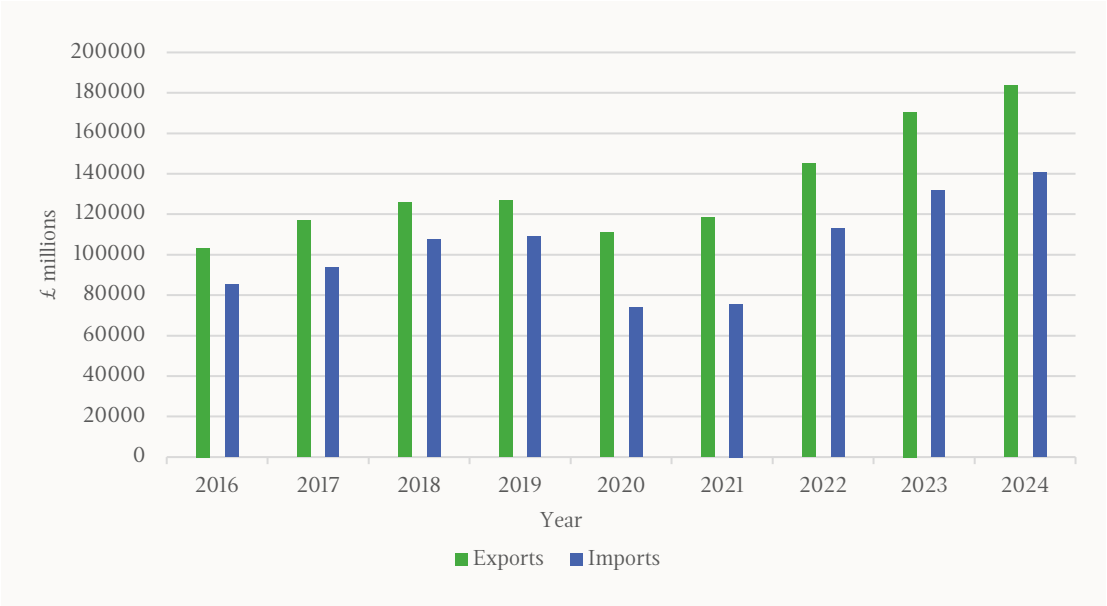
However, despite these barriers to services trade with the EU, UK services trade has outperformed the G7 average since 2021, growing by 10.3% in 2023 alone.³⁰ The impact of Brexit on services trade has been different to its effect on goods trade. Figure 2.5 below shows a sustained upward trajectory in exports of services from the UK to the EU, aside from the COVID-19 pandemic. Service imports from the EU also grew, but at a slower pace. While goods trade experienced immediate friction from new customs requirements, services adaptation has been more gradual and varied by sector.

28 At the start of COVID-19, disruption in services such as travel and transportation declined sharply due to lockdowns and travel restrictions. Services trade experienced a rebound as restrictions eased, reflecting pent-up demand.

29 Fredrik Erixon et al, "Trading Up: An EU Trade Policy for Better Market Access and Resilient Sourcing", Policy Brief No. 08/2024, *European Centre for International Political Economy*, May 2024. ([link](#))

30 Joël Reland, "Agreement on Mutual Recognition of Professional Qualifications (MRPQs)", *UK in a Changing Europe*, 16 September 2024. ([link](#))

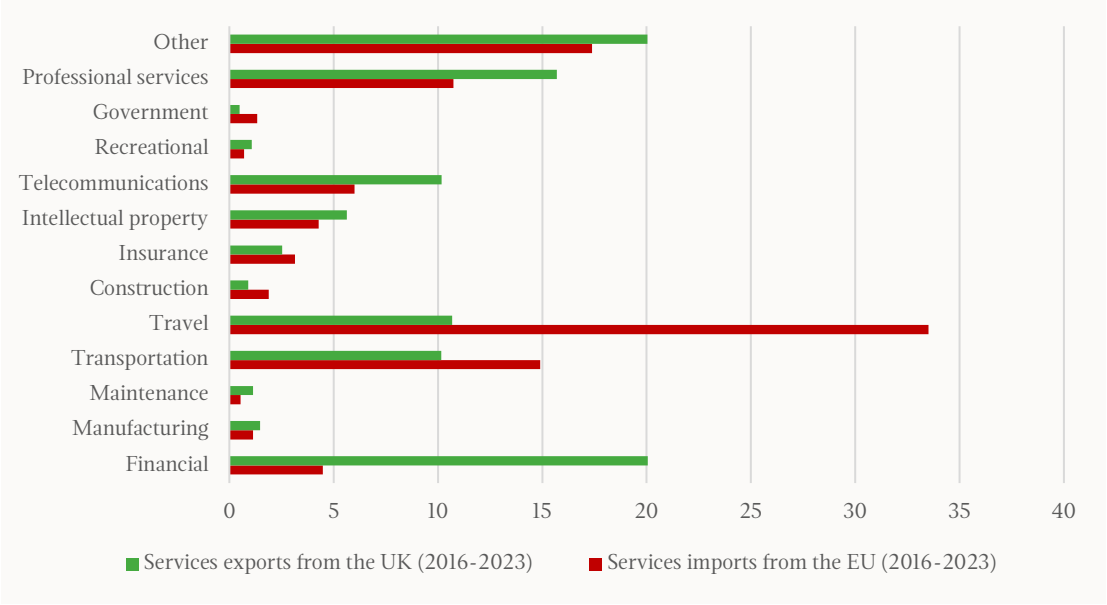
Figure 2.5: UK-EU services trade: export and imports



Source: ONS (2025)

As Figure 2.6 below shows, the UK maintains a healthy surplus in services trade with the EU, and quantities of trade in both directions have climbed steadily since Brexit. However, there has been variation between sectors.

Figure 2.6: UK-EU Services Trade (2015-2023)



Source: ONS (2025)

In British services trade, professional services, financial services, transport and telecommunications are major exports. Despite the loss of passporting rights, financial services still maintain their competitive position. Professional services growth reflects the sector's adaptability to the post-Brexit environment through establishing EU subsidiaries and leveraging international professional qualifications recognition agreements. The sustained growth in the telecommunications sector is partly supported by the TCA digital trade provision, which allows it to satisfy increasing demand for digital services in the EU. Services imports from the EU are dominated by travel (mainly trips

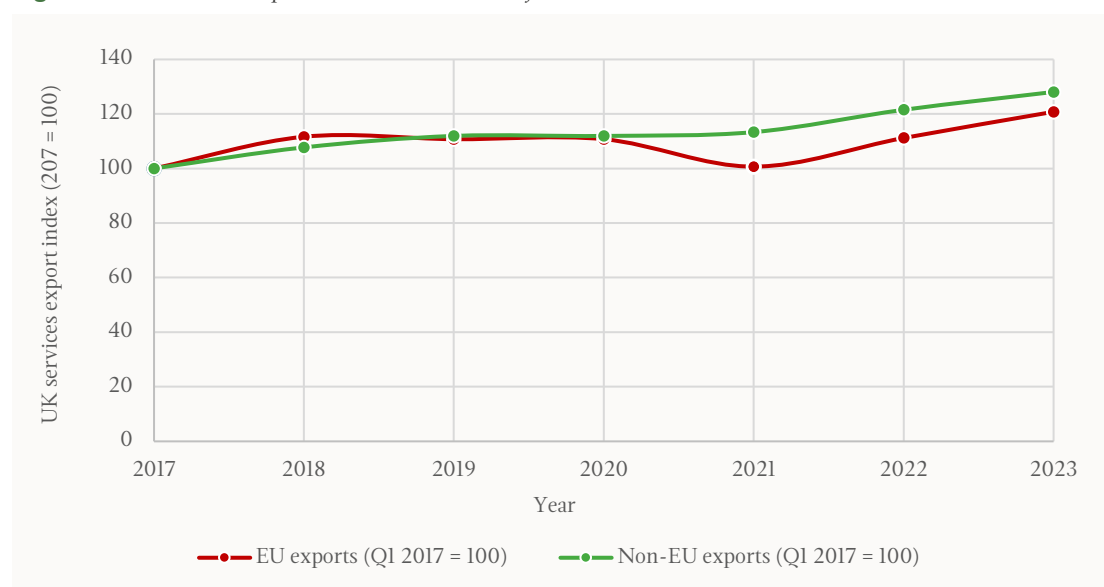
for business, educational, and health purposes), transportation, and professional services.

The emerging pattern suggests a services trade relationship that demonstrates dynamism and adaptation. Growth sectors are increasingly characterised by high-value, knowledge-intensive services where regulatory alignment is less critical than professional expertise and technological capability. This includes sectors such as digital services, financial services, and engineering—sectors which can strengthen our global networks amid changing trade relationships, and in which regulatory harmonisation would not be especially helpful. This evolution indicates a shift toward services trade based more on comparative advantage in specific areas rather than the previous model of broad-based market access. **Thus the UK can benefit from proximity to the EU, while expanding its reach to the wider global marketplace. In this context, the absence of an agreement on the mutual recognition of qualifications, for example, is not likely to be material to overall trade.**

Looking ahead, the services trade relationship continues to evolve. The focus has shifted from single market access to developing sector-specific arrangements and exploring new opportunities in emerging service areas.

The experience since Brexit suggests that factors such as language, expertise, and technological capability play crucial roles in determining trade patterns. This explains the growing prevalence of services trade with non-EU countries, which has surpassed service trade with the EU since 2021, as Figure 2.7 below shows.

Figure 2.7: UK service exports to the EU and rest of the world



Source: ONS (2025)

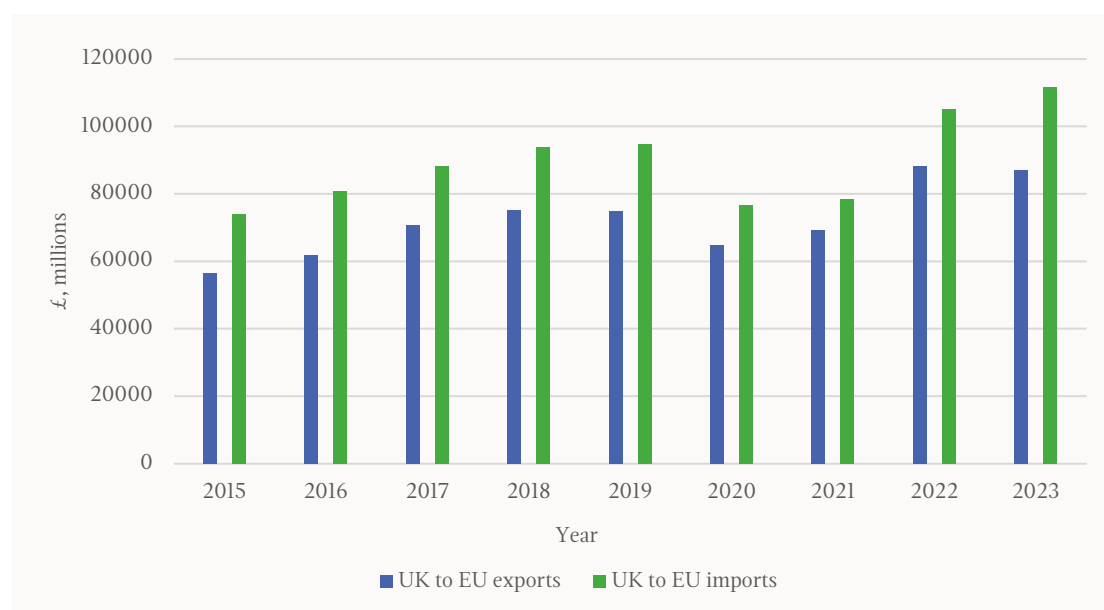
Goods trade

While the UK has maintained a services trade surplus with the EU, particularly in financial and professional services, it has simultaneously recorded a substantial goods trade deficit. The goods deficit, primarily in sectors such as automobiles, machinery, and consumer products, highlighted the integration of European supply chains, while the services surplus demonstrated British

competitive advantages in high-value sectors like banking, insurance, and consulting.

In 2015-2016, trade patterns remained relatively stable, with the UK maintaining a goods trade deficit with the EU. The UK specialised more in services while importing manufactured goods from EU nations, highlighting various comparative advantages. The 2016 Brexit referendum was a turning point, leading to immediate currency depreciation, which partly contributed to an £8.8bn increase in exports to the EU as observed in Figure 2.8 below.

Figure 2.8: UK-EU goods trade



Source: ONS (2025)

The period between 2017 and 2019 saw relatively stable trade volumes despite the uncertainty of the Brexit negotiations, and the potential for stockpiling in anticipation of various outcomes. The COVID-19 pandemic complicated the picture during 2020-2022, making it hard to isolate Brexit effects from pandemic-induced supply chain disruptions.

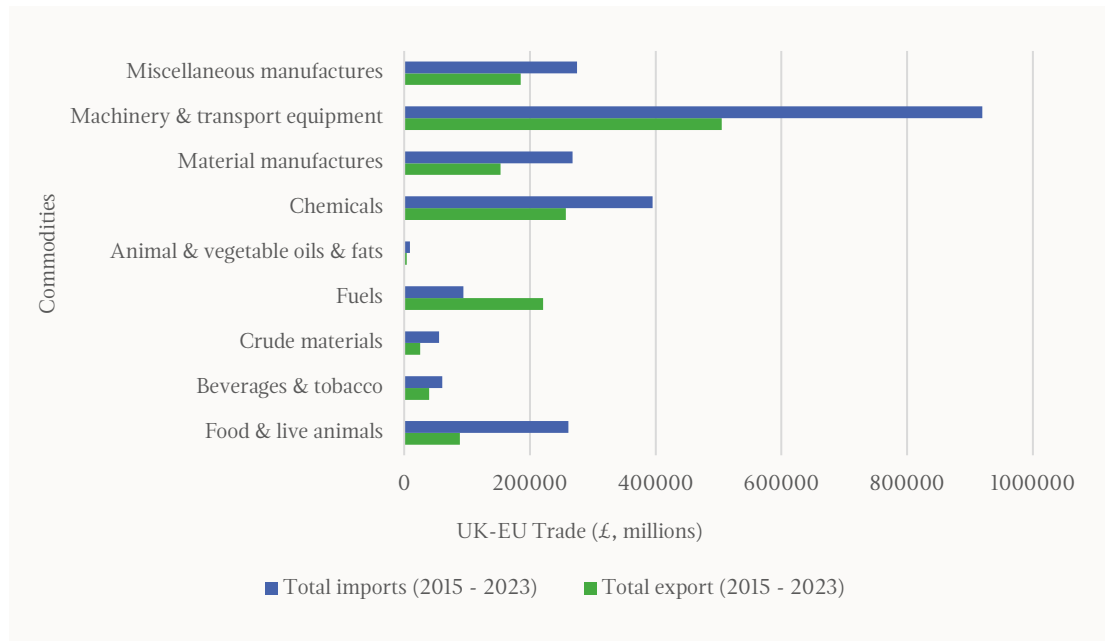
By 2023, trade patterns showed signs of adaptation to the new regime, though volumes remained below pre-Brexit trends. This gradual adjustment process reflects change in international trade, where temporary shocks can have lasting effects on trade patterns due to the sunk costs involved in establishing new trading relationships and supply chains.

