

Understanding the possible models for post-Brexit trade in goods between United Kingdom and European Union

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<p>Brexit means that the United Kingdom intends to leave the European Union in one way or another. The UK has stated that they no longer seek to continue their membership in the EU, and the two negotiating sides have theoretically until March 2019 to agree on the terms of the exit and post-withdrawal relationship. This qualitative research sets out to understand what could possibly take place afterwards in the context of post-Brexit trade in goods between the UK and EU, and to provide descriptions of the plausible frameworks that could be utilized. The primary goal of the research is in the extension of knowledge.</p> <p>In order to gain an understanding of the UK's exit from the EU, the research sets out initially to establish what defines the trade in goods currently, and what can be subject to change following the situation that the UK discontinues its membership in the EU. The theoretical framework provides an overall picture of the underlying dependencies and what enforces the existing state of affairs between the EU's members. The compiled theories conceptualizes what specific institutions the UK is about to exit, and what kind of trade agreements and models the EU utilizes. The identified aspects provide the fundamental course for the research by guiding the information search and analysis that is to follow.</p> <p>The data that this research utilizes is based on an overview of existing documents, therefore counting as a form of secondary research known as desk research. The information is gathered from journal and news articles, reports from professional advisory services and educational research centres, as well as publications done by various EU and UK institutions discussing the UK's to be negotiated exit. Sources were chosen on the criteria that they provided the most relevant and up to date information that the research required. With the knowledge about the structure of the effectual EU membership in mind, individual sections that define the whole integrity are advanced with inductive analysis and by drawing comparison from existing frameworks between the EU and different countries.</p> <p>The findings support several likely outcomes that could potentially serve as the basis for post-withdrawal trade in goods between the UK and the EU. In conclusion, the research provides the descriptions of four plausible models for trade that still require giving up the full EU membership. Firstly, a membership in the European Economic Area would be the closest comparison to the current integration and market access. Secondly, the UK could remain in the EU's customs union and attain some level of tariff-free trade in goods. Third model requires securing a bilateral trade agreement with the EU upon exiting, with the scope depending on what the parties agree to include. And lastly, by not reaching any form of a deal or other conclusion in the exit negotiations, the post-Brexit trade would be conducted under the World Trade Organization's international trade rules by default.</p>	
Keywords Brexit, European Union, European Single Market, trade in goods, free movement of goods.	

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1 Introduction

In a referendum held on 23 June 2016 – a vote in which everyone of voting age could take part in – more than 30 million people voiced their opinions on whether or not the United Kingdom should leave or remain in the European Union. Followed by a close result of 52 percent to 48 percent, the outcome of the vote meant that the nation wanted to leave and sever the close formal ties with the European Union. While the referendum itself was not legally binding, the will of the voters was heard and the British government officially initiated the process to leave the European Union during March 2017.

The UK and EU have theoretically up to two years until March 2019 to agree on the terms of the exit and post-withdrawal relationship, but the exact date for the exit is yet uncertain. Britain's exit from the European Union, or "Brexit" as it has been popularised in the media, sets a historical precedent not only for Europe, but the rest of the world as well. No member state of the EU before this has acted on the freedom to invoke the Article 50; the official exit clause and the right to withdraw from the European Union, thus initiating the talks to discontinue their membership. The ongoing negotiations are undoubtedly of current interest to all parties involved and Brexit will mean a change to the relationship between not only the EU and the UK, but also the trading arrangements between the UK and the rest of the world as well. With the outcomes currently unknown, people around the world are interested in following and speculating the potential exit terms between the UK and EU.

So what would it actually mean for trade if Britain was to leave the EU and the single market as is currently being negotiated? For one thing, it should go without saying that reaching a final proposal on Brexit requires a tremendous workload from all governmental and institutional parties involved. No member state has ever opted to leave the EU, and as such, all outcomes are still open for debate. This research sets out to understand what could possibly take place afterwards in the context of post-withdrawal trade in goods between the UK and EU, and to provide descriptions of the plausible frameworks that could be utilized. In order to gain an understanding of the United Kingdom's exit from the European Union, and to describe the possible models for trade in goods following the exit, this study will analyse existing data from journal and news articles, reports from professional advisory services and educational research centres, as well as publications done by various EU and UK institutions discussing the phenomena.

1.1 Background

On 29 March 2017, the administration of Theresa May officially notified the UK's intention to leave the EU in a letter to European Council President Donald Tusk. This letter stated that the UK does no longer seek membership of the world's largest common market; the European single market. The United Kingdom's invocation of Article 50 of the Treaty on European Union – the act of giving a formal notice of intentions to withdraw – allowed the withdrawal negotiations to begin. (Department for Exiting the European Union 2017.)

The United Kingdom is publicly intended on leaving the single market, which is stated as one of the cornerstones of the European Union. The single market refers to the EU as one territory without any internal borders or other regulatory obstacles. As an example of this, currently the trade between EU member states is free from import duties, taxes and customs clearances. While the UK still retains a full membership of the EU, the country can benefit from the so called “four freedoms” of the single market: the free movement of goods, services, capital and people within the EU. (European Commission 2017a.)

One of the most prominent issues regarding the exit negotiations between the United Kingdom and the EU is that the exact outcome is currently unknown. As some have stated it more simply; the negotiations will be defined by the tradeoff between the four freedoms, and to what extent a freedom can be restricted for concession on another one (Chism & Dhawan 2017a). It is also speculated that while the shape of any future trade agreement may start to be outlined over the coming months, clarity around the outcome of the complex negotiations may not reach the public any time soon. Waiting until the end of the negotiation period may not leave enough time to take action before rules and trading arrangements change, so setting out to understand possible options can be seen worthwhile and relevant. (EY 2017.)

This thesis has no commissioning party behind it, and is solely based on the personal interest of the researcher. The problem to be studied arises from the uncertainty: if the United Kingdom was to leave the European Union, the free movement of goods could change in the process. As trade in goods is particularly subject to the different tariff and non-tariff barriers, the scope of changes can be expected to be extensive between all possible post-withdrawal options. (European Commission 2017b.)

1.2 Research questions

A thesis researcher's first choice is between two things: a phenomenon to study and a viewpoint to examine it from (Kananen 2011, 17). The phenomena that this thesis addresses is the United Kingdom's intended exit from the European Union. While at first the problem may seem specifically about the UK acting on the freedom to rescind its membership, the situation could also be viewed from the general scope of any of the EU's member states deciding to do so. The UK's possible exit in the upcoming future however is even more unique when compared to the vast majority of the other EU member states potentially choosing to do the same, as the UK has not adopted the common currency of the single market; the euro. Nevertheless, the phenomena provides an interesting subject for study as no precedents exist of an EU state deciding to leave the Union after a full membership status.