Figure 2.9 below shows the value of UK-EU trade in different commodities between 2015–2023. Overall, the UK imports more commodities than it exports. This includes the UK's largest exported commodity group, machinery and transport equipment.³¹ The only commodity type where the UK exports more to the EU than it receives in imports is fuels³², owing to the UK taking advantage of strategic EU energy dependencies and an historically strong petrochemicals industry.³³

³¹ Commodities in this group include electric motors, mechanical power generators, specialised machinery, metal working machinery, general and office machinery, telecoms and sound equipment, and vehicles (road, ship, aircraft, rail).

³² This commodity type encompasses fuels such as coal, coke and briquettes, oil and gas, and electricity.

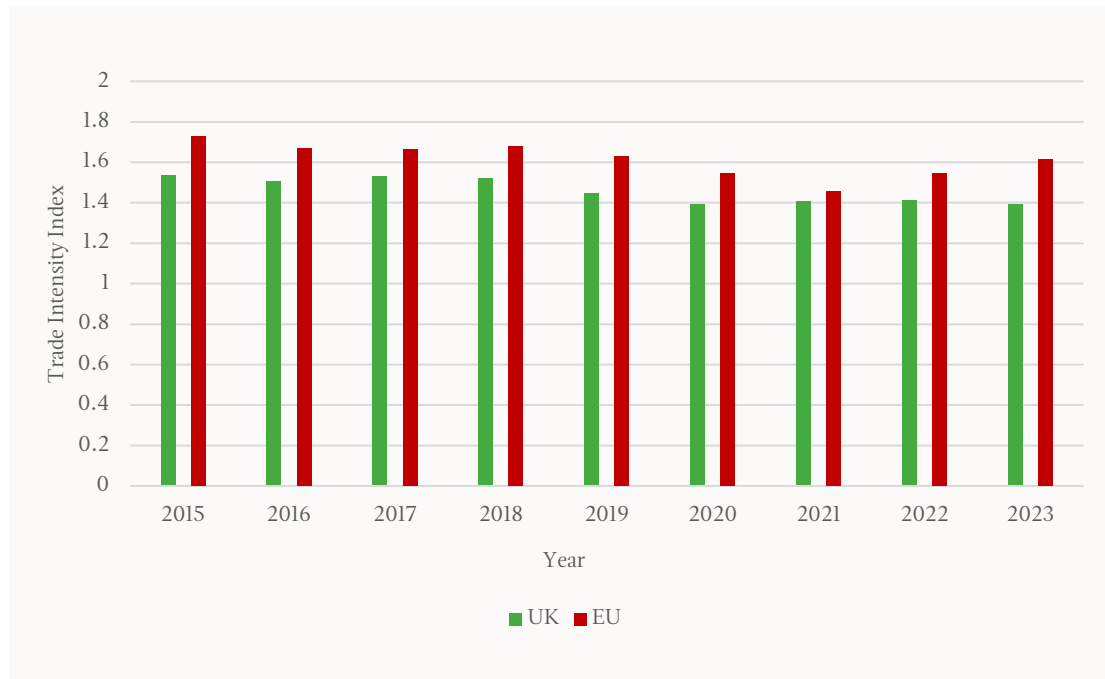
³³ The advancement of North Sea oil and gas production in the late 1990s was critical to the UK's growth in energy production, thus establishing critical infrastructure (e.g. pipelines and port facilities) which facilitates trade flows. In addition, several EU countries have limited domestic energy production, relying on imports instead.

Figure 2.9: UK-EU goods trade

Source: ONS (2025)

Trade intensity between the UK and EU

So, is trade between the UK and EU better or worse than expected based on their relative importance to world trade? Figure 2.10 below shows changes in The Trade Intensity Index (TII) between the UK and EU in the period since the referendum.

Figure 2.10: Comparing trade intensity (UK vs EU)

Source: ONS (2025)

Box 1: What is a Trade Intensity Index?

Trade Intensity Index (TII) measures the strength of trade relationships between countries. It compares the share of one country's exports to a partner country with the partner's share of global imports. A TII value greater than 1 indicates a stronger trade relationship than expected based on the partner's importance in world trade. In the context of Brexit, the TII helps understand the UK's evolving trade relationships with the EU and non-EU countries. The trade intensity analysis reveals the challenges and opportunities in the UK's post-Brexit trade landscape. It highlights the strength of trade with the EU despite barriers imposed following Brexit, while also showing the potential for growth in trade relationships with non-EU partners.

Between 2016 and 2023, the UK and EU maintained higher than expected trade given their respective shares in global trade. For instance, in 2015, UK-EU TII was 1.5, indicating that trade between both parties was 50% higher than expected given their share of global trade. The period 2017-2019 saw relatively stable trade intensity, though at slightly reduced levels compared to 2015-2016. This stability masked significant underlying preparation by firms for potential changes in trading conditions. The formal trigger of Article 50 and subsequent negotiations created an environment of strategic trade relationship reassessment by businesses and governments. Subsequently, the COVID-19 pandemic between 2020-2021 caused severe shocks to UK-EU trade and corresponding trade intensity measures. It was in this uncertain environment that the TCA was enacted, formally starting the post-Brexit trade relationship.

Post-TCA implementation, 2021-2023 data revealed a structural shift in trade intensity. New non-tariff barriers (NTBs), regulatory requirements, and customs procedures reduced the natural trading bias between the UK and EU. TIIs showed a marked decline compared to pre-2016 levels. By 2023, trade intensity stabilised at a new equilibrium, approximately 20-30% below 2015 levels, reflecting both policy-induced friction and strategic adaptation by businesses. However, geographic proximity and historic ties maintained above-average trade intensity compared to other trading partners.

Goods trade complementarity between the UK and EU

Trade complementarity between the UK and EU during 2015-2023 reveals a web of mutual dependencies and evolving comparative advantages. The analysis can be structured through several key dimensions of complementarity. Figure 2.11 below shows a very strong trade complementarity between both jurisdictions, owing to their long-standing trade relationship.

Figure 2.11: UK-EU goods TCI by year

Source: ONS (2025)

Box 2: What is a Trade Complementarity Index?

The Trade Complementarity Index (TCI) quantifies how well a country's export profile aligns with a partner's import demand. Post-Brexit, the UK's TCI with the EU likely reflects historical alignment in sectors like automotive goods, pharmaceuticals, and financial services. While the UK and EU retain structural complementarity in intermediate and capital goods, non-tariff barriers (e.g. customs checks, regulatory divergence) have partially reduced practical alignment. A declining TCI could signal decoupling, particularly in consumer goods, where UK-EU trade fell sharply. Policymakers can use TCI trends to identify sectors for targeted regulatory cooperation or diversification.

The political uncertainty and economic shocks of the period between the referendum and the pandemic created a pessimistic outlook among traders. These concerns were relieved by the introduction of the TCA which allows for no tariffs in most goods and open goods trade between both jurisdictions.

The implementation of the TCA in 2021 affected complementarity patterns in sectors of strategic importance to the British economy, facing complex rules of origin requirements (such as chemicals, dairy products, automobile and alcoholic beverages). However, the fundamental complementarities remained strong, evidenced by the persistence of trade flows despite increased transaction costs. Technological complementarity became increasingly important during this period, with the UK's strength in research and development complementing EU manufacturing in emerging sectors such as electric vehicles and new energy technologies.³⁴ This technological interdependence suggests that trade complementarity extends beyond traditional factor endowments to include knowledge-based assets.

³⁴ Zach Meyers and John Springford, *UK Science and Technology after Brexit: How to fix it*, Centre for European Reform, November 2022. ([link](#))

Looking ahead, the trade complementarity patterns suggest continued mutual benefits from trade, despite increased friction costs especially in goods trade. The persistence of trade complementarity between the UK and the EU helps explain why, with changes introduced via the TCA, substantial trade volumes have been sustained, and even reached higher levels post-Brexit.

Therefore, a Reset which focuses on regulatory realignment with the EU appears to be of little value for the UK's economic growth. Policymakers would be better looking to domestic economic reform for increased economic growth, or trading opportunities beyond the EU.

The EU: a declining market?

Whilst it is welcome that UK-EU trade has remained strong, we must reckon with an emerging reality: the EU is becoming a weaker market on the world stage. Despite steady growth forecasts (and even these are modest), the EU faces systemic challenges including stagnating productivity, industrial fragmentation, and slowing innovation compared to rapid advances in the US and China. This erosion of economic weight and geopolitical clout means the EU is no longer the dominant global market force it once was. This raises strategic questions for the UK on where to focus trade and regulatory ambitions in an increasingly multipolar world.

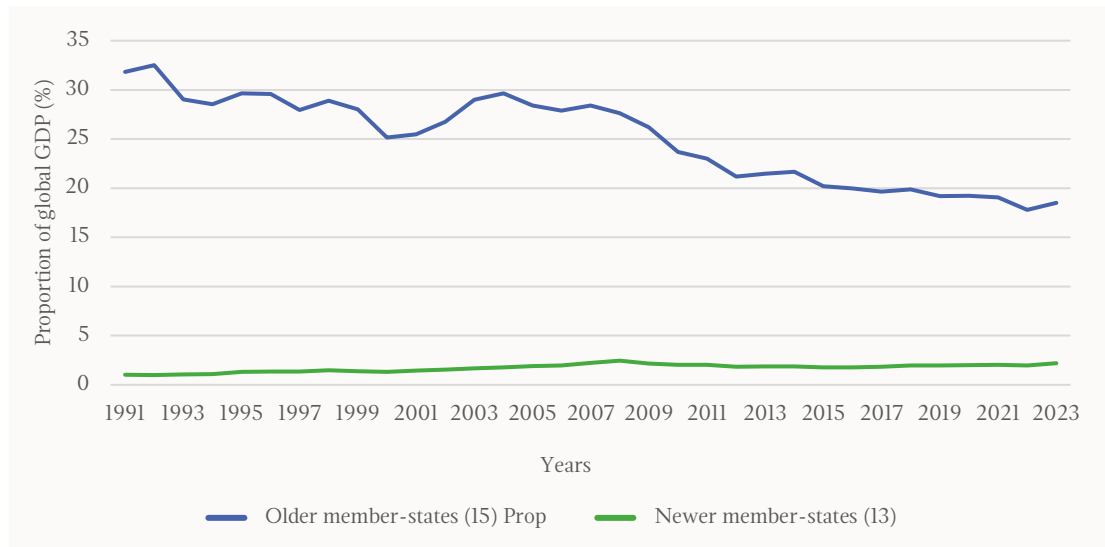
This economic decline reflects many structural, long-term challenges facing the EU, ranging from regulation and taxation to demography.³⁵ The latest growth forecast from the International Monetary Fund (IMF), published in April 2025 (see Appendix 4), projects growth rates for both the Euro area and the EU to be modest compared to pre-pandemic averages, lagging the UK, US, and several emerging economies. Country divergence continues to affect broad economic growth, with larger economies such as Germany expected to grow more slowly due to industrial challenges, as opposed to economies in Central Europe (as shown in Appendix 4).

The 2024 Draghi Report on EU competitiveness cites lagging innovation (due to the “middle technology trap” of investing in mature technology that is not cutting edge), regulatory burdens stifling entrepreneurship, and underinvestment that requires €800bn to remedy.³⁶ As shown in Figure 2.12, between 1991 and today, the EU's share of the global economy has declined from over 30 percent to just 16.5 percent.³⁷ This report reveals a historic trend of economic decline.

| 35 European Central Bank, “Financial Stability Review: May 2025”, 21 May 2025. ([link](#))

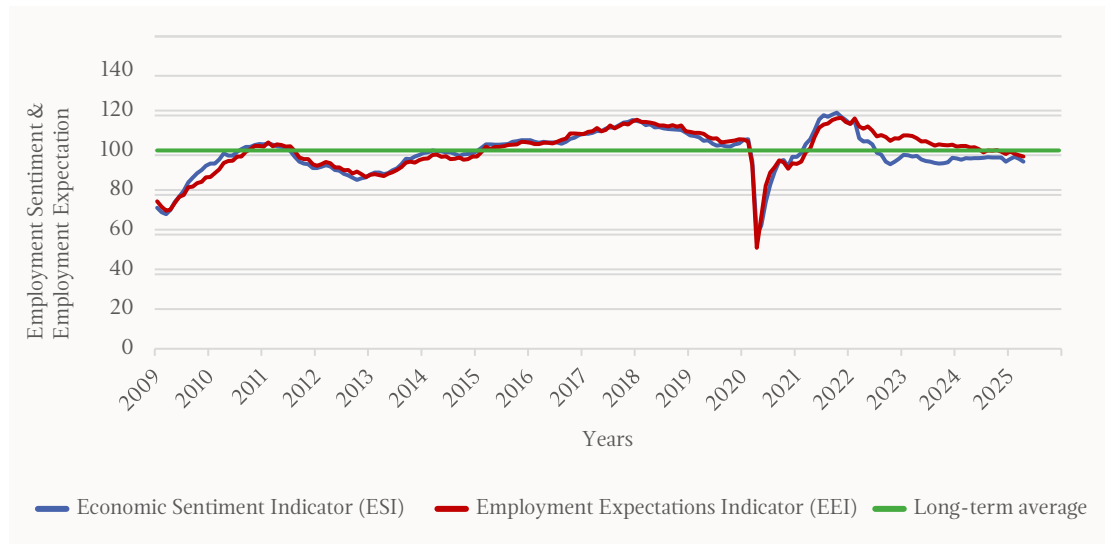
| 36 Mario Draghi, *The Future of European Competitiveness: Part A | A Competitive Strategy for Europe*, European Commission, September 2024. ([link](#))

| 37 Aslak Berg, *Europe and the Global Economic Order*, Centre for European Reform, policy brief, 22 January 2025. ([link](#))

Figure 2.12: *The EU share of global GDP*

Source: World Bank; Centre for European Reform (2024)

The overall economic picture for the EU is poor. European consumer and business confidence are both declining, according to European Commission data from April 2025.³⁸ Confidence is lowest among Europe's two largest economies, France and Germany, and three quarters of Europeans reported lower spending and taking active decisions to buy less and use lower-priced retailers.³⁹ General economic sentiment across businesses has remained below the long-term average since 2022, as shown in Figure 2.13.

Figure 2.13: *EU economic sentiment and employment expectations (seasonally adjusted)*

Source: European Commission Services (2025)⁴⁰

38 European Commission, "Latest Business and Consumer Surveys", April 2025. ([link](#))

39 McKinsey & Company, "An update on European consumer sentiment", March 2025. ([link](#))

40 Figure 2.13 shows yearly indicators of perceptions about the economy (economic sentiment) and expectations people have about employment prospects (employment expectations).

Given that the EU remains the UK's largest trading partner and shares some structural challenges with the UK, a contagion effect on the UK economy emanates. Thus, while UK-EU trade intensity has remained reasonably strong in this period, there are warning signs that this is beginning to wane. One of the reasons is the so-called 'Brussels effect', whereby the EU uses its market size to regulate the global economy. As noted by Aslak Berg:

[T]he Brussels effect emerged through EU standards which evolved [...] with the close involvement of foreign companies, for example in standard setting organisations – with the main aim of sensibly regulating the European market. EU regulations became globally influential mostly as a side-effect, often market-driven, as companies found it easier to comply with one set of rules, and at other times because governments found it easier to copy EU regulations rather than developing their own set.⁴¹

However, this began to change when the EU decided to "actively" apply the Brussels effect and attempt to bend the global economy to its image. The Centre for European Reform cites the Carbon Border Adjustment Mechanism (CBAM) and the Corporate Sustainability Reporting Directive (CSRD) as two examples of this, and one can also add in GDPR and the more recent EU regulations of product safety and recyclable packaging.⁴² This is aimed at asserting EU regulations to shape other markets according to its norms. For Britain, aligning with an increasingly protectionist EU places it at risk of being locked into costly compliance burdens that reduce competitiveness as the EU's economic prominence continues to decline.

These regulations function essentially as non-tariff barriers to trade, and in 2025, the American Chambers of Commerce wrote to the EU requesting that the implementation of the CSRD be paused and delayed, because of the difficulties facing American businesses trying to serve European customers in compliance with this directive.⁴³ Similar problems have been reported in the UK in response to the introduction of the EU's General Product Safety Regulations (GPSR) in 2024, which demand all businesses appoint dedicated safety liaison officers to oversee the safety of the products in their supply chain, with huge costs for compliance and fines for non-compliance.⁴⁴ Many British businesses have decided to stop selling to EU customers altogether in response⁴⁵, citing the difficulty of complying with these rules.⁴⁶

Summary

Since Brexit, UK-EU trade in goods and services has shown an overall increase, despite the challenges posed by the COVID-19 pandemic and the war in Ukraine. Initially, the introduction of new customs processes created temporary obstacles for trade in goods. However, trade has since recovered, demonstrating resilience and adaptability. British services exports have shown

41 Berg, *Europe and the Global Economic Order*, 6.

42 Zach Meyers, "If the 'Brussels effect' fades in tech markets, the EU will only have itself to blame", *Centre for European Reform*, 3 January 2025. ([link](#))

43 Frances Schwartzkopf, "US companies say ESG rules are a serious barrier to EU trade", *Bloomberg*, 10 February 2025. ([link](#))

44 Rosanna Parrish, "GPSR – How does it affect your small business?", *Simply Business*, 3 December 2024. ([link](#))

45 Emma Wilkes, "This is going to hurt us: multiple boutique guitar brands stop selling in the EU over new GPSR import rules", *Guitar.com*, 12 December 2024. ([link](#))

46 Kit Heren, "It's a mess: Small businesses hit out at EU red tape set to cost thousands, and say 'government has been no help'", *LBC*, 23 November 2024. ([link](#))

strength and an ability to adapt to new sectoral trends. However, despite the overall increase in trade with the EU since Brexit, the EU has been a gradually declining trade partner for the UK since the early 2010s. This decline reflects the EU's decreasing economic strength and buying power.

The consequences of the EU's declining economic clout are significant for UK-EU economic relations. The UK, having left the EU, is no longer bound by its regulatory framework or subject to its common policies, which could offer certain advantages in a changing global environment.

Despite the well-established trade complementarity between the UK and the EU, the EU's declining global market share and pursuit of costly regulatory policies means that it is becoming a less attractive trade partner than before. Declining consumer buying power in Europe and non-tariff barriers (such as the above regulations) will contribute to the British economy's long-term drift away from the EU market. Further alignment with the EU at the expense of potential growth prospects with more dynamic trading blocs, such as the CPTPP, exposes Britain to negative contagion effects as EU economic strength continues to wane.

3. Sectoral analysis of divergence and realignment



Main points

- *Since leaving the EU, the British economy has benefited from regulatory divergence in sectors such as financial services and the digital economy.*
- *The problems facing the British economy largely derive from domestic policy, such as energy costs, taxation, immigration, and regulation, rather than trade frictions with the EU.*
- *Realignment with the EU would do more harm than good to the vast bulk of the British economy.*

This chapter provides an examination of potential future economic outcomes across the following sectors of the economy:

1. Manufacturing and chemicals
2. Food and agriculture
3. Financial services
4. Law

In this chapter, we define what regulatory realignment would imply in each of these sectors. Using data on trade flows, investment patterns, and sector changes, we explain the trajectory these sectors have taken since the TCA was enacted and the implications that realignment would have on regulatory autonomy and economic prosperity.

These sectors have been selected due to their significance to the British economy and their role in the continued debate over the UK's realignment with the EU, both within the confines of the Reset and in wider policy. This includes the potential for regulatory alignment with EU agrifood and product standards, as well as attempts to negotiate a Mutual Recognition Agreement (MRA) for professional services.

Overall trade between the UK and EU has continued to grow since Brexit. Notwithstanding concerns about market access restrictions, certain sectors like legal services have shown strong growth in exports to the EU since 2015. This challenges conventional narratives about the Single Market's effectiveness in facilitating services trade, as evidence suggests that significant barriers existed even during UK membership, particularly in highly regulated professional services.

Considerations for potential EU regulatory realignment

The British Government has pledged to realign its regulations with those of the EU in various

sectors. This means that it intends British laws and regulations to mirror the regulations in the EU in the hope that the EU will reduce any frictions it currently imposes on UK-EU trade.

Importantly, this is not a one-off, it is **dynamic alignment**. This means that if the EU changes any relevant regulations, **the UK *must* change its rules to match the EU's**.

As of the May 2025 summit, the areas expected to be affected by dynamic alignment in the Reset document are:

- food, plants, and agriculture via the SPS rules
- carbon prices via the ETS

Beyond the Reset document, other areas are also up for negotiation, including:

- Product standards, via the Product Regulation and Metrology Act

As well as alignment, the Government is also expected to explore a MRA on professional services, which it hopes to use to increase British services exports to the EU. This was not confirmed at the May summit and is expected to need further negotiation.

While the Government intends to keep regulatory alignment within the general remit of trade in goods, food, and agriculture, the EU has a track record of attempting to enact a ratchet effect to force greater alignment. In March 2025, for example, the European Commission proposed that Northern Ireland be subject to parts of the EU's Artificial Intelligence Act (2024) via the Windsor Framework, despite the Framework being ostensibly agreed to maintain Northern Ireland's alignment with the EU on goods regulations only, not services or digital technology.⁴⁷ **The British Government should therefore be wary of any possible encroachments by the EU, particularly when it comes to the UK's services economy.**

Before the 2024 General Election, the Labour Party committed "to reset the relationship and seek to deepen ties with our European friends" in its election manifesto.⁴⁸ This pledge is based on a flawed premise that the British economy will benefit from closer ties with the EU. **In most respects, the economic gains of greater alignment with the EU are likely illusory, and the loss of regulatory autonomy too great a trade-off.**

Realignment also poses a threat to wider British trade policy. Since leaving the EU, the UK has signed and renewed trade agreements with 70 other countries, a serious diplomatic feat. This includes securing membership of CPTPP, a trade group of some of the world's most dynamic economies. Dynamic alignment with the EU may present scenarios in which EU regulations clash with CPTPP market access rules and regulatory standards. The area of data protection is a likely instance where strict EU regulatory requirements may impede on the UK's ability to comply with CPTPP mandated cross-border data flows and digital trade provisions, or the CPTPP's evidence-based approach to mutual recognition of food standards between members, for example. **This would have economic as well as diplomatic consequences for the UK, as members of the**

⁴⁷ European Commission, "Proposal for a COUNCIL DECISION establishing the position to be taken on behalf of the European Union in the Joint Committee established by the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community as regards the adoption of a decision adding a newly adopted Union act to Annex 2 to the Windsor Framework", COM(2025) 118, 24 March 2025. ([link](#))

⁴⁸ Labour Party, *Change: Labour Party Manifesto 2024*, 117. ([link](#))

CPTPP agreement may have reason to believe the UK's return to the EU's regulatory orbit violates the terms of the trade agreement.⁴⁹

The implications of realignment for different sectors are explored below.

Industry deep dives

Manufacturing product standards, chemicals, and energy

Although British manufacturing remains strong, domestic policy poses a greater challenge to innovation than EU trade access.

Despite a £27bn decline in EU exports in 2022⁵⁰, the industry has partially offset losses by diversifying into Indo-Pacific and North American markets, supported by initiatives such as the UK-Japan Economic 2+2 partnership and accession to the CPTPP, which aim to deepen collaboration in advanced manufacturing, AI, and energy. This diversification has reduced reliance on European markets, while opening access to fast-expanding economies elsewhere. However, the transition remains uneven: while sectors like automotive and aerospace have attracted international investment (shown by the Global Combat Air Programme (GCAP) creating 3,500 UK jobs⁵¹), small and medium-sized enterprises (SMEs) still grapple with dual compliance costs.

Strategic supply chain restructuring has been critical to mitigating Brexit-related friction. Many firms have adopted nearshoring and digital technologies under programmes like Made Smarter⁵², reducing dependency on EU suppliers. Companies have enhanced investments in workforce development programmes such as in apprenticeships and upskilling programmes to address labour shortages and align with emerging demands in automation. This has led to increased value-added per worker by approximately £11,200 (from £76,080 to £87,300) between 2018 and 2023 with a workforce of 2.6m people.⁵³ Despite an annual growth rate of approximately 2.8 percent, value-added per worker in the sector has failed to outpace Consumer Price Index (CPI) inflation (at approximately 3.5 percent) or wage inflation (at approximately 4 percent) in the same period. This reflects labour costs exceeding value-added per worker, thereby creating an upward pressure on prices.

While Brexit has catalysed opportunities for regulatory differentiation and non-EU trade, the sector's long-term success hinges on resolving structural challenges domestically. These include maximising CPTPP integration, cutting the costs of industrial energy, scaling SME access to global markets, and maintaining investment in research and development (R&D) amid inflationary pressures. These are possible within the broad confines of the TCA yet would be undermined by

49 For instance, the CPTPP Agreement requires members to ensure their regulations do not create unnecessary barriers to trade and to provide transparency in rulemaking. This is exemplified in its Regulatory Coherence and Transparency commitment, which aims to ensure clarity, consistency and accessibility are at the core of regulatory practice. Closer alignment with opaque or restrictive EU regulatory processes could be seen as non-compliant (Department for Business and Trade, *Advanced Manufacturing Plan*).

50 Rebecca Freeman et al, *Deep integration and trade: UK firms in the wake of Brexit*, Centre for Economic Performance, Discussion Paper No. 2066, December 2024. ([link](#))

51 Defence Committee, *The Global Combat Air Programme: Government Response*, Second Special Report of Session 2024–25, 14 March 2025, HC 799. ([link](#))

52 97% of firms that adopted this programme reported benefits such as reduced costs and enhanced efficiency. See Jennifer Castañeda-Navarrete and David Leal-Ayala, *Made Smarter Adoption Research Project*, Department for Business and Trade, February 2023. ([link](#))

53 Manufacturing Technologies Association, "UK manufacturing workers lead the world in productivity gains over the last five years", 18 February 2025. ([link](#))

dynamic alignment.

How would EU industrial policy conflict with British manufacturing priorities?

The EU has taken a state-led environmentalist approach to its industrial policy over the last decade, and this has accelerated since Brexit. This approach could be detrimental to the UK if we pursue realignment with the EU.