In order to derive research questions from the phenomena being studied, this thesis is applied with a viewpoint of international business to assess the problem due to this being the major subject choice of the researcher. Brexit means that the UK intends to leave the EU in one way or another. Without resorting to speculation about when, how, and if this leave will indeed take place in the upcoming future or not, the study starts from the assumption that it will play out as the UK revoking its membership status from the EU. As there then is no existing examples of a country leaving the Union and continuing trade with EU afterwards, it must be established what the phenomena is about, and to provide an overall picture of the underlying dependencies. In order to do so in this case, the research starts from mapping the existing state of affairs: what exactly defines the trade in goods between member states while the UK is in the EU.

Research is about solving problems and a problem can be solved by asking the right questions. It is however stated that a thesis should not only have its goals in the extension of knowledge and in deeper understanding of a phenomenon merely for the researcher, but to benefit and provide utilizable information for the real world as well (Kananen 2011, 32). This thesis therefore sets out to provide answers for the following questions:

- What are the possible models for trade between the UK and the EU member states upon which the post-withdrawal trade in goods could be founded on?
- What would each possible model mean in practice for the UK and the EU?

Out of the four separate freedoms currently concerning the single market, this research will only take into consideration the free movement of goods in order to delimit the topic to suit the accumulated experience and to benefit the professional competencies of the researcher conducting it. What this thesis sets out to understand initially, are the different frameworks for the trade in goods that the UK-EU post-withdrawal trade could potentially apply. The problem at hand is not just that the UK is leaving the EU, but rather that any member state is; the UK was merely the first to do so.

1.3 Key concepts

Certain abbreviations will be referenced to throughout this thesis, and they are explained next for the readability of the report. Before the theoretical framework is also presented, there are a few key concepts that are additionally defined in this chapter as they are central for the study objectives and the comprehensibility of the research results.

Brexit: A faster way of saying “Britain’s exit from the European Union”, formed from merging the words Britain and exit. Brexit is often divided into sub-concepts of “soft” and “hard”. Soft Brexit can be seen as the post-withdrawal result that preserves the free movement of goods, services, capital and/or people; hard Brexit being the opposite that does not allow to do so. (Dhawan 2017.)

Customs Union: The EU and its member states form a customs union. A customs union combines the elimination of internal trade barriers between its members with the adoption of common external trade policies towards non-members. (Somers 2010, 40.)

European Economic Area (EEA): An economic area bringing together the EU member states and three of the EFTA states. Established by the EEA Agreement; an international agreement which enables three EFTA states to participate fully in the European Single Market. (European Free Trade Association 2017a.)

European Free Trade Association (EFTA): An intergovernmental organisation set up for the promotion of free trade and economic integration to the benefit of its four member states. Currently consists of Iceland, Liechtenstein, Norway and Switzerland. (European Free Trade Association 2017b.)

European Single Market: The single market refers to the EU as one territory without any internal borders or other regulatory obstacles impeding the free movement. EU citizens can study, live, shop, work and retire in any EU country as freely as within a single country. (European Commission 2017a.)

European Union (EU): An economic and political union between 28 European countries that together cover much of the continent. Member states of the EU have integrated together to form an internal home market where most goods, services, money and people are enabled to move freely. (European Union 2017a.)

Four freedoms: The combined free movement of goods, services, capital and people within the EU. Often considered as the central element of EU's integration (European Union 2017b).

Trade in goods: Tangible property with economic value changing their ownership between one economy and another. By trading goods to another country, the products are exported; by buying goods from a different country, they are imported. (European Commission 2014.)

World Trade Organization (WTO): An international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. (World Trade Organization 2014.)

2 Trade in goods in the European Union

Theoretical framework consists of the theories and models that are already known and are used to explain the phenomenon under study. For the sake of this thesis, the theoretical framework of the research is focused on explaining what the United Kingdom is about to exit and how the trade in goods is handled while they are in the European Union. In order to understand and describe what the possible post-Brexit outcomes can be, it is first required to establish what it is that defines the trade in goods currently; and what can be subject to change following the situation that the United Kingdom discontinues its membership of the EU. (Kananen 2011, 44.)

2.1 Understanding the European Union

Brexit provides an unprecedented situation, as no member state has ever left the European Union before under the same circumstances. For the time being and until the process of exit negotiations is over, the United Kingdom still remains as a full member of the European Union, with all the rights and obligations that derive from this in their full extent. EU law continues to apply until the United Kingdom is no longer a member of the Union. (European Commission 2016a.)

With the original underlying idea focusing on the thought that countries that trade with one another are more likely to avoid conflict, what initially started as the European Economic Community (EEC) back in 1958 in the aftermath of the Second World War, has throughout the years been incorporated and absorbed into the unique intergovernmental entity that exists today. Since being formed in 1993 and after changing the name from the European Economic Community (EEC) to the European Union (EU), this international organization now consists of 28 member countries and more than 500 million people all together. The EU is currently regarded as the biggest tariff-free trade area in the world, but this may be subject to change in the aftermath of the United Kingdom's to be negotiated exit. (European Union 2017a; McCormick 2011, 46-49.)

The EU is an economic and political union between the member states currently consisting of: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK. The original aim of the EU was to create a common market where goods, services, people, and capital could move as freely as within a single country; and where competition was not distorted. The aim was not purely economic, as political factors

played a role in the European integration along the way. The integration of various markets since the Second World War was seen as the means to promote peace and improve the well-being of the people as well. Since the original six founding central European participants in the EEC, the integration has not only deepened, but also widened as well throughout the years. The Union that is known as of today, with the 28 member states spread throughout the continent, covers most of the Europe. (European Union 2017a; European Union 2017b.)

The underlying motive for countries to join was that the larger market offers opportunities to achieve greater efficiency and reap the benefits of larger scale. Instead of national governments, the EU manages the trade relations with the wider world. Speaking with a single voice instead of the individual nations, the EU carries considerably more weight in international trade and has more leverage in negotiations than any of its individual members would. It is an active economic and political player with growing regional and global interests and responsibilities. (European Commission 2016b, 3; Somers 2010, 26-31.)