The web of burdensome regulations and rising energy costs associated with Net Zero appear to be hindering productivity.⁵⁴ The EU's Carbon Border Adjustment Mechanism (CBAM), operational since October 2023, imposes reporting requirements on carbon-intensive imports (e.g. steel, cement, aluminium) and will levy costs on embedded emissions from 2026.⁵⁵ This creates dual-compliance issues for British exporters who must navigate the UK Emissions Trading Scheme (UK ETS) while preparing for potential CBAM-related tariffs. The UK's planned UK-CBAM expected to take effect in 2027 mirrors the EU's scope but excludes electricity.⁵⁶

The same is true for corporate sustainability reporting, which is yet another area of substantial divergence. The European Union's CSRD requires that the organisation's overall environmental impact be reported in detail, with specific details required to be disclosed about the environmental impact not just of their own direct operations but the whole of their supply chain. For instance, a British manufacturer exporting textiles to the EU must quantify Scope 3 emissions⁵⁷, map supply-chain risks, and conduct life-cycle assessments (LCAs). British manufacturers with operations within Europe will have to comply with these requirements whilst also following the less extensive UK Sustainability Disclosure Requirements (SDR) for those operations domestically. The EU's scheme essentially functions as a NTB to trade and has been criticised for its cost and stringency. A letter sent by the United States' House of Representatives Committee on Financial Services to US Treasury Secretary Scott Bessent and National Economic Council Director Kevin Hassett voiced their concerns on the CSRD⁵⁸, as did a letter to President Trump by treasurers and financial officials from nineteen different states, stating that "the EU's sustainability directives are so overreaching and undermine key American interests, including energy dominance and economic stability."⁵⁹ Realignment with the EU's regime would, however, impose higher costs of compliance onto the entirety of the British economy, and all businesses, whether they traded with the EU or not.

Product regulations and standards: non-tariff barriers to trade

EU regulations such as the Ecodesign for Sustainable Products Regulations (ESPR⁶⁰) and Circular

54 The British steel industry is an example of an area that has suffered from the effects of high energy costs and the need to meet net-zero targets which has put domestic producers at a disadvantage in comparison to international competitors. In April 2025 HM Government intervened to take control of British Steel in a last-ditch attempt to save the industry from total collapse See Department for Business and Trade, "Government acts to save British steel production", press release, 12 April 2025 ([link](#)).

55 European Commission, "Carbon Border Adjustment Mechanism", 17 October 2023. ([link](#))

56 HM Treasury, "Factsheet: Carbon border adjustment mechanism", guidance, 24 April 2025. ([link](#))

57 The National Grid defines Scope 3 emissions as: "emissions that are not produced by the company itself and are not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain." See National Grid, "Scope 1, 2, and 3 emissions", accessed 16 September 2025. ([link](#))

58 United States House of Representatives Committee on Financial Services, "Letter to Scott Bessent and Kevin Hassett", February 26 2025. ([link](#))

59 State Financial Officers Foundation, "Letter RE: The European Union's Corporate Sustainability Directive", 24 February 2025. ([link](#))

60 Since 2024, the ESPR has replaced the Ecodesign Directive, imposing broader sustainability criteria across various product types such as textiles, construction and electronics. These requirements include digital product passports to track materials for environmental impact and consumer information rules which require transparency on energy efficiency and recycling. See Ziva Buzeti and Tian Daphne, "A guide to the Ecodesign for Sustainable Products Regulation (ESPR)", *Circularise*, 1 October 2024. ([link](#))

Economy Action Plan (CEAP), impose de facto NTBs for UK exporters due to their stringent sustainability requirements on products. Adapting to these regulations, the British Government has sought more alignment with the EU on product standards. For instance, the UK—initially intending to replace the Conformité Européenne (CE) marking with the UK Conformity Assessed (UKCA) marking system—has stalled, choosing to indefinitely recognise EU standards for most goods. This was laid in legislation in the Products Safety and Metrology Act 2025, where businesses would have the flexibility to use either UKCA or the EU's CE-marking system to sell goods in the UK. Although this may reduce short-term costs, opportunities to leverage on regulatory autonomy for innovation are limited as a result.

The above gaps and divergence in regulation and policy have strategic implications for manufacturers operating across both market jurisdictions.⁶¹ The Product Regulation and Metrology Act 2025 provides ministers with broad powers to realign the UK with the EU's product standards regulations, thereby bringing British businesses into the remit of rules and regulations over which they have no democratic accountability. **This also provides powers, and a potential precedent, for aligning with the EU's chemical regulation regime.**

Energy and Net Zero

The Government's announcement that it will align with the EU's energy policy is one of the most significant parts of the Reset. Although the UK has remained physically connected to European energy markets through interconnectors, it has operated a divergent energy market policy since leaving the EU. Using its regulatory autonomy powers, public bodies and initiatives such as the National Wealth Fund (NWF) and Great British Energy, the UK has been able to form its own market arrangements for grid management, electricity trading, and security of supply. This included implementing the UK ETS, which succeeded participation in the EU system. At time of writing, the UK ETS price is £42.06 compared to the EU's ETS worth £67.28.⁶² Aligning with the EU's higher carbon price would increase the cost of industrial carbon in the UK by around 50 percent. Advocates of pegging the UK's carbon pricing to the EU claim that the UK's lower carbon price means that the British Government has foregone nearly £3bn in lost tax revenues over the last two years.⁶³ This argument fails to recognise the higher cost British producers would face due to higher carbon prices, which could erode any competitive advantage the UK enjoys when exporting to the EU.

Aligning British carbon prices with the EU is therefore likely to lead to a significant spike in the immediate costs affecting British industry, which already grapples with the most expensive industrial energy costs in the developed world.⁶⁴ The EU is introducing a new and expanded ETS policy in 2027, called ETS2, which increases the scope of economic activity affected by carbon pricing to include buildings and road transport.⁶⁵ The logic of realignment suggests that the UK may not just follow the carbon price of EU ETS, but its future scope as well.

| 61 Or misplaced realignment, as is the case in Product Regulation and Metrology Act.

| 62 Carbon Credits, "Live Carbon Prices Today", accessed 16 September 2025. ([link](#))

| 63 Institute for Energy Economics and Financial Analysis, "Low UK carbon pricing causes £2.9 billion lost in revenues over two years", 6 March 2025. ([link](#))

| 64 Office for National Statistics, "The impact of higher energy costs on UK businesses: 2021 to 2024", 19 May 2025. ([link](#))

| 65 European Commission, "ETS2: buildings, road transport and additional sectors", accessed 16 September 2025. ([link](#))

The UK would be wise to take a more competitive and pro-innovation approach to industrial regulation, which would benefit domestic industries and consumers.

As demonstrated in Chapter 2, the UK has maintained a strong TII and TCI with the EU since Brexit. Further regulatory alignment with the EU is unnecessary. Instead, the future success of British manufacturing will depend on deregulatory initiatives that empower businesses to innovate and respond to market opportunities. In this context, it would be prudent for HM Government to resist the adoption of additional EU product regulations and standards, energy and Net Zero, and chemical regulations, which may otherwise impose unnecessary burdens on the British economy. By maintaining regulatory autonomy, the UK can better tailor its regulatory environment to support its domestic industrial base and promote a more innovative, resilient, and globally competitive manufacturing sector.

Food and agriculture

Since Brexit, there has been considerable divergence between the UK and EU in agricultural regulation. The Agriculture Act 2020 and the Environment Act 2021 changed farming regulation in England significantly, ending the EU's Common Agricultural Policy and implementing a new approach, characterised by the Environmental Land Management Scheme.

The UK is not a large exporter of food. However the sector has begun to diversify its export markets, despite facing domestic difficulties caused by the high cost of energy, natural gas, and fertiliser since 2022. However, many sectors have seen strong trade growth since Brexit, with British exports of beef to non-EU countries growing by 37 percent in 2024, sheep meat shipments to France and the Netherlands growing by 23 percent and 60 percent respectively, and pork exports to countries such as the USA, Philippines, and South Africa all performing well in the last two years.⁶⁶

Competitiveness effects of readopting EU food standards

If the UK were to realign with the EU on food and agricultural standards, it would lose the flexibility to recognise or negotiate around non-EU standards in trade agreements, making it much harder to strike favourable deals with major agricultural exporters like Australia, New Zealand, Canada, and the United States, whose standards differ from the EU's. The reduced flexibility in trade negotiations due to alignment with EU standards could place the UK with diminished leverage to secure favourable arrangements for British exporters, which could potentially result in less access to markets and higher barriers, particularly if alignment with the EU means that EU officials will undertake monitoring within the UK to ensure compliance with EU standards. If these regulatory constraints prevent the UK from meeting its trade commitments, affected partners may initiate arbitration or dispute proceedings, leading to possible legal or financial consequences.

This could result in less advantageous terms for British exporters or even trade disputes, while also necessitating the repeal of the Genetic Technology (Precision Breeding) Act 2023, which legalised gene editing in the UK. This may limit the innovation potential of the UK food industry. Existing UK frameworks have enabled much more rapid uptake of new technology and production techniques, including, for example, in relation to genetic modification and novel foods. A report by

| 66 Alistair Driver, "UK red meat exports grow, but pork shipments drop back", *Pig World*, 2 October 2024. ([link](#))

Farmonaut—an agricultural technology firm—projects a 60 percent uptake in adopting precision agricultural technologies such as satellite imagery, drones and Internet of Things (IoT) sensor networks.⁶⁷ These technologies could help farmers optimise inputs such as pesticides and fertilisers, thereby improving crop yield.

It is hard to see how the timing of a shift to realignment could be worse. Producers are already grappling with higher input costs, notably energy, short labour markets worldwide, and changing consumer preferences. The introduction of more regulatory change on top of these pressures will destabilise firms that have only recently adjusted to what have been, until now, post-Brexit requirements. These costs would likely be passed on to consumers, as producers raise prices to account for added compliance costs.

Financial services

The TCA provides the financial services sector the benefits of the 'Most Favoured Nation' (MFN) treatment, cybersecurity cooperation, and the free movement of capital, while excluding passporting rights that previously allowed UK financial corporations seamless service to EU clients.⁶⁸ In practice, the EU has maintained its established approach of providing financial services access on a sectoral basis via equivalence decisions. As of 2025, the only British equivalence decision still in force relates to UK Central Counterparties (CCPs), which has been extended until June 2028 to ensure short-term financial stability.⁶⁹

This limited and sector-specific recognition underscores that the access provided under the TCA to British financial services is comparatively thin, reflecting an ongoing EU strategy to build its own financial market infrastructure and reduce reliance on British firms. This has resulted in UK-based financial companies establishing subsidiaries in the EU to maintain access to the European market, leading to the emergence of parallel operational regimes, where many institutions preserving dual bases in London and EU financial centres perform the same tasks for clientele in both markets. In the years following the referendum, leading up to Britain's official exit from the EU, over 1,400 EU-based firms applied for permission to operate in the UK, while 300 British firms opened EU hubs to continue serving clientele in the bloc post-Brexit.⁷⁰

In response, the UK has actively pursued a strategy of regulatory divergence, seeking to tailor its financial services framework to enhance competitiveness and foster innovation. The passage of the Financial Services and Markets Act 2023 (FSMA) and the Edinburgh Reforms of 2022⁷¹ exemplify this, empowering British regulators to revoke retained EU law and implement reforms focused on growth, international competitiveness, and the development of emerging sectors such as fintech. This new mandate allows British authorities to adopt a more flexible, principles-based approach rooted in common law, in contrast to the EU's prescriptive and harmonising regulations.

| 67 Farmonaut, "Agriculture in the UK: 2025 Tech Trends & Sustainability", accessed 16 September 2025. ([link](#))

| 68 European Commission, "The EU-UK Trade and Cooperation Agreement", 30 April 2021, L 149/10. ([link](#))

| 69 European Commission, "Commission extends time-limited equivalence for UK central counterparties", 31 January 2025. ([link](#))

| 70 Sharon Kimathi, "A thousand EU financial firms plan to open UK offices after Brexit", *Fintech Futures*, 21 January 2020. ([link](#))

| 71 The 2023 Edinburgh Reforms are a set of 30 regulatory changes in the UK Financial sector designed to drive growth, competitiveness and innovation. These reforms were an update and streamlining of post-Brexit rules to focus on international competitiveness, technology and sustainability (HM Treasury, "Edinburgh Reforms hail next chapter for UK Financial Services", 9 December 2022 ([link](#))).

How would EU alignment affect UK agreements on financial services outside the EU?

The UK has taken a divergent approach to regulation within the financial sector since departing the EU. The effect of greater alignment with the EU on the UK's capacity to establish independent trade agreements in financial services is of critical importance to the future of the City of London and the broader economy. This sentiment was noted in the UK-EU Reset documents, which do not directly require formal alignment or adoption of EU financial sector regulations (such as Markets in Financial Instruments Directive II (MiFID II⁷²) and Solvency II⁷³ for insurance). FSMA 2023 was crafted to promote innovation while maintaining high standards in a way that reflects the unique position of the City of London. While proponents argue that EU alignment might facilitate easier access to European markets, this overlooks the fact that the City of London's success has been built on its ability to implement flexible and innovative principles-based regulations which would be impossible under rigid EU frameworks, threatening one of the UK's fundamental competitive advantages.

Maintaining regulatory autonomy in the financial sector allows the UK to continue benefitting from bespoke agreements with non-EU partners. An example of this is the Berne Financial Services Agreement between the UK and Switzerland in December 2023. This is a MRA that provides both countries with enhanced market access, removal of localised requirements for insurers, and regulatory deference between both countries.

It is not just advantageous but a prerequisite for the UK to maintain regulatory sovereignty over its financial sector, to ensure that London retains its place as the leading financial centre in Europe and can compete to become a global leader once again.

Legal services

Thanks to Britain's common law, strong human capital, and time zone, legal services have been one of Britain's most valuable exports. Legal services are highly regulated, and different countries have different legal qualifications, reflecting their own history and traditions. Naturally, this poses difficulties for cross-border trade.

To address this, the EU introduced the Mutual Recognition of Qualifications Directive in 2005 with the aim of facilitating the mobility of professionals by recognising qualifications across Member States.⁷⁴ Since Brexit, however, the directive no longer applies, and the UK and EU were unable to agree terms for mutual recognition of qualifications in the TCA.

This has prompted calls for a MRA for professional qualifications between the UK and the EU as a way of increasing legal exports, and other regulated professions, to the EU. This was not agreed at the May Summit, but discussions are expected to continue.