As the European Union has grown, so too have the powers and the reach of its institutions. However because the institutions were originally designed with only short-term needs in mind, the result that can be seen today may seem like a less structured form of governance. While the EU consists of dozens of separate institutions each having their focused responsibilities, the system revolves around five main institutions which have the most distinct roles. McCormick (2011, 74-75) describes the major institutional set-up of the European Union work as follows:

- **European Commission:** The “executive” of the EU system, whose members are appointed by national governments. Develops proposals for new laws and policies; oversees that made decisions are implemented by member states.
- **Council of the European Union:** Makes final decisions on Commission proposals, in conjunction with Parliament.
- **European Parliament:** Works with Council of European Union on amending proposals, with directly elected MEPs representing the European citizens.
- **Court of Justice:** Works to ensure that laws and policies meet the terms and spirit of the treaties.
- **European Council:** Makes broad policy decisions and guides the overall direction of European integration. Holds periodic summit meetings, which brings together national and EU-level leaders.

2.1.1 Treaties and policies

The European Union is based on the rule of law. By joining the EU, an individual member state hands over some of their decision-making power to the Union. The laws made by the EU institutions override national rules, so decisions and regulations made at EU level have direct legal effects in every member country and must be implemented as such. All actions taken by the EU are founded on treaties and they act as binding agreements between its member countries. This is done so to avoid inefficiency, as opposed EU rules might otherwise be applied differently in the current 28 member countries. EU treaties have been approved voluntarily and democratically by all member countries. (European Union 2017c; European Union 2017d.)

The Treaty of Lisbon, signed by all countries and entered into force as law during 2009, defines the terms of current co-operation and degrees of power that member states have agreed to submit to the EU level. The Treaty clarifies which powers belong to the EU and which to the member countries, and additionally which powers are shared between the parties to make joint decisions. The EU holds exclusive decision-making power over policy areas regarding international market and trade rules, customs, monetary policies, common commercial policies and the conclusion of international agreements. The member states can adopt national policies on all policy areas where the EU does not exercise its powers. (Chism & Dhawan 2017b; McCormick 2011, 71.)

The EU itself is responsible for the trade policy of its member countries and the European Commission negotiates this on their behalf. Under the Treaty of Lisbon, the EU institutions can adopt legislation regarding import and export regime, which the member states then must implement. The purpose behind the Lisbon Treaty was to make the EU more democratic, more efficient and more suited to address global problems. As a result of this division of authority, no individual member state can settle a bilateral trade agreement with a non-EU trade partner. (European Commission 2016b, 7; European Union 2017c.)

The recent decision made by the United Kingdom following their referendum is about to repeal the acts that gave effect to the EU law in the country. For the UK to initiate leaving the EU, it had to invoke Article 50 of the Treaty of Lisbon. This is the exit clause and the right to withdraw a membership from the European Union; a formal recognition for the first time of the freedom of a member state to leave the Union. (McCormick 2011, 71.)

The EU, with its centralized policy, is stated of having an effect that can lead to a loss of sovereignty and fewer opportunities for national governments to adjust to problems stemming from abroad (Somers 2010, 28). However, the United Kingdom's recent decision to leave is stated not as rejection of the European values, but rather as an act to restore national control and self-determination (Department for Exiting the European Union 2017). By "triggering" the Article 50 of the Treaty of Lisbon, a member state officially notifies the European Council of its intention to leave. On 29 March 2017 the Prime Minister wrote to the President of the European Council Donald Tusk and triggered the Article, thus starting the two year negotiation window for the terms of its exit and post-withdrawal relationship. (Lisbon Treaty.)

2.1.2 EU and the World Trade Organization

World trade, which is regarded as the exchange of goods, services, and capital across international borders or territories among nations around the world, is founded on rules laid out by the World Trade Organization (WTO), first established in 1995. Not only is the European Union a member of the WTO, but so too are the 28 individual member states in their own right. Throughout the years the WTO has helped to shape a system of rules that ensure trade agreements and obligations between countries are open and fair. The WTO administers trade agreements, handles disputes, monitors national policies and provides a forum for negotiations. It is also the only international organization dealing with the global rules of trade between nations. The result is regarded as assurance, as its main function is to ensure that trade flows as smoothly, predictably and freely as possible. (European Commission 2013; World Trade Organization 2014.)

The WTO's dispute settlement procedures provide the main forum for settling trade disagreements. Any member may report a case which a special panel can investigate in line with the internationally agreed rules. If a member does not comply with the recommendations, trade compensation or sanctions can be utilized. In line with WTO rules, the EU also has its own range of trade defense tools to guarantee fair play in competition. Unfair play in the EU has two sources: subsidies; public aid given to specific sectors, and dumping; non-EU manufacturers selling their goods in the EU below the normal market prices. If violations are encountered in connection with establishes trade rules, the EU can apply additional import duties to remove and compensate for damages caused by the unfair competitive advantages which the respective country had undertaken. (European Commission 2016b, 14; World Trade Organization 2017a.)

Tariffs, sometimes also referred to as customs duties, are taxes imposed on imported goods and services. They are used to increase the price of imports with fixed fees or levied based on the item's value, thus restricting trade. But tariffs are just one of several trade policies that governments can enact, as besides taxes, there are also non-tariff barriers. Non-tariff barriers to trade refer to a range of measures that reduce imports, such as quotas, embargoes, sanctions and other restraints. These can be set either intentionally or unintentionally, on the volume or quantity of goods which may be imported. As basic tariff barriers have been falling, non-tariff measures have become more widely used as a means to protect domestic businesses from foreign competitors. However under the WTO agreements, both tariff and non-tariff barriers uphold principles of non-discrimination, which prevents unfair measures from being introduced against trading partners. (Radcliffe 2017.)

Despite being sometimes described as a “free trade” institution, the WTO does still allow tariffs and other forms of protection. To put it more accurately, the WTO is a system of rules dedicated for fair, open, and undistorted competition. Under the WTO rules on non-discrimination, countries cannot normally discriminate between their trading partners. “Most favoured nation” (MFN) treatment is a key principle to this, as each member must grant the same market access, including charging the same tariffs, to all other WTO members. Some exceptions to this principle do still occur, and usually to allow for regional economic integration. Such is the case with the European Union; a free trade agreement that applies only to goods traded within the group, while opposing tariffs to goods from outside. (World Trade Organization 2017b.)

2.2 Types of EU trade agreements

The EU has in place, or is currently negotiating, different types of trade agreements with countries and regions around the world. These are an accepted exception from the basic WTO principles that all trading partners should be treated equally, and agreements can grant privileged access to the concerned markets. Trade with countries that have no preferential trade agreements in place with the EU is based under the WTO rules. A traditional focus of trade agreements has been the reduction of customs duties faced by certain goods when imported. On a broad perspective, the EU has negotiated three different types of trade agreements with third countries and different groups that involve trade in goods: agreements creating a customs union, free trade agreements, and association agreements. (European Commission 2017c.)

Trade agreements are made between two countries for bilateral trade, or to involve several countries, for example regional groups. The nature of all trade agreements is that governments give up some control over their own policies in exchange for other countries doing the same, such as members of the WTO give up rights to use import quotas and agree limits on the tariffs each country can charge on imports from other members. Each side of a trade agreement aims to maximize access for its exporters while continuing to protect important, but not necessarily internationally competitive, sensitive industries. With more than 50 agreements already in place with partners around the globe, the EU has more free trade agreements than any other single nation or trading coalition. (Lydgate, Rollo & Wilkinson 2016, 3-4; Sampson 2016, 2.)

The EU is currently pursuing a policy of active engagement with its partners to negotiate comprehensive free trade agreements. Since the EU's many partners have different sizes and interests, the trade agreements with third countries and regions vary significantly, as no one model suits all. Concluding a free trade agreement is a rather flexible option, as the scope of the agreement depends on what the parties agree to include. A typical agreement can specify different sectors, cover different issues and set timetables for tariff reductions on goods. Modern trade agreements also include non-tariff matters, such as procurement and questions regarding intellectual property. There might also be agreements on various provisions and criteria, such as rules of origin, to determine which products are eligible for tariffs being reduced or eliminated. (European Commission 2016b, 8.)

An association agreement is something that is also established with third countries and such an agreement acts as a treaty between the EU and a non-EU country. These are usually created to form a basis for close co-operation framework and to create privileged links, with features of a free trade agreement. These agreements can involve setting up a free trade area between the parties, or creating broader economic and political co-operation on areas of mutual interest. In the context of accession to the EU, an associate agreement serves as the basis for possible EU membership of the third country. (Institute for Government 2017.)

Trade agreements that mostly deal with border measures, such as tariffs and customs arrangements, are often called "shallow" agreements. In contrast, agreements that include rules on other domestic policies are referred to as "deep" agreements; this latter option currently becoming the more commonly formed type of agreement. (Webb & Booth 2017, 35.)

A free trade agreement is an agreement between countries to reduce the barriers to trade between them, with the difference to a customs union being that it doesn't require its members to set the same tariffs on trade with countries outside the agreement. The EU and its member states form a customs union. The key feature of the customs union is that all EU members set the same tariffs on goods imported into the EU from non-EU countries. It facilitates trade between member states by removing needs to checks on where products were made, as the customs union ensures EU members all charge the same import duties from all non-EU countries. This allows member states to trade freely with each other, without burdensome customs checks at borders, but limits the member states' freedom to negotiate their own trade deals. (Hunt & Wheeler 2017; Webb & Booth 2017, 3.)

The customs union is only relevant for trade in goods as they are subject to the tariff barriers. With the main characteristic of a customs union being the common external tariff, all goods will be subject to the same tariffs despite which member state they are imported into. But once inside the customs union, goods can move tariff-free between its members. Exports to the EU from countries outside the customs union are still subject to rules of origin checks even if they have a free trade agreement with the EU. Movement of goods within customs unions is not based on their originating status but on the fact that they comply with provisions on free circulation. This is to ensure the correct tariffs are paid. Upon leaving the EU customs union, the border between the UK and EU would become a customs border, and presumably with added rules of origin. (Somers 2010, 40-41; Webb & Booth 2017, 8-9.)

Turkey, for example, has a customs union agreement with the EU without being a member state, but even this agreement does not cover all goods. Turkey faces no tariffs or quotas on industrial goods it sends to the EU countries, but is however required to apply the EU's common external tariff on goods it imports from non-EU countries. Besides just applying the tariffs, Turkey has no say on what it has to impose. A proposal from the European Commission to modernize the customs union with Turkey is currently being discussed in Council of the European Union, and bilateral trade relations could later be further extend to cover new areas. (European Commission 2017c; Webb & Booth 2017, 25.)

2.3 European Economic Area

The European integration process has created several and sometimes overlapping trading agreements on free trade areas. At present, the three free trade areas that currently apply and concern the United Kingdom includes the European Union (EU), the European Economic Area (EEA) and the European Free Trade Association (EFTA).

A free trade area is an arrangement in which all tariff barriers and quantitative restrictions are removed from impeding trade between member states. In an intergovernmental region like this, and to reduce trade barriers between at least two countries, all participating members have signed a free trade agreement. The European Free Trade Association (EFTA) is an example of an existing free trade area. The members of EFTA are Iceland, Liechtenstein, Norway and Switzerland. Although the EFTA states do not form a customs union, they usually negotiate trade agreements as a group, with each member retaining the right to conclude bilateral trade agreements with third countries outside the EFTA framework. (Carmona, Cirlig & Sgueo 2017, 24-25; Somers 2010, 39.)

The European Economic Area (EEA) was established in 1994 to extend the access of EU's internal market to the EFTA countries. Norway, Iceland and Liechtenstein have joined the EEA, while Switzerland opted out; remaining as a member of EFTA but not participating in the EEA. The EEA brings together the 28 member states of the EU with three of the EFTA states, and allows them to operate on an internal market. The Agreement on the European Economic Area unites these states into the market governed by the same basic rules. The EEA Agreement guarantees equal rights and obligations for all individuals and economic operators within the market. Switzerland is neither an EU nor an EEA member, but is still a part of the single market. So while Switzerland is not a part of the EEA Agreement, it has a set of bilateral agreements with the EU granting similar rights. (European Free Trade Association 2017a; European Free Trade Association 2017b.)

Co-operation between the EU and the three EFTA states under the EEA agreement means that Norway, Iceland and Liechtenstein are treated as if they were EU member states in respect to the single market, meaning that all EU single market legislation and amendments to existing legislation must be fully implemented. Respecting all policy areas as the three EEA/EFTA members of the single market is an integral part of the agreement. However, these three states do not have a say in the EU decision-making process on relevant policies and new EU legislation. (European Free Trade Association 2017b.)

The EEA Agreement additionally does not cover all EU policies. Firstly, the agreement does not establish a customs union, so EFTA/EEA members still retain the control to negotiate trade agreements independently. These states maintain full scope over their external relations with third countries, but in contrast, being outside of the customs union means that exports to the EU must comply with customs procedures and rules of origin. For being granted access to the single market, the EEA states are also required to make considerable contributions to the EU budget. (Carmona & al. 2017, 25-26; European Free Trade Association 2017a.)

2.4 European Single Market

The United Kingdom has officially notified their intentions of no longer seeking membership of the single market, which is often considered as one of Europe's major achievements and one of the cornerstones of the European Union. The single market refers to the EU as one territory without any internal borders or other regulatory obstacles, and while as a member state, the UK benefitted from the so called "four freedoms" of the single market: the free movement of goods, services, capital and people within the EU. (European Commission 2017a.)