Though an agreement would not be a bad thing in isolation, it is unlikely to provide the gains the Government believes. While the TCA has imposed some theoretical barriers to trade

⁷² MiFID II is an EU directive that governs investment firms, trading venues and securities markets with the aim of protecting investors and market integrity (European Securities and Markets Authority, "MiFID II", accessed 16 September 2025 [\[link\]](#)).

⁷³ This directive is aimed at ensuring insurance and reinsurance companies are held to a stringent risk-based governance standard to enhance customer protection and financial stability (European Insurance and Occupational Pensions Authority, "Solvency II", accessed 16 September 2025 [\[link\]](#)).

⁷⁴ European Union, "Directive 2005/36/EC OF THE European Parliament and of the Council of 7 September 2005 on the recognition of professional qualifications", 20 June 2024. [\[link\]](#)

in legal services, entering into a MRA with the EU seems unlikely to increase British exports in any meaningful fashion. Primarily because the existing framework under the TCA already grants UK lawyers substantial rights to practice under their home qualifications in various legal areas (the 'home title principle' etc.), covering much of the cross-border legal work necessary in the EU.⁷⁵ Moreover, the EU's established regulatory approach to mutual recognition requires stringent concessions on regulatory oversight, which risks undermining the UK's flexible and innovation-driven legal services model. Politically, the EU has shown little appetite for broad mutual recognition talks with the UK and may expect trade-offs on wider issues such as the Youth Mobility Scheme. Additionally, the fragmented regulatory landscape across 27 Member States and requirements such as local presence and language proficiency limit the practical impacts of any MRA.⁷⁶

Mobility of lawyers within the EU market

The migratory flow of lawyers within the EU Single Market indicates how mutual recognition and market integration in legal services operates in practice. While cross-border trade in services, especially legal services, was always less developed compared to goods, understanding lawyer mobility helps illuminate the practical limitations and regulatory barriers that remain. The UK-EU Reset documents emphasise regulatory cooperation, but that does not extend to mutual recognition of legal qualifications. Observing mobility trends provides clarity on why the UK's current framework provides selective practice rights rather than full mutual recognition, and why future negotiations on legal qualifications do not provide much value-addition to the success of legal service delivery in the EU.

Professional mobility within the legal services sector is not uniform, but clustered along lines of historical, linguistic, and systemic compatibility. This shows the importance of cultural affinities and legal traditions as essential building blocks for cross-border professional activity in legal service trade. Unsurprisingly, therefore, the UK-Ireland professional corridor accounts for a disproportionate volume of cross-border activity in legal services. This shows how the nature of shared legal traditions, as well as language, can affect patterns of professional mobility over and above the rules of the Single Market.

This picture is even more pronounced when considering overall trade in legal services between the UK and EU, shown in Figure 3.1 below.

⁷⁵ As part of the TCA, lawyers between the UK and EU Member States are permitted to practice under their home jurisdiction professional qualification with regards to matters such as mediation, arbitration, and public international law.

⁷⁶ David Collins, "Making the Most of Brexit Freedoms", *Politeia*, 15 December 2022. ([link](#))

Figure 3.1: Legal services trade flows post-referendum

Source: ONS (2025)

Despite a brief period of turbulent trade flows (between 2017 and 2019), the UK trade with the EU has remained resilient post-Brexit, with trade volume reaching all-time highs in 2023. This is indicative of the continued strong demand for UK legal expertise within the EU, supported by the home title principle, which allows UK-qualified lawyers to practise EU law-related services in Member States without full requalification.

Therefore while the mutual recognition of professional qualifications between the UK and EU could be beneficial, it is not the sole means of sustaining professional mobility and the UK's services trade surplus with the EU. As noted in Chapter 2, services trade has remained incredibly strong, and the UK has maintained a strong advantage in legal and financial services outside the EU. Considering the structural flaws in the Single Market regarding services such as divergent administrative procedures and persistent bureaucratic barriers, a recognition agreement is unlikely to offer any notable boost in trade.⁷⁷

⁷⁷ Matthias Bauer et al, "Reinventing Europe's Single Market: A Way Forward to Align Ideals and Action", Policy Brief No. 11/2024, *European Centre for International Political Economy*, June 2024. ([link](#))

4. Implications of dynamic alignment for British sovereignty



Main points

- *Dynamic alignment with the EU means effectively surrendering sovereignty and law-making power to a foreign organisation, over which the British people have no domestic control.*
- *If the EU changes its rules, the UK will need to change them to fit. This subjects British businesses to regulatory uncertainty, without the ability to change these regulations.*
- *Dynamic alignment with the EU will interfere with British trade policy, putting up barriers to trade with the USA and the CPTPP nations.*

This chapter considers the implications of dynamic alignment.

UK-EU regulatory alignment post-Brexit

How far the UK should diverge from the EU's economic model has been one of the main unanswered questions of the Brexit era. While Boris Johnson's Government extolled the principle of "regulatory competition" with the EU, the reality has not lived up to the rhetoric.⁷⁸ Despite some reforms, such as the changes to genetic technology and financial services, mentioned above, deregulation has been limited. Since 2024, the British Government has chosen to pursue a strategy of dynamic alignment with the EU.

Dynamic alignment departs from conventional legal principles on sovereignty in international trade law, as it requires a subordinate party to an agreement to align its regulations with another partner in order to reduce trade friction.⁷⁹ ⁸⁰ It is dynamic, because when the EU changes its regulations, the UK must change its own to match, in order to maintain the reduction in trade friction.

Even maintaining current EU rules without adopting new ones would limit the UK's ability to pursue trade agreements, as potential trade partners would question the UK's authority to make binding commitments in areas aligned with EU regulations. Dynamic alignment goes further and

| 78 This was a part of Boris Johnson's "Post Brexit Address on Historic UK-EU Free Trade Deal", delivered on 24 December 2020. ([link](#))

| 79 The renowned jurist and constitutional theorist, A.V. Dicey defines the power of parliamentary sovereignty as "the right to make or unmake any law whatever; and further, that no person or body is recognised by the law of England as having a right to override or set aside the legislation of Parliament" (A.V. Dicey, *An Introduction to the Study of the Law of the Constitution*, 10th ed. (London: Macmillan, 1959), 39–40).

| 80 Ronald A. Cass, "Trade and Sovereignty: What You Can See By Looking", *Harvard Journal of Law & Public Policy*, 45 no. 1 (2022): 29–32.

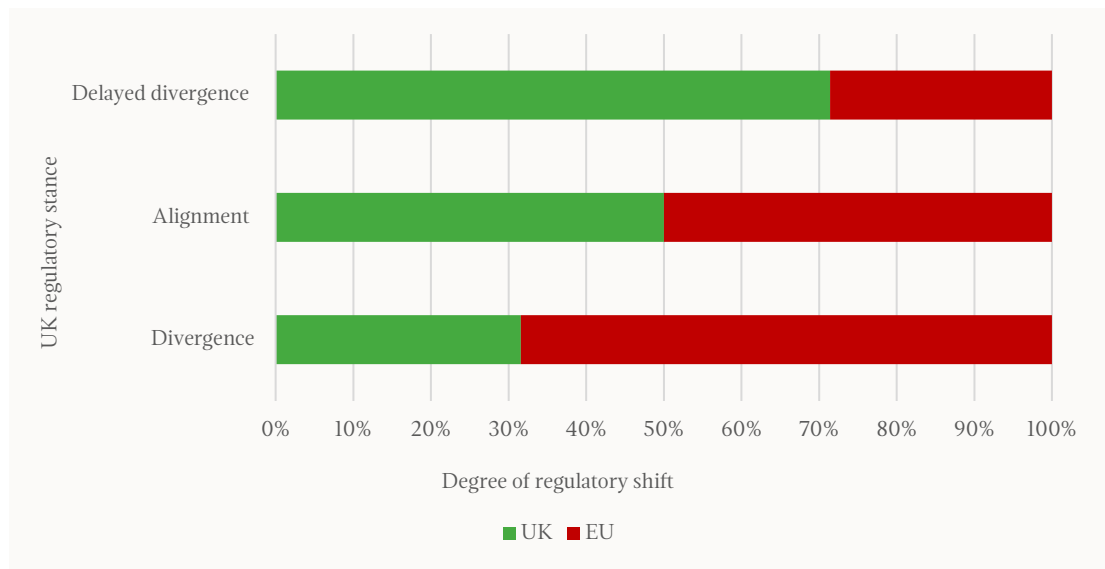
significantly curtails the UK's regulatory sovereignty and trade independence.

Dynamic alignment does not represent certainty or stability either. The costs associated with compliance may increase if the EU continues to tighten its regulatory requirements, and it will subject British businesses to changing food safety regulations—even when sold within the UK—despite not having any control over the design and implementation of these regulations. It would also necessitate additional and invasive monitoring of compliance with EU standards within the UK by EU officials and agencies, which would compromise British sovereignty.

Advocates of closer alignment with the EU argue in favour of frictionless cross-border trade over and above the potential benefits of regulatory autonomy and an independent trade policy. The financial sector, as noted earlier, is a major beneficiary of bespoke financial regulations; as a result of these flexible regulations, London has strengthened its position as a major global hub for financial innovation and investment, especially over its European rivals. Indeed, if it wishes to compete with financial centres in the US, it should pursue the sort of domestic, deregulatory reforms that are not possible within the EU or in a condition of dynamic alignment.

Since the General Election, the Government has pursued more alignment with the EU. Figure 4.1 below shows the trend of regulatory alignment versus divergence in the period capturing the last quarter of the Conservative Government and the first quarter of the Labour Government.

Figure 4.1: Labour Government EU alignment (Q2 - Q3 2024)



Source: *UK In A Changing Europe* (2024)

According to Figure 4.1, there has been a greater push towards realignment with the EU by the UK⁸¹, and delays to policies which represent active divergence.⁸² Within Q2–Q3 of 2024, active regulatory alignment of both the UK and EU was equally distributed between the two at 50 percent

⁸¹ The Product Regulation and Metrology Act is an example of a legislation the Government introduced which replicates EU environmental regulations to reduce cost and maintain market access (e.g. British manufacturers would be required to produce USB-C chargers for their electronic devices in alignment with the EU).

⁸² Active divergence refers to when the UK (or EU) takes pre-emptive measures to move away from REUL. An example of this is the full implementation of border controls as prescribed in the Border Target Operating Model (BTOM). The BTOM is a new plan to make importing goods into the country simpler and faster by using digital tools and a risk-based approach for checking products like food, plants, and animals. UK in a Changing Europe report that there have been postponements of full implementation measures.

each. As noted by UK in a Changing Europe, this is part of a deliberate strategy to align with the EU. Conversely, the EU had a higher tendency (65 percent) to actively diverge from the UK, in most cases tightening regulations, in comparison to 35 percent of active divergence initiated by the UK.⁸³ The high rates of so-called 'delayed divergence'⁸⁴ (i.e. where the Government postpones or pauses the implementation of new regulations that would create significant divergence from existing EU regulations) have been explained as resulting from a lack of preparedness to execute border control regimes for EU imports, insufficient capacity to commence customs controls on parcels under the Windsor Framework, and a cautionary approach to product regulations.

Any alignment that constrains British regulatory autonomy by binding its trade policy to ECJ jurisdiction, as the proposed changes to SPS regulations and ETS prices in the Reset suggest, diminishes the UK's opportunities for engagement with allies such as the US and the CPTPP, and will damage and constrain British sovereignty and prosperity. It would also run afoul of the UK's new trade agreements and risk arbitration from trade partners if realignment leads to the imposition of new regulatory barriers to trade, as the Reset agreement essentially returns the UK to the EU's Single Market for food and agriculture, and to the Customs Union for manufactured goods via ETS.

The potential for beneficial agreements between the UK and non-EU countries could be stifled by convergence with EU regulations and the oversight of the ECJ. Realignment with the EU on the aforementioned changes would require the UK to accept ECJ jurisdiction over these matters.⁸⁵ This would limit Britain's regulatory autonomy and make active divergence subject to legal challenges from the ECJ. With CPTPP and other multilateral agreements insisting on regulatory sovereignty and non-discrimination of goods as conditions for trade, impending legal challenges may ensue from these parties as a result of closer regulatory alignment with the EU, especially when such alignment presents an unfair advantage of EU produce over others. This could have direct effects on trade in goods and food, and potentially indirect effects on the services sector, considering the EU's recent decision to extend the provision of its Artificial Intelligence Act into Northern Ireland under the guise of protecting the EU Single Market from high-risk, AI-powered goods.⁸⁶

Most importantly of all, dynamic alignment is a democratic matter. By pursuing it, the Government will take a decision to delegate decision-making to the EU over large areas of economic and regulatory policy, over which the British public has no control or influence. If the EU changes its rules, then the UK will be obliged to change them to fit, otherwise it will face the reimposition of trade barriers or sanctions. Early evidence of this can be observed in the UK-EU Summit agreement, which states that UK-ETS is expected to align with EU rules, with a governance mechanism and dispute resolution that ultimately refers to the ECJ. If the UK fails to maintain this alignment, barriers such as certification requirements and customs control could be reimposed on the British energy market. This is a threat to British sovereignty.

⁸³ This report is derived from a Divergence Tracker that combines Q2 and Q3 trends such that it is not possible to differentiate between legislation enacted by the Conservative Government (Q2) from the Labour Government (Q3). All commentary is from the source of the report.

⁸⁴ An example of this is the suspended plans to stop accepting EU-approved construction products from July 2025

⁸⁵ J. Robert Basedow explains that the ECJ's cautious approach to maintaining its jurisdictional authority in external relations extend its binding powers on various matters such as human rights and trade on members and third parties (mom-members) alike. (J. Robert Basedow, "A theory of external judicial politics: the ECJ as cautious gatekeeper in external relations", *West European Politics*, 46 no. 3 (2023): 550–572. [\(link\)](#))

⁸⁶ European Commission, "Proposal for a COUNCIL DECISION".