The intended common market was first envisioned in 1957 in the Treaty of Rome, the same treaty that established the predecessor of the European Union; the European Economic Community (EEC). The single market that is in place today and encompasses the EU's 28 member states however took years to materialize, as the EEC was originally founded to only support its six founding members. The first enlargement happened in 1973, during which the United Kingdom first joined as well, and followed with several member accession rounds afterwards. But even a decade later after the first enlargement, the European market remained characteristically fragmented and international trade was still opposed with many barriers. It took until the severe economic recession of 1980s to hit, until it was properly acknowledged that businesses in Europe were lagging behind global competitors. The year 1986 finally marked the agreement of what is known as the Single European Act; the first major change into treaties since the establishment of the EEC. This boosted the process of removing remaining barriers to completely support the idea of the four freedoms. Finally during 1993, the European Single Market entered into force; the same year during which the European Union was also established. (European Union 2017a; McCormick 2011, 48-61.)

The European Single Market, often referred to just as the single market, entails the free movement of goods, services, capital and people. The single market is based on the belief that the four EU freedoms drive prosperity, and access to the market requires the acceptance of all four of them. With free movement of goods, the most obvious trade barriers like border controls, tariffs and quotas have been abolished within the EU, and in theory, goods could freely be exported from one European country to another without getting hindered by any kind of obstacles. Thanks to the abolition of border controls between the EU countries, the single market is regarded as the economic engine and heart of the Union. By enabling most goods, services, money and people to move more freely inside Europe, it opens up new opportunities for citizens, workers, businesses and consumers alike. For European citizens and businesses inside the market, it means access to a wide

range of goods and services for the best price and quality; ensured by highly set standards for consumer safety and environment protection. For various retailers as well, the market provides the means to establish, do business and deliver products easily across borders on a home market with vast commercial opportunities. (European Commission 2017a; McCormick 2011, 149.)

The single market is not only of growing importance for the daily life of ordinary citizens, but the integration has shaped the international environment as well. From a business perspective, the single market with its four freedoms is the central element of European integration. As internationalization is a process where a business enters a foreign market, and by internationalizing within the EU, a company can take advantage of Europe's integration with the access to EU's 28 national markets and 500 million potential customers without any internal borders. (Somers 2010, 20-27.)

The European Commission monitors the functioning of the single market. It works to remove or reduce barriers to intra-EU trade and prevent the creation of new ones. The Commission also monitors the application of EU law and can launch infringement proceedings against EU countries that do not comply. There are several tools to ensure a well-functioning single market for all. Main ways of solving problems happen through adopting new legislation, monitoring how existing legislation is implemented and applied, and by taking legal action against participating countries. (European Commission 2017a.)

In order for the market to be effective, national authorities need to be connected with each other across borders so that any arising problem could be tackled by working together. A number of practical approaches is applied to achieve this, and often when considering what direction to take, the Commission seeks input through open consultation. The Commission takes the views of governments, businesses, and trade associations into account when drafting new legislation, and then ensures that it is properly implemented and enforced throughout the EU. (European Union 2017b.)

Goods are tangible property with economic value; something that can either be used or consumed. Goods are owned by whoever produced or purchased them, and as commercial items they can be used once or repeatedly. Trade in goods in the context of the single market is defined as change in ownership between one economy and another. By selling goods to another country, the products are exported; likewise by buying goods from a different country, they are imported. So from a company's perspective, anything that is produced domestically and sold to someone from a foreign country, should qualify as export. However from the view of the customs union, only selling goods to non-EU countries is

considered as exporting. Goods produced in the EU are traded globally, but their trade can be affected by various aspects of trade policies, such as tariffs or regulations. (European Commission 2014; Somers 2010, 16.)

Trade in goods inside the single market is based on the free movement of goods and has two sides: tariff-free access to the single market and the elimination of non-tariff barriers. Trade under current single market principles is seen relatively frictionless for businesses between the EU countries, as products that are allowed to be sold in the EU can circulate with a minimal administrative burden and without barriers to trade. Beyond the free circulation of goods, single market directives have also set EU-wide safety and environmental requirements for products across different categories. These laws not only enable products to be sold freely throughout the European Economic Area, but they have also led to benefits for citizens as products have become much safer. Legislation aimed at goods on the single market ensures that products meet overall high health, safety and environmental requirements. (Chism & Dhawan 2017a; European Commission 2017b.)

3 Methodology

The less that is usually known about the phenomenon, the more probable it is that only qualitative research is possible. If a phenomenon is new and unknown, or if the aim is to gain a deeper understanding or a precise description of it, the research is qualitative by nature. It is then first required to define the phenomenon itself, and what factors form it. (Kananen 2011, 41.)

As the aim of this thesis is to understand possible outcomes of a phenomenon, in this case Britain's to be negotiated exit from the European Union, the characteristics of the research suits the forms of qualitative research. This study is therefore approached with qualitative methods, as the research is motivated by intellectual interest in said phenomenon, and has as its goal in the extension of knowledge and providing descriptions. (Merriam & Tisdell 2015, 3-17.)

3.1 Secondary research and analysis

Written material containing documented data or information is needed at all stages of the research process. Without disregarding questions regarding reliability and validity, practically any written document can be used as a source; if it is related to the phenomenon under study. Occasionally, a problem can be solved by the means of mere written material, and qualitative research can be based solely on documented data and information. (Kananen 2011, 61-63.)

Documents used as sources in a research can come from primary or secondary sources. Primary sources of data are those which are researcher-generated and include first-hand experience about the particular study at hand, while secondary sources includes all documents that existed prior to commencing the research. Secondary data is effectively second-hand data. (Merriam & Tisdell 2015, 162-178.)

Data collection and analysis are simultaneous activities in qualitative research. The process of data collection and analysis is thus concurrent and dynamic. Emerging insights direct the next phase of data collection, which in turn leads to the refinement or reformulation of questions. It is an interactive process that allows the researcher to produce believable and trustworthy findings. From the offset of a qualitative study, data is collected in order to address and answer the problem at hand. (Merriam & Tisdell 2015, 195-197.)

The method that this research was conducted with is desk research; a method that counts as secondary research as it utilizes secondary data. In desk research, the information that is used is collected from already published online and literary sources. This method is therefore based only on an overview of existing data. In order to gain an understanding of the United Kingdom's exit from the European Union, and to describe the possible models for trade in goods following the exit, a choice was made to analyse existing data from journal and news articles, reports from professional advisory services and educational research centres, as well as publications done by various EU and UK institutions discussing the phenomena, as they provided the most relevant and up to date information that the research required.

Data analysis is the process of making sense out of the data, and as the goal of this research is in understanding and being descriptive, the analysis process was primarily inductive; the direction of reasoning flowing from specifics to arrive at generalisation. The amount of existing data that was analysed is based on the notion of saturation, and this occurs when continued search of secondary sources produces no new information or insights into the phenomenon that is being studied. (Merriam & Tisdell 2015, 202-204.)

3.2 Reliability and validity

Reliability and validity are considered as one of the basic requirements of any research-oriented work. By using a certain scientific method, all research for example is expected to follow the appropriate ways and must comply with rules that are approved for the specific methods being utilized. As two different concepts in the context of qualitative research, reliability refers to the consistency and the repeatability of the measurement and research results, while validity refers to whether or not the research answered the questions it intended to answer. Reliability and validity should be considered from the very beginning of the research process to give credibility for the conclusions, because wrongly chosen methods and their applications can't be saved by the mere means of documentation alone afterwards. (Kananen 2011, 66-68.)

It is worth noting that the available material on the phenomena being studied was limited to begin with, but all data that was utilized in this thesis was based on the notion of quality over quantity. During the process of the secondary research, every inclusion of a new source started from the assessment of the author's recognition and expertise. New and additional sources were included as long as they brought new insights to the phenomena

under study. As the whole issue of the United Kingdom indicating the intentions of discontinuing their membership in the European Union is ongoing and pending, relevancy and release dates of the sources were among the most stressed criteria.

The data that was utilized included briefing papers prepared for the British Parliament, publications issued by researchers at UK trade observatories, and background materials that were requested by different EU institutions to assist in their parliamentary work. Additional reports were included from KPMG and PwC, which are some of the world's largest professional advisory service providers, and can thus be seen able to contribute relevant data regarding a wide range of phenomena on global issues due to their size. Relevant views from various articles were additionally included as well. Every source that was referenced to was also mindfully dealt with so that the underlying ideas were not taken out of their intended contexts.

As the whole referendum and the exit negotiations are splitting opinions across different governments and institutions, and as certain outcome options are seemingly more preferred over others depending on the author voicing the views, possible underlying hidden agendas of the sources were anticipated. In order to consider issues regarding objectivity and reliability of the sources based on what objectives they seek to attain, the perspectives of different parties influenced by the exit vote were included to either support or counter the views that were introduced.

4 Findings about the possible models for trade in goods

The purpose of a research is to collect data and process it into usable information. Due to the pending nature of the phenomena under study, the objective of this research is to search and analyse existing information of what is known so far of the United Kingdom's possible exit from the European Union. The research question that is studied revolves around understanding and describing the possible outcomes of the exit negotiations between the United Kingdom and the European Union, and what the models for trade in goods could look afterwards. The theoretical framework that was presented in previous chapter was compiled in order to conceptualize what the United Kingdom is about to exit; what kind of trade agreements and models are being utilized, and how the trade in goods is currently handled. The previously addressed framework set the fundamental course for the research and guided the search of the pre-published information and the analysis that was to follow. This chapter will next present the findings of the empirical part of the study.

4.1 The meaning of Brexit

As it is stated in the Prime Minister's letter to Donald Tusk triggering Article 50, the British Government believes it is necessary to agree on the terms of the future partnership alongside those of their withdrawal from the EU. While the United Kingdom does no longer seek membership of the single market, the position of the four freedoms of the single market are respected and understood that they are indivisible. The UK understands that there will be consequences for the UK leaving the EU, while simultaneously hoping to form a deep and special partnership that takes in economic co-operation in the negotiations. If however the UK leaves the European Union without an agreement, the default position would be to conduct trade on World Trade Organization terms. (Department for Exiting the European Union 2017.)

The British Government is said to be seeking an ambitious new economic partnership with the EU; not looking to copy a model of existing relationships, but still aiming for the freest possible trade in goods. The reported negotiating objective for the UK is to leave the single market and customs union, as it is said being part of the customs union makes it difficult for a country to negotiate its own free trade agreements. (Webb & Booth 2017, 14.)

When asked about Brexit following the referendum, the British Prime Minister Theresa May answered that "Brexit means Brexit". This statement was reportedly meant to convey that the UK will indeed trigger Article 50 and exit the EU, affirming that the government will

not backtrack from the intentions to act on the outcome of the referendum; as was demonstrated earlier on March 2017. The Prime Minister's statement has later been publicly interpreted to stand as the "hard Brexit". (BBC 2016.)

The future rules on trade will depend on what kind of agreement, if any, the UK reaches after they leave the EU. The possible outcomes of Brexit have generally been described on the spectrum of "hard" to "soft" in the media so far. There appears to be more to these names than just acting as catchphrases and buzzwords used in different forms of media, but as labels they still seem to mean different things to different people. Reportedly, there is no strict definition of either, but they seem to refer to the closeness of the UK's post-Brexit relationship with the EU (Hunt & Wheeler 2017). Following the view of the British Prime Minister's position, the harder Brexit option is understood to be a withdrawal in which the UK would give up participation in the EU single market and its legal rules (Smith 2016). Similarly, another briefing outlines the harder option as UK having to carry out trade with Europe and other nations under WTO rules (Webb & Booth 2017, 21).

Hard Brexit is assumedly the first extreme end of the spectrum. While searching for articles on the topic, some see a hard Brexit arrangement as the UK giving up full access to the single market and the customs union along with the EU membership (Sims 2016). To another, it means a "clean" Brexit that involves quitting without a deal in place (BBC 2017). Both end results can still be viewed as similar. According to a Brexit vocabulary guide (Dhawan 2017), a hard Brexit refers to a "complete" Brexit and a trading situation between the EU and UK that does not allow for the free movement of any of the four freedoms; a situation that would simply be governed by the WTO rules. This too seems about moving further away from the EU and cutting the formal ties in the process.

Soft Brexit should then be the opposite end, where close formal ties with the EU are continued. Potentially, this can be interpreted as any number of possible arrangements, and basically anything less than a full withdrawal. Soft Brexit according to one description regards as "less-than-a-complete" Brexit; a trading deal between the EU and UK that preserves the free movement of goods, services, capital and/or people (Dhawan 2017). In a similar view, soft Brexit could possibly involve some form of membership of the EU single market, in return for a degree of free movement (BBC 2017). Alternatively by remaining in the customs union, goods are seen being traded with the remaining EU states on a tariff-free basis, as it would keep access to the European single market and it would leave the UK's relationship with EU as close as possible to the existing arrangements (Sims 2016).