The dangers of UK realignment with EU SPS rules

SPS measures, designed to protect human, animal, and plant health, have played an outsized role in the discussions around UK-EU realignment. At the Reset Summit, the UK has agreed to join a future UK-EU SPS Agreement aimed at establishing a Common Sanitary and Phytosanitary Area. This agreement will require the UK to commit to dynamic alignment with EU SPS rules, including food safety, animal and plant health standards, and consumer protection regulations.

SPS rules have profound implications for international trade, owing to the different approaches to food regulation taken around the world and its political sensitivity. SPS rules have been used as tools to shield domestic producers from international competition, especially in sectors where they face competitive disadvantage.⁸⁷ In the EU, these rules frequently serve as non-tariff barriers to trade that protect European producers from global competition. For instance, Marina Murina and Alessandro Nicita observed that EU SPS rules cause distortionary effects that reduce exports of agricultural produce from lower-income countries by approximately \$3bn per annum.⁸⁸

The EU's SPS rules are founded on the 'precautionary principle'. This promotes safety concerns over and above actual scientific evidence and leads to higher levels of regulation. This runs contrary to the WTO requirements for a scientifically based approach to SPS implementation from its members.⁸⁹ ⁹⁰ By contrast, the CPTPP and USMCA trade agreements' 'equivalence principle' raise the bar for the burden of scientific evidence needed to implement SPS rules, ruling out the use of the precautionary principle. Article 7.9 of the CPTPP stipulates that SPS rules must be "based on documented and objective scientific evidence". This approach is amongst other provisions that facilitate a liberalised trade in goods and services, known as WTO-Plus as it goes beyond WTO requirements for free trade.

The precautionary principle and EU SPS rules frequently lead to restrictions that exceed what scientific risk-assessment would justify. Controversies associated with this approach include longstanding bans on hormone-treated beef and limitations on Genetically Modified Organisms (GMOs).⁹¹ ⁹² These restrictions persist despite overwhelming scientific consensus about the safety of many of these products, suggesting motivations beyond public health concerns.

This fundamental philosophical divergence represents more than a technical disagreement: it reflects different views on the appropriate balance between trade facilitation and risk management, and the protectionist use of regulatory policy to support preferred production methods and incumbent firms.

87 Anne-Célia Disdier, Lionel Fontagné, and Mondher Mimouni, "The impact of regulations on agricultural trade: evidence from SPS and TBT agreements", *American Journal of Agricultural Economics*, 90 no. 2 (2008): 336-50. ([link](#))

88 Marina Murina and Alessandro Nicita. "Trading with Conditions: The Effect of Sanitary and Phytosanitary Measures on Lower Income Countries' Agricultural Exports", *Policy Issues in International Trade and Commodities Research Study Series*, 68 (2014): 1-22. ([link](#))

89 Courtney L. McNamara et al, "Glossary on free trade agreements and health part 1: the shift from multilateralism and the rise of 'WTO-Plus' provisions", *Journal of Epidemiology and Community Health*, 75 no. 4 (2021): 402-6. ([link](#))

90 House of Lords, "Dr Giulia Claudia Leonelli, Assistant Professor of Law at London School of Economics – Supplementary Written Evidence", CPTPP Accession Inquiry, 16 January 2023, ACP0029. ([link](#))

91 Since 1989, the EU has banned imports of hormone-treated beef, citing health concerns and quoting its precautionary principle. Trade disputes with Canada and the USA have led to WTO rulings stating that the EU fails to base its measures on standard risk assessment practices. The EU has maintained this ban, arguing that it aligns with precautionary health concerns and consumer preferences.

92 Under Directive 2015/412, EU Member States are permitted to ban GMO cultivation, justified by the precautionary principle where scientific evidence of risk is unavailable.

The precautionary principle encourages a “regulatory chill”, where the state over-regulates in fear of legal challenge. Considering food standards, the UK would face a dilemma if it were to advance a scientifically based SPS approach similar to CPTPP and WTO guidelines while also abiding by EU SPS rules via dynamic alignment. Maintaining strict EU standards could trigger disputes under CPTPP, while accommodating CPTPP partners could violate EU alignment commitments.⁹³ This regulatory bind would severely limit the UK’s policy options, preventing it from developing new regulations tailored to its unique circumstances and priorities, thus harming growth.

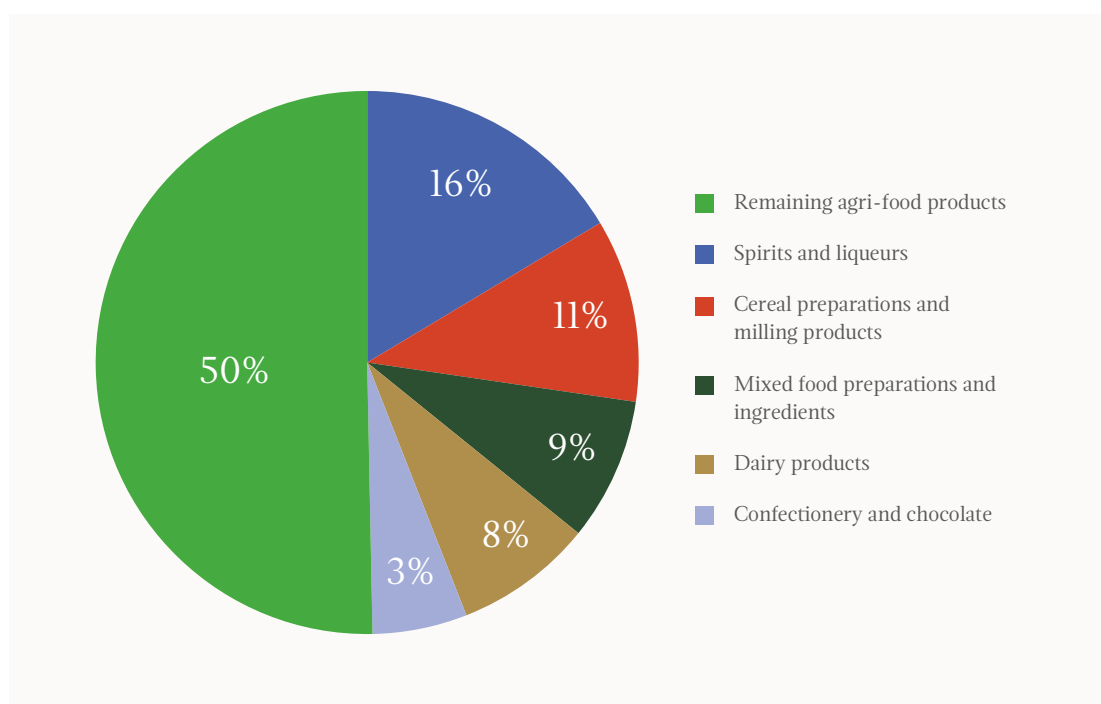
Based on a misconception

HM Government is pursuing dynamic alignment with the EU on SPS measures to support British food exports to the EU. This is based on a flawed and unlikely premise that only strict dynamic alignment with EU SPS measures can prevent significant damage to UK food exports to the EU. This ignores the existing high standards and broader economic, political and operational factors that influence trade outcomes.

The proportion of British agri-food exports to the EU which must go through SPS controls is small. According to EU data in Figure 4.2 below, the largest single proportion of British agrifood exports to the EU in 2023 is made up of alcoholic drinks, which do not require SPS certification. Dairy products do require SPS protocols, but these only represent 8 percent of British exports to the EU. Exports in dairy products from the UK to the EU did decline between 2022 and 2023, but other types of agri-food exports which also require SPS certification grew, such as sheep meat, exports of which increased by 7 percent between 2022 and 2023. This contrast shows that the impact of regulatory changes has been uneven across sectors. While dairy exports have faced significant obstacles, sheep meat has shown resilience and growth. Furthermore, considering the spike in energy prices which took place in 2022 and 2023, it is hard to identify a clear effect of trade policy and say with clarity that SPS procedures, such as the need for shipments to have veterinary approval via Export Health Certificates, have damaged British exports to the EU.

It appears, then, that much of the momentum to realign with the EU on food standards is focused on protecting a small section of British food exports which may not even have been affected by SPS compliance.

⁹³ It is important to note that the UK incorporated the precautionary principle into law following Brexit as part of the Environmental Principles Policy Statement under the Environment Act (2021). This came into force in 2023 and should be repealed.

Figure 4.2: EU agri-food trade with the UK (2023)

Source: ONS (2025)

Geopolitical complications: the Reset will harm US-UK trade and the UK's CPTPP membership

Realignment with the EU would not simply reduce the UK's autonomy on domestic regulatory matters. It will have a significant and negative effect on its trade and diplomatic policy.

UK-US trade relations

The United States remains Britain's largest bilateral export market and import supplier. Goods trade between the two countries is currently balanced due to British fuel imports from the US. Both countries are also each other's largest service markets, facilitated by common language, similar legal systems, and frequently shared cultural preferences. A 2025 report by Catherine McBride for the Prosperity Institute found that the US imports 27 percent of the UK's service exports and supplies 20 percent of the UK's service imports.⁹⁴ This highlights the extent of economic integration, which suggests potential for expanded trade cooperation, particularly in areas where regulatory barriers have historically limited commerce.

Eliminating tariffs through a comprehensive trade agreement could deliver significant consumer benefits and enhance competitive positioning for businesses on both sides of the Atlantic. The agricultural sector presents particularly compelling opportunities, given that the UK produces approximately 60 percent of its food consumption while the US is a net food exporter, producing many products that Britain cannot cultivate domestically. American exporters could potentially expand their presence in UK markets for fruit, vegetables, and arable crops, while British producers could target many niche opportunities in the US market, particularly for sheep meat and dairy products.

| 94 Catherine McBride, *A Natural Partnership: The Possibilities of a UK-US Trade Deal* (London: Prosperity Institute, 2025), 8. ([link](#))

However, the UK-EU Reset's emphasis on dynamic alignment creates potential friction for future US-UK trade negotiations, as the two regulatory systems often diverge in fundamental ways that reflect different philosophical approaches to market regulation and consumer protection. The agreement to follow EU SPS rules in agri-food standards could prove particularly problematic given longstanding US concerns about the EU's unscientific restrictions on genetically modified crops.⁹⁵

The energy sector alignment required under the Reset deal presents additional complications for potential US trade negotiations. The UK's commitment to align with EU ETS and CBAM measures could conflict with American approaches to climate policy and energy regulation, particularly if future US Administrations adopt different strategies for addressing carbon emissions. The requirement in the Reset documents to avoid competing measures may constrain the UK's ability to negotiate energy-related provisions in a US trade deal, as the UK will enter de facto into the EU's Customs Union for goods covered by the CBAM.

Furthermore, the acceptance of ECJ jurisdiction in aligned sectors represents a sovereignty concession that could complicate negotiations with the US, which has historically been reluctant to accept supranational legal oversight in trade agreements. This judicial arrangement may limit the UK's flexibility in designing dispute resolution mechanisms that would be acceptable to American negotiators, potentially narrowing the scope of any future bilateral agreement. This is based on the current UK-EU SPS Agreement negotiating mandate which includes a modification of the dispute resolution mechanism in the TCA arbitral process to allow for questions of EU law to be referred to the ECJ or binding interpretation.⁹⁶ This gives the CJEU ultimate authority on the EU law matters covered by the SPS Agreement.

Membership of the CPTPP

The Department for International Trade's economic analysis forecasts that the value of British exports to CPTPP member countries will increase by around £37bn by 2030.⁹⁷ Data from the ONS shows that total trade between the UK and CPTPP members grew by approximately 6 percent between 2020 and 2024, outpacing the 4.5 percent growth rate with the EU over the same period.⁹⁸ This shift reflects both the potential of the future trade opportunities the UK stands to gain as a member of the CPTPP, as well as a recognition by businesses of the declining state of EU economies.

Even before the UK joined CPTPP, Canada expressed concerns about the UK maintaining parity with EU food standards in 2022.⁹⁹ If the UK formally realigns with the EU on SPS standards, this may violate the CPTPP's science-based, lighter-touch approach to regulatory policy, potentially inviting dispute proceedings from Members.

⁹⁵ The EU has repeatedly rejected or delayed approval of various GM corn varieties approved in the US. For example, the EU took years to approve Monsanto's MON810 corn, and several EU Member States have maintained national bans despite EU-wide approval. See Eric Meunier, "Through its silence, the European Commission has been keeping Mon810 maize authorised since 15 years", *INFOGM* 27 November 2024. ([link](#))

⁹⁶ European Commission, "Council Decision: authorising the opening of negotiations between the European Union and the United Kingdom of Great Britain and Northern Ireland on a common sanitary and phytosanitary area between the European Union and the United Kingdom in respect of Great Britain and to link the United Kingdom and the Union's greenhouse emissions trading systems", 16 July 2025, COM(2025) 408. ([link](#))

⁹⁷ Department for International Trade, "Britain launches negotiations with £9 trillion Pacific free trade deal", press release, 21 June 2021. ([link](#))

⁹⁸ This uses personally derived analysis from seasonally-adjusted data with current 2024 prices.

⁹⁹ William Barns-Graham, "Canadian concern over British ban on hormone-treated beef causes a stir in UK's CPTPP negotiations", *Export.org*, 9 February 2022. ([link](#))

The UK-EU Reset's requirement for dynamic alignment with EU SPS regulations introduces significant risk of incompatibility due to its differing standards in comparison with CPTPP Article 7.9's mandate for science-based risk assessments.¹⁰⁰ Under the Reset, it is unknown whether Britain will have to automatically adopt EU food safety rules that frequently employ the precautionary principle, permitting restrictions based on potential rather than proven risks. By contrast, CPTPP obligations demand that members accept foreign standards as equivalent, providing exporters demonstrate "objective" scientific proof of equivalent protection levels.