After continuing on with the search of existing information, the terms soft and hard Brexit kept noticeably repeating, but each author had presented them differently. Hard and soft Brexit are seemingly simple overall approaches, and there is a broad middle ground between the two definitive ends. To gather the findings so far into understandable terms; the “harder” the exit outcome is, the more comprehensive departure is assumed to be organized from the EU. On the other hand; the “softer” the exit outcome is, the closer the post-Brexit situation can be compared with the current market access and integration with the EU. The search approach at this point clearly felt the requirements of some refining, as the findings under these terms seemed to be more based on beliefs rather than being arrived at through reasoning. The course was not seen leading to a conclusion of valid regularities.

So while the possible post-Brexit frameworks for trade that are advanced next under their own subchapters could be identified depending on the “hardness” of the outcomes, they are based on inductive analysis of existing examples and on what is known of them already. The theoretical framework presented earlier helped to internalise what specifically are the agreements and institutional memberships that form the basis of the actual membership of an European Union member state. Each of the following subchapters are thus separated to address only a specific part of the framework revolving around the trade in goods that the existing state of affairs enforces. The post-Brexit possibility for trade that is first analysed is the so called “hard” Brexit; a trading situation resorting to WTO rules of trade. The proceeding subchapters after this will advance on the Brexit spectrum towards the “softer” outcomes; the EEA membership being analysed as the closest to the current EU membership, but still involving leaving the European Union.

4.1.1 Trading under WTO rules

It is said that if no new trade deal is negotiated, and the UK finds itself completely outside of the EU single market and the EU customs union, then the post-Brexit trade would take place under the WTO rules. This is apparently referred to as the default option with no preferential trade agreement in place between the EU and the UK. In the absence of a deal with the EU, the UK would be subject to face tariffs and other barriers to trade on exports to the EU, but on the contrary, so too would the EU exports to UK reportedly face whatever tariffs the UK potentially decides to impose. (Webb & Booth 2017, 21-22.)

According to Sentance (2016, 29-30), while trading under the WTO rules raises the prospect of tariff and non-tariff barriers on trade being higher, similarly so would other European countries face higher trade barriers in terms of their access to the UK market. In his

view, this also implies exporters facing the challenge of increasing exports to other geographical markets for compensation. According to Chism & Dhawan (2017a), it is precarious to predict the absolute winners or losers in the negotiations at this point, but they mention the WTO scenario as one of the options to what to watch out for in the exit negotiations. As they present later in the same report, a large amount of global trade takes place exclusively under WTO rules, and an introduction of trade barriers is not expected to be insurmountable. However any change in the free movement of goods is said to increase costs and complicate decision-making.

In a report carried out by several authors at the Research Centre of the London School of Economics, the same outcome is analysed under a pessimistic exit scenario. Starting from the assumption that the UK is not successful in negotiating a new trade agreement with the EU, following that trade will be governed by WTO rules, their implications are increased trade costs in three parts: higher tariffs on imports under the most favored nation tariffs; higher non-tariff barriers to trade that arise from regulations and border controls; and the UK having to align with rules agreed by institutions it is no longer a part of. (Dhingra, Ottaviano, Sampson & Van Reeren 2016, 2-4.)

Grant (2017, 25) supports the previous finding, highlighting that even in the event that Britain faces an abrupt exit from the EU and falls back to the WTO rules, there are still rules set for maximum tariff levels for goods; Britain would only face the EU's common external tariffs on its exports. According to Carmona & al. (2017, 33) the WTO option would also impose the fewest obligations on the UK as there would be no requirement to implement EU legislation afterwards, although they remark that UK businesses would still have to comply with EU rules in order to export to the single market.

In a study requested by the Committee on Constitutional Affairs of the European Parliament, Tell Cremades & Novak (2017, 36-37) have examined the political and institutional steps to be taken in the context of the Brexit referendum. They report that if no alternative agreement is reached within the specified time, and an unanimous extension of the negotiation timeframe is not achieved, trade would automatically fall into the WTO regime. According as such, the UK would enjoy access to the EU as other members of WTO, with the exception of countries with trade agreements that have been granted preferential market access.

Evidence based on the findings so far seems generally convincing and consistent on at least one part: trading under the World Trade Organization rules can be said of being a

possible model for trade in goods if the United Kingdom leaves the European Union. Additionally, if something could be concluded about all possible post-withdrawal trade situations between the EU and the UK with absolute certainty; trading under the WTO rules can be stated of being not just the default, but also the only post-Brexit option for trade in goods, if a membership in the EU is discontinued and no other form of new or existing trade agreement or framework is put into effect.

4.1.2 Customs union

The rules of the customs union within the single market are reportedly seen clearly due to their transparency; goods pass freely across its internal borders without facing customs duty, and by contrast, goods from outside the customs union face considerable non-tariff barriers in addition to the EU's common external tariff. With the benefits of the customs union publicly known, it is speculated whether or not the UK wants to give up this arrangement in favor to establish its own free trade deals with the freedom to set tariffs. If the UK left the customs union with no other arrangements in place, all UK-EU trade are seen of requiring customs clearances; with imports of goods into any EU country being subject up to 135 different duty rates. (Jones 2017, 1-3.)

According to Lydgete & al. (2016, 2-3) a decision to remain as a part of the customs union would mean the most minimal change in the UK's relationship with the EU as far as the trade in goods is concerned. The key advantage with remaining in the customs union is described as that there would be no need to introduce rules of origin, which would require potentially expensive customs procedures. However following Theresa May's assertion that "Brexit means Brexit", Lydgete and her colleagues make the assumption that the UK will not, after leaving the EU, remain part of the customs union.

For Sampson (2016, 1-3), the meaning of Brexit is yet to become clear, but he notes that if it means leaving the customs union of the EU, it would allow the UK to pursue its own trade policy for the first time since joining the EU in 1973; the drawback being that it would be the start of many years of trade negotiations for the UK. Webb & Booth (2017, 24-25) additionally suggests that the UK could stay in the customs union as one option, possibly as a transitional arrangement after Brexit. They too note the main advantage of a customs union arrangement being that it would reduce costs associated with rules of origin, and the main disadvantage being how it would severely constrain the UK's ability to conclude its own agreements on trade in goods.

By using the existing situation of Turkey as an example, Tell Cremades & Novak (2017, 32-33) note that following the same model would allow the UK to retain the EU's common external tariff, as well as the import conditions imposed under the EU's free trade or preferential agreements with third countries. They however raise the obvious downside in this scenario as the UK finding itself in a precarious position of having to give up trade sovereignty in order to gain access to the EU single market, followed by having to comply with a number of regulations.