This creates an irreconcilable dichotomy. On the one hand, EU-aligned measures such as the bloc's ban on hormone-treated beef (maintained under the Reset) lack conclusive scientific evidence of carcinogenicity at residue levels found in imports. Yet on the other hand, CPTPP requirements would compel the UK to consider equivalence requests from members like Canada and Australia, whose beef industries rely on growth-promoting hormones. Further alignment with EU SPS rules creates the possibility of costly disputes with fellow CPTPP member states who would challenge the scientific basis of restrictions inherited from the EU system. The International Agreements Committee (IAC) of the House of Lords has already raised concerns about this potential conflict, recommending that the Government "set out how it intends to address the potential risk of equivalence provisions leading to 'regulatory chill'".¹⁰¹ In essence, the UK cannot have it both ways—choosing a deeper alignment with the EU will inevitably constrain its ability to meet the CPTPP's science-based, lighter-touch regulatory approach.

The Reset agreement subjects UK SPS rules to ECJ oversight in aligned sectors, while Chapter 28 of the CPTPP establishes binding state-to-state arbitration for disputes. This dual jurisdiction creates three specific risks. First, if the EU's risk management decisions on food safety—based on assessments by the European Food Safety Authority—results in regulatory requirements that differ from conclusions reached by the CPTPP arbitration panel, conflicting outcomes could emerge. Second, legal exposure for British businesses increases as they must navigate overlapping and potentially incompatible obligations, under both EU and CPTPP regimes. Finally, British ministers may be entangled in regulatory paralysis as they try to balance compliance with EU law, as authoritatively interpreted by the CJEU, against CPTPP obligations to avoid disputations.

Additionally, the NTBs the EU Reset creates would negate potential CPTPP tariff reductions, particularly in agri-food sectors. Thus, dynamic alignment with the EU could erase up to 43 percent of CPTPP export gains by 2035.¹⁰² Table 1 below shows examples of sectors within the agri-food industry that would be adversely impacted by the non-tariff barriers imposed by an EU Reset.

| 100 David Collins, "UK-EU Reset May Break International Law", *City Law Forum*, 21 May 2025. ([link](#))

| 101 House of Lords, *International Agreements Committee: Scrutiny of International agreements: UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership*, 6th Report of Session 2023–24, 27 February 2024, HL Paper 70, 13. ([link](#))

| 102 Department for Business and Trade, "The UK's Trade Strategy", policy paper, 25 July 2025. ([link](#))

Table 1: Non-tariff barriers to CPTPP trade opportunities due to the EU Reset

Sector	EU-aligned UK standard	CPTPP partner standard	Trade impact
Beef	Hormone ban (EC No 96/22)	Hormones permitted (Canada, Australia)	Blocks £92m potential imports
Grains	Neonicotinoid pesticide ban	Neonics ¹⁰³ permitted (Canada)	Restricts Canadian wheat imports
Dairy	EU antibiotic restrictions	Less stringent CPTPP rules	Limits New Zealand cheese market access

Furthermore, the Reset agreement diminishes Britain's capacity to take a leading role in shaping the CPTPP evolution. As CPTPP expansion considers China, Costa Rica, and Uruguay, the UK risks being relegated to CPTPP's second tier: unable to leverage membership for Indo-Pacific geopolitical influence while remaining bound by EU regulatory priorities. This could result in Britain falling behind emerging economies and becoming subject to regulatory frameworks shaped predominantly by China and other major CPTPP members, undermining Britain's aspirations for Indo-Pacific geopolitical and trade advancement.

Impacts on market access barriers and SMEs

The impact of a decision to realign with EU SPS standards would vary across different sectors of the British economy. Sectors more aligned to EU standards are restricted by established compliance requirements, limiting their flexibility; whereas those wishing to export to non-EU markets would face significant hurdles if their products would be required to comply with conflicting regulatory requirements. The fisheries sector provides an example of SPS-related trade barriers where the EU prohibits the import of certain shellfish from the UK.¹⁰⁴

SMEs would be disproportionately affected by the administrative burden of complex SPS regulations due to insufficient resources to navigate them. Despite the presence of the Export Support Service (ESS), 93% of its enquiries come from SMEs who will struggle with compliance costs associated with further alignment with EU SPS rules.¹⁰⁵ Dynamic alignment with EU rules means that these regulations will now apply to the entirety of the British economy, affecting businesses which do not even trade with the EU. This could lead to market concentration and reduced competition as larger corporations able to absorb compliance cost gain market share, ultimately harming consumers through higher prices and fewer choices.

Standards and compliance requirements

Within the EU's *Acquis Communautaire*¹⁰⁶ is a complex regulatory infrastructure that creates

¹⁰³ These are insecticides used in agriculture against various pests including sap-feeding insects (e.g. root-feeding grubs and aphids).

¹⁰⁴ The EU retains the right to ban or restrict live shellfish imports under the TCA on sanitary grounds. See Elena Ares, Matthew Ward, and Nikki Sutherland, Ares, "Shellfish aquaculture", House of Commons Library, 15 March 2023, CDP 2023/0066. ([link](#))

¹⁰⁵ This value is found in a letter by then-Secretary of State for Foreign, Commonwealth and Development Affairs James Cleverley, concerning SPS rules. See James Cleverley MP to Lord Ricketts, 31 August 2023, letter, Foreign, Commonwealth, and Development Office. ([link](#))

¹⁰⁶ The EU Lexicon defines *Acquis Communautaire* as "the collection of common rights and obligations that constitute the body of EU law, and incorporated into the legal systems of EU Member States". It is 170,000 pages long. See European Union, "Acquis", *EUR-Lex*, accessed 17 September 2025. ([link](#))

administrative and compliance costs for businesses, which disproportionately harm SMEs and benefit large incumbents. For instance, requirements for businesses to comply with GDPR and REACH regulations impose enormous costs with unknown direct benefits.¹⁰⁷ Carl Frey and Giorgio Presidente found that companies targeting EU consumers experienced an average 2% fall in sales and an 8% decline in profits due to GDPR compliance.¹⁰⁸ Rather than conforming to the standardised approach to GDPR regulations, the UK has taken some advantage of its trade sovereignty by introducing reforms to GDPR in the form of the Data (Use and Access) Bill, which aims to reduce the compliance costs associated with GDPR, and by expanding the definition of what qualifies as scientific research to allow for greater innovation than what is allowed in the EU. Moving decisively away from both GDPR and REACH is crucial for the UK to fully capitalise on its regulatory independence, enabling a more flexible, innovation-driven environment, unshackled from restrictive EU rules.

Moving away from the precautionary principle in regulation is one of the most important benefits of regulatory independence. The principle is geared towards risk avoidance through requiring innovations to show safety standards are met regardless of their scientific viability¹⁰⁹, often at the expense of innovation expressed through measures that stifle breakthrough technologies and regulatory capture.¹¹⁰ Li Jiang observes that the perception of risk in biotechnology dating back to the 1990s in the EU has kept innovation in the sector at a sluggish pace.¹¹² This risk-averse culture is demonstrated in the 2018 ruling by the ECJ that gene-edited crops and plants should also bear the same status as Genetically Modified Organisms (GMOs), thus harming plant breeding in the EU and stifling innovation.¹¹³ The UK passed the Genetic Technology (Precision Breeding) Act in 2023, disapplying this judgement in the UK, to allow greater innovation in plant breeding, such as the use of CRISPR (Clustered Regularly Interspaced Short Palindromic Repeats) technology. The potential realignment with EU food standards could require the partial repeal of this Act.

Ceding sovereignty in this manner undermines the fundamental rationale for Brexit, and it would place the UK in a strategically disadvantaged position in defining its economic future.

Additionally, the compliance costs associated with EU regulations make any move towards EU realignment unattractive. Prior to the UK's exit from the EU, EU regulatory costs were estimated

107 A study on the impacts of the 2018 REACH registration by the European Commission estimated registration costs of €4.8bn. See European Commission, *Study on the impacts of the 2018 REACH registration deadline*, Publications Office of the European Union, May 2021, 36-37. ([link](#))

108 Carl Benedikt Frey and Giorgio Presidente, "Privacy regulation and firm performance: Estimating the GDPR effect globally", *Economic Inquiry*, 62 no. 3 (2024): 1074 – 89. ([link](#))

109 In essence, it reverses the burden of proof from relying on the evidence of harm to one where innovations demonstrate safety standards (which may be orthogonal to the innovations' functional purpose) are met.

110 This happens when regulations for emerging technologies are designed following consultation with first-movers in the emerging industry, thereby leading to barriers to competition caused by those first-movers proposing measures in their self-interest and against potential competition.

111 Li Jiang, "Commercialization of the gene-edited crop and morality: challenges from the liberal patent law and the strict GMO law in the EU", *New Genetics and Society*, 39 no. 2 (2020): 191–218 ([link](#)); Cass R. Sunstein, "Beyond the Precautionary Principle." *University of Pennsylvania Law Review*, 151 no. 3 (2022): 1003–58 ([link](#)); Adam Thierer, "Technopanics, Threat Inflation, and the Danger of an Information Technology Precautionary Principle", *Minnesota Journal of Law, Science & Technology*, 14 no. 1 (2013): 309–86 ([link](#)).

112 S.J. Liebowitz and Stephen Margolis define 'technology divergence' as a phenomenon that occurs when regulatory practice is inherently risk-averse such that the justifiable benefits of an innovation are increasingly difficult to accept due to a culture that exaggerates risks. See S.J. Liebowitz and Stephen E. Margolis, "Path Dependence, Lock-In, and History", *Journal of Law, Economics, & Organization* 11 no. 1 (1995): 205-226. ([link](#))

113 Court of Justice of the European Union, "Organisms obtained by mutagenesis are GMOs and are, in principle, subject to the obligations laid down by the GMO Directive", Press Release No 111/18, 25 July 2018. ([link](#))

at £33.3bn per annum.¹¹⁴ Chemicals, manufacturing, and agricultural industries stand to be the biggest losers from further alignment with the EU, due to the compliance costs associated with regulations for industries. For instance, the European Medicines Agency reserves regulatory oversight for products, even when launched in non-EU markets. This has contributed to delay in innovative medicines in the EU, giving the UK a competitive advantage in the process.¹¹⁵ It may also necessitate invasive monitoring and investigation of the UK's supply chain—including farms, warehouses, and shops—by the EU to assess the UK's compliance with the EU's rules in the proposed UK-EU Common SPS Area. The aggregate bulk of EU regulations would be costly to British businesses, straining innovation in important sectors and stifling trade policy in a way that could advance British prosperity.

Considering the low proportion¹¹⁶ of British businesses which export to the EU directly—and therefore must meet EU standards in their exports—applying costly EU regulations to the entire economy would be detrimental to British prosperity. Prioritising alignment with EU regulations would put too many British economic eggs in a European basket, despite the fact that Europe has been a declining market for British trade since long before Brexit.¹¹⁷

The UK would gain more from advancing trade relations beyond the confines of the EU and using regulatory sovereignty to introduce pro-competition deregulations domestically. Doing so allows the UK to capitalise on its strengths while establishing itself as a competitive and independent trading nation in the global economy.

Summary

In summary, an effective alternative to the EU Reset would combine selective regulatory alignment with wider divergence to enhance market access and competitiveness. Using the Product Regulation and Metrology Bill, the UK could recognise innovative standards from partners such as Japan, the US, Canada, Australia and Singapore, driving innovation and trade. Extensive UK–US collaboration under the Economic Prosperity Deal could deliver tens of billions in GDP gains through digital trade, expanded services access, and shared technology standards. Drawing on USMCA's deeper integration model, the UK should prioritise fast-growing Indo-Pacific and North American markets, thereby restoring trade sovereignty and positioning itself as a pacesetter in global standards.

114 This figure was cited by Dominic Cummings in his oral evidence to the Treasury Select Committee, drawn from the now defunct Open Europe think tank. See Treasury Committee, "The economic and financial costs and benefits of UK membership of the EU", 20 April 2016.

115 In October 2024, HM Government passed a statutory instrument (SI) that set a new regulatory framework for Point of Care Manufacturing. This is the first of its kind in the world and would allow UK pharmaceutical companies easier means to manufacture breakthrough medicines with short-shelf life that can be delivered to patients in more unorthodox venues.

116 Department for Business, Innovation, and Skills, "BIS Estimate of the Proportion of UK SMEs in the Supply Chain of Exporters", methodology note, May 2016. ([link](#))

117 See Phil Radford, *Less than Meets the Eye: The Real Impact of Brexit on UK Trade* (London: Policy Exchange, 2025). ([link](#))

5. Conclusion: strategic outlook and recommendations



In conclusion, we consider the different challenges and opportunities the UK faces at this fork in the road. In light of the diplomatic challenges presented by realignment with the EU, and the damage it will do to regulatory and trade sovereignty, three approaches are recommended below. With the TCA already in place, any combination of the approaches suggested—or full adoption—would create credible guidelines for renewing British trade sovereignty and prosperity.

Policy recommendations

There are three different approaches that the UK can pursue if it maintains the rough status quo of the TCA. These are not necessarily mutually exclusive and can be applied in parallel if necessary. Each would provide the British economy with greater dynamism than realigning with EU regulations and would be better suited to the uncertain geopolitical environment facing the world in 2025.

These proposals are:

1. **Embrace domestic regulatory liberalisation and innovation.**
2. **Pursue comprehensive trade agreements with the USA and other strategic global economies.**
3. **Agree discrete mutual recognition agreements (MRAs) with the EU instead of a wider reset.**

Embrace domestic regulatory liberalisation and innovation

Post-Brexit regulatory flexibility is required to allow the UK to create the most dynamic environment for economic growth in a range of sectors, including AI, biotechnology, or fintech.

A significant opportunity comes from the UK's science and research capabilities. The UK ranks sixth in the 2025 Global Innovation Index and many world-leading universities and academic research institutes are headquartered in the UK.¹¹⁸ The Government target for R&D investment to increase to £22.5bn per year by 2029/30 gives a platform for innovation-led growth.¹¹⁹

Besides the aforementioned Edinburgh Reforms to financial services, there is also the *Kalifa Review of UK FinTech*, which identified regulatory innovation as a critical competitive advantage and recommended the creation of a "scalebox" to assist growth-stage companies¹²⁰; and the UK

¹¹⁸ World Intellectual Property Organization (WIPO), "Global Innovation Index 2025: Innovation at a Crossroads" (Geneva: WIPO, 2025). ([link](#))

¹¹⁹ HM Government, "Transformative £86 billion boost to science and tech to turbocharge economy, with regions backed to take cutting-edge research into own hands", press release, 8 June 2025. ([link](#))

¹²⁰ HM Treasury, *Kalifa Review of UK FinTech*, 26 February 2021. ([link](#))

AI Strategy provides a “proportionate” regulatory regime, balancing investment incentives with risk.

With appropriate design, policies could increase productivity growth by 0.5 percentage points per year above the expected trend within the UK, which, although modest, is still likely to yield a significant economic dividend over the medium-term.¹²¹

The UK should therefore establish a comprehensive framework for regulatory innovation that capitalises on independence:

- **Create specialised regulatory sandboxes** in emerging technologies including **artificial intelligence, financial technology, and synthetic biology**.
- **Implement streamlined approval processes for innovative products and services that exceed EU approval timelines.**
- **Develop outcome-based regulatory approaches** that contrast with the EU's more prescriptive regulatory philosophy.
- **Use the Product Regulation and Metrology Act which grants the Government regulatory powers to modernise product safety and measurement standards, to recognise competitive, innovative standards** from around the world, including product standards in Japan, the USA, Canada, Australia, and Singapore, instead of realigning with the EU.

As Innovate Finance observes: “We now have an opportunity to develop the UK regulatory system to embrace technology in ways that improve our global competitiveness and deliver better outcomes for consumers”.¹²² Britain is at a crossroads diplomatically and economically. Having been spared the worst of the US tariffs and secured the subsequent Economic Prosperity Deal, while also enjoying a free trade agreement with the EU and membership of CPTPP, the UK has a genuinely unique opportunity to carve a new path in the global economy.

Pursue comprehensive free trade agreements with the USA and other strategic global economies

The United States is the United Kingdom's most important bilateral trading partner. In 2020, UK bilateral trade with the US amounted to £201.6bn, and the UK has a trade surplus in services with the US.¹²³ This is an excellent base on which to build, even taking into account the USA's imposition of import tariffs in April 2025.

Both the British and American governments have expressed interest in agreeing a more extensive trade deal, ranging from sectoral deals which could comprise transatlantic coordination of regulation of the financial sector; an enhanced agreement to collaborate on the regulation of emerging technologies, particularly AI, quantum computing, and telecommunications security; or a comprehensive free trade agreement.

| 121 Competition and Markets Authority, “Industrial policies: new evidence for the UK”, 9 April 2025. ([link](#))

| 122 Innovate Finance, “A Post-Brexit Regulatory Regime for Innovation”, accessed 17 September 2025. ([link](#))

| 123 Ana Pintor, “Talks on a US-UK deal begin today via video with billions-worth of trade at stake”, *Export.org*, 5 May 2020. ([link](#))

By pursuing a comprehensive trade agreement, the US and UK would create a new paradigm for economic regulation globally, while also exploiting the opportunities presented by the CPTPP and maintaining the TCA.

Deepening UK-US cooperation around digital trade, services liberalisation, and regulatory coordination could yield tens of billions of pounds in economic returns and help strengthen shared strategic priorities in many areas of data governance, tech standards, and beyond.¹²⁴ It would also mark the UK's most significant departure from the EU's regulatory model to date, helping to reinvigorate the Western world's economy.

The UK should pursue a trade strategy based on trade diversification that balances EU market access with accelerated development of alternative partnerships:

- **Prioritise trade negotiations with the USA and accelerate CPTPP integration** (e.g. digital trade protocols) to reduce relative economic dependence on the EU.
- **Develop specialised trade initiatives focused on services exports to emerging markets**, leveraging the UK's strengths in financial, legal, and educational services.
- **Eliminate all import tariffs on goods which are not produced in the UK** and negotiate tariff reduction deals in sensitive sectors with allied economies where there is no comprehensive trade agreement in place.

These measures align with *TheCityUK*'s framework for "resilient trade ecosystems", which advocates for "Diversification across markets and sectors to mitigate concentration risk, coupled with strategic alignment in areas of mutual advantage".¹²⁵

Strategic decisions taken on international partnerships will help determine this country's economic trajectory and global standing for decades to come. As this analysis has shown, a multidimensional approach which pursues selective engagement with the EU rather than realignment, while deepening strong partnerships in both the Indo-Pacific region and the Atlantic, will deliver better outcomes for the UK.

A potential template for the UK to build a dynamic and prosperous economy would be adopting the proposed policy framework designed to find the right tension between independence of government and appropriate cooperation; diversification of trade while maintaining a cordial relationship with Europe; and domestic reform focused on innovation.

Agree discrete MRAs with the EU instead of a wider reset

The best alternative to EU realignment draws from both scenarios above. It would involve strategic prioritisation, targeting its engagement effort at sectors of the economy where the best returns can be anticipated.

Regarding the EU, the UK could negotiate specific agreements on the recognition of qualifications, and negotiate a veterinary agreement based on mutual recognition rather than harmonisation.

¹²⁴ See Robin Niblett, *Global Britain, global broker: A blueprint for the UK's future international role* (London: Chatham House, 2021). [\(link\)](#)

¹²⁵ TheCityUK, *Key facts about the UK as an international financial centre 2024*, 15 January 2025. [\(link\)](#)

This would be better than dynamic alignment and would reduce the likelihood of a ratchet effect, whereby EU-alignment in products and SPS encroaches further on British sovereignty.

Considering the failure to agree a mutual recognition agreement on professional services so far, and the EU's refusal to offer such an agreement for product and SPS standards in trade negotiations, achieving this would be challenging, and would require sophisticated negotiation.

The UK should establish a framework for selective regulatory cooperation that preserves autonomy in strategic sectors, informed by the International Regulatory Cooperation Strategy.

Recommendations here include:

- **Negotiate Mutual Recognition Agreements (MRAs)** in sectors where this provides clear mutual benefits, such as automotive, manufacturing, food standards, and chemicals.
- **Maintain regulatory divergence** in all sectors, including digital services, biotechnology, and financial services, where independent policy could create competitive advantages.

This selective approach would enable the UK to benefit from proximity to the EU market while preserving the flexibility to adopt alternative regulatory frameworks in sectors where global best practices may differ from the European approach.

The UK stands at a crossroads: remain in the EU's regulatory orbit, narrowing its horizons by adopting an increasingly protectionist framework shaped by the Brussels effect, or chart a new course that blends proximity to Europe with the freedom to embrace global best practice. Persisting with the Reset and further alignment risks staying on a road to nowhere: trapped between competing systems, losing influence, and watching opportunities pass by. Taking the turning toward strategic autonomy can mean sovereign choices, expanded markets, and renewed leadership in shaping the rules of global trade.

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Appendices



Appendix 1: Trade Complementarity Index

The TCI calculates how well a country's export profile aligns with a partner's import demand. In our case, this shows how well the UK's export aligns with EU import demand. Ranging from 0 (no overlap) to 100 (perfect match), a high TCI indicates more alignment with EU demand, while a low TCI implies a decoupling of EU from UK trade. This is calculated using the following formula:

$$TCI = 100 \left[1 - \frac{\sum m_k - x_k}{2} \right]$$

Where:

m_k – is the partner's import share of product k

x_k – is the exporter's export share of the same product.

This index provides fundamental insights into the nature of UK trade with the EU on particular goods and services in spite of bottlenecks that have arisen in the aftermath of Brexit. As the data below shows, the UK has a near-perfect alignment with the EU on core goods.

Commodity	2015	2016	2017	2018	2019	2020	2021	2022	2023
Food & live animals	98.58	98.68	98.63	98.63	98.64	98.32	98.46	98.56	98.16
Beverages & tobacco	100.00	99.41	99.51	99.41	99.47	99.43	99.48	99.54	99.56
Crude materials	99.77	99.95	99.96	99.99	99.99	99.92	99.95	99.88	99.85
Fuels	97.44	99.48	99.48	99.42	99.39	99.44	99.32	99.29	99.33
Animal & vegetable oils & fats	99.49	99.81	99.78	99.78	99.78	99.72	99.79	99.83	99.81
Chemicals	96.14	99.88	99.80	99.83	99.91	99.99	99.82	99.79	99.79
Material manufactures	98.51	98.53	98.03	97.67	97.66	97.99	97.50	95.18	97.72
Machinery & transport equipment	95.37	98.50	98.53	97.99	98.23	98.77	97.30	94.30	95.78
Miscellaneous manufactures	96.84	99.97	99.97	99.98	99.98	99.97	99.97	99.95	99.92

Source: ONS (2025)

Appendix 2: Trade Intensity Index

The TII measures the relative concentration of trade between two partners compared to their global trade shares. This is calculated using the following formula:

$$T_{ij} = \frac{(x_{ij} / X_{it})}{(x_{wj} / X_{wt})}$$

Where:

x_{ij} is country i 's exports to j

X_{it} is i 's total exports

x_{wj} / X_{wt} is the partner's share in world imports. This index reveals whether trade flows are stronger (TII > 1) or weaker (TII < 1) than expected. For instance, a TII below 1 would signal underperformance to the EU's global trade weight, reflecting disrupted supply chains and reduced product variety.

Appendix 3: Areas of alignment with EU vs US systems

Aspect	USMCA	TCA
Implementation date	1 July 2020	1 January 2021
Predecessor	NAFTA	EU Membership
Geographic scope	North America	UK and EU
Duration	16-year terms with 6-year reviews	Indefinite with 12-month termination notice
Market integration level	Deep integration	Limited integration
Tariffs on goods	Zero tariffs and quotas with ROO compliance	Zero tariffs and quotas with ROO compliance
Rules of origin - automotive	75% regional content	40-55% bilateral content
Labour requirements	Minimum wage requirements (\$16/hr for 40-45% of auto parts)	Level playing field provisions
Services coverage	Comprehensive	Limited
Financial services	Integrated framework	Limited access, no passporting
Digital trade	Advanced provisions	Basic provisions
Data flows	Free flow of data	Separate adequacy decision required
Dispute resolution	Multiple mechanisms including rapid response	Single unified system

Source: Personally derived from comparison of TCA and United States-Mexico-Canada Agreement (USMCA)

Appendix 4: Economic forecasts: Europe (real GDP growth; year-over-year percent change)

	April 2025 WEO				October 2024 WEO			Difference		
	2024	2025	2026	2027	2025	2026	2027	2025	2026	2027
Europe	1.8	1.4	1.6	1.7	1.7	1.9	1.8	-0.3	-0.3	-0.1
Advanced European economies	1.0	1.0	1.3	1.4	1.4	1.6	1.5	-0.4	-0.3	-0.1
Euro Area	0.9	0.8	1.2	1.3	1.2	1.5	1.4	-0.4	-0.3	-0.1
Austria	-1.2	-0.3	0.8	1.6	1.1	1.7	1.6	-1.4	-0.9	0
Belgium	1.0	0.8	1.0	1.2	0.2	1.3	1.3	-0.4	-0.3	-0.1
Croatia	3.8	3.1	2.7	2.6	2.9	2.7	2.6	0.2	0	0
Cyprus	3.4	2.5	2.7	3.0	3.1	3.0	3.0	-0.6	-0.3	0
Estonia	-0.3	0.7	1.8	1.8	1.6	2.3	2.0	-0.9	-0.5	-0.2
Finland	-0.1	1.0	1.4	1.4	2.0	1.8	1.7	1.0	-0.4	-0.3
France	1.1	0.6	1.0	1.2	1.1	1.3	1.4	-0.5	-0.3	-0.2
Germany	-0.2	0	0.9	1.5	0.8	1.4	1.1	-0.8	-0.5	0.4
Greece	2.3	2.0	1.8	1.3	2.0	1.7	1.5	0	0.1	-0.2
Italy	0.7	0.4	0.8	0.6	0.8	0.7	0.6	-0.4	0.1	0
Latvia	-0.4	2.0	2.5	2.5	2.3	2.5	2.5	0.1	-0.3	-0.2
Lithuania	2.7	2.8	2.5	2.5	2.6	2.4	2.2	-0.3	0	0
Luxembourg	1.0	1.6	2.2	2.3	2.7	2.5	2.3	-1.1	-0.3	0
Malta	6	3.9	3.9	4.0	4.0	3.5	3.5	-0.1	0.4	0.5
Netherlands	1.0	1.4	1.4	1.4	1.6	1.7	1.8	-0.2	-0.3	-0.4
Portugal	1.9	2.0	1.7	1.5	2.3	2.0	1.9	-0.3	-0.3	-0.4
Slovak Republic	2.0	1.3	1.7	2.5	1.9	2.3	2.6	-0.6	-0.6	-0.1
Spain	3.2	2.5	1.8	1.7	2.1	1.8	1.6	0.4	0	0.1
Nordic countries	2.0	2.2	1.9	1.7	2.0	1.8	1.8	0.2	0.1	-0.1
Denmark	3.7	2.9	1.8	1.6	1.6	1.4	1.4	1.3	0.4	0.2
Iceland	0.5	2.0	2.4	2.5	2.4	2.2	2.3	-0.4	0.2	0.2
Norway	2.1	2.1	1.7	1.6	1.8	1.7	1.6	0.3	0	0
Sweden	1.0	1.9	2.2	1.9	2.4	2.2	2.2	-0.5	0	-0.3
Other European Advanced Economies	1.1	1.3	1.7	1.7	1.6	1.9	1.6	-0.3	-0.2	0.1
Andorra	3.4	1.9	1.6	1.5	1.6	1.5	1.5	0.3	0.1	0
Czech Republic	1.1	1.6	1.8	1.9	2.3	2.3	2.1	-0.7	-0.5	-0.2
Israel	0.9	3.2	3.6	3.3	2.7	4.8	3.1	-0.5	-1.2	0.2
San Marino	0.7	1.0	1.3	1.2	1.3	1.2	1.1	-0.3	0.1	0.1
Switzerland	1.3	0.9	1.6	1.2	1.3	1.8	1.2	-0.4	-0.2	0
United Kingdom	1.1	1.1	1.4	1.5	1.5	1.5	1.5	-0.4	-0.1	0

Source: International Monetary Fund

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