In light of the relevant and supporting views of the different authors, it should be safe to say that a member state leaving the EU while remaining in the customs union could be considered of serving as a post-withdrawal model for trade. Without analysing the authors' views of the likelihood for such a framework taking place following the Prime Minister's recent and publicly voiced statements, the publications do still cite Turkey's customs union deal currently with the EU, thus supporting the argument that the same could be envisioned between the UK and the EU potentially as well.

4.1.3 EEA membership

Study conducted by Tell Cremades & Novak (2017, 29-31) discusses Norway's current relationship with the EU, and how it could be used as a framework for a future UK-EU relationship as it offers comprehensive access to the single market. In their view, such an option would theoretically imply that the UK would join the European Free Trade Association (EFTA), and then the European Economic Area (EEA). Under the standard EEA formula, the UK would reportedly retain a large portion of legislation related to the internal market, including free movement of imports and exports. They also propose it as a possible transition option from full EU membership to a specific arrangement tailored to UK needs.

Dhingra & al. (2016, 4.) also report how technically a non-EU member can still join in the single market, noting how the EEA Agreement makes Norway, Iceland and Liechtenstein part of the market while still not being EU members, but that does require following set EU rules. They conclude with how it is worth noting as well that a membership of the EEA would give the UK extensive access to the single market, but however, for access to the single market, post-Brexit option like this would still require the UK to make considerable contributions to the EU budget.

Similarly, the closest relationship the UK could be seen having with the EU after Brexit is a free trade area according to Lydgete & al. (2016, 6), and their assumed scenario would

entail rules of origin and the introduction of new barriers in trade in goods, even if full access to the single market remains; like the EEA model works for non-EU members. Sentance (2016, 31) also acknowledges and names the EEA membership as a post-Brexit option, but rather suggests it could be used between the EU and the UK as a transitional arrangement until a new comprehensive free trade agreement is negotiated. Carmona & al. (2017, 26) shares the earlier perspectives by noting that the post-Brexit UK could retain its membership in the EEA, but would first need to join as a member of EFTA once it withdraws from the EU.

Continuing on with the earlier analysis from Dhingra & al. (2016, 2-4), the UK and the EU are expected to place a free trade agreement without leading to a change in tariff barriers in an optimistic outcome scenario. They assume that the post-Brexit trade relations with the EU, in which the increases in trade costs between the UK and the EU would be small, will look similar to those currently enjoyed by Norway. As a member of the EEA and the European single market, Norway has a free trade agreement with the EU; Norway adopts policies and regulations designed to reduce non-tariff barriers within the single market, and has no tariffs on trade between the EU.

While the scope in some of the findings may suggest this framework only being used as a transitional model between a full EU membership and a new possible trade agreement, a bare EEA membership for the UK could be considered of possibly taking place and serving as one model after leaving EU. By analysing the accumulated evidence, the views seem to generally refer to the empirical examples of the non-EU countries currently participating in the EEA, meaning it could possibly support post-Brexit EU-UK trade as well.

4.1.4 Free trade agreements

From the perspective of Cadman & Tetlow (2017), the UK could be seen able to negotiate a free trade agreement with the EU for goods relatively easily, as no tariffs are presently at force and compliance with current regulations already takes place. Under the assumption that some sort of a free trade deal is done, other non-tariff barriers are mentioned of possibly adding costs to trade, and companies facing border inspections is said to be an example of this on a practical level. Complying with rules of origin is also described as an important component to trade agreements, and if only some of the goods gets covered by a free trade deal, companies would then have to check individual items whether they are compliant or not.

The views of Chism & Dhawan (2017a) also underlines the potential for bespoke deals or free trade agreements following a withdrawal, but highlight that any possible trade agreement would be the result of tradeoffs between multiple factors. A tailored deal between the EU and the UK is said to potentially contain sections regarding customs agreement with zero tariffs, mutual recognition of standards, or agreed definitions of origin rules, but comes down to the complexity of the negotiations; to what extent can something be restricted on one freedom to gain amendment on another. Grant (2017, 25) also believes a free trade agreement is a likely post-Brexit scenario and even the most optimal outcome, but emphasizes that it would additionally require a transitional deal given how long they usually take to negotiate. He says that with luck, a free trade agreement would provide between low to zero tariffs on goods, but mentions another problem being that free trade agreements traditionally do not do a great deal to remove non-tariff barriers to trade.

While Sampson (2016) doesn't reflect upon the details of a possible trade agreement, he stresses the point that the UK starts from a weaker position than the EU because it needs a deal more; and how the UK should decide what it is willing to concede in exchange for achieving its objectives. The potential gains from trade agreements are said to be larger when countries are willing to make bigger concessions and give up more policy control according to him, concluding with the suggestion that UK's first priority should be to land a transitional deal to cover the post-Brexit period before securing a long-term agreement.

According to Lydgate & al. (2016, 6), the EU is stated to be the most important concern for the immediate future of UK trade, mentioning how the key objective should be to begin discussions on the future trade relations as soon as possible. In an ideal situation according to them, there should be a peace clause with the EU that would allow trade to continue based on existing procedures while a long-term agreement is negotiated in full. The perspective of Sentence (2016, 31) suggesting the EEA model as a transitional model was mentioned earlier, the reason behind this suggestion according to him being that trade agreements usually take 5-10 years to agree and implement. Securing a comprehensive free trade deal within the two-year deadline set by Article 50 is stated as problematic.

The overall scope of the views can be seen vast, but the specifics are unfortunately limited and scattered. While it could be generalized that some sort of a trade agreement could possibly be secured by the UK at some point after leaving the EU, the findings seem to suggest that actually reaching an agreement on one during the given timeframe is questionable. However the overall idea and the evidence of a potential free trade agreement serving as the basis for post-withdrawal trade in goods at some point still seems generally convincing to act as a possible option.

5 Discussion

To interpret the findings and the framework of trading under WTO rules in general; while the EU itself and its member states are members of the WTO, so too is the UK in its own right. Trading under the WTO rules of trade in goods would not just be the default trade model between the EU and UK in the case there is no other post-Brexit agreement, as trading under the WTO rules could even be seen as the default option for international trade overall. Independent governments can protect their domestic markets by imposing tariffs and other forms of protection to imports, but as stated by the WTO rules under the most favoured nation policy, the UK and EU would be obliged to apply the same tariffs and other trade restrictions to each other as they apply to the rest of the world.

This principle allows a few exceptions if full bilateral trade deals are in effect, and the free trade agreement that comes with the EU membership is one of them; being a member state in the EU only builds upon the underlying WTO framework. So in the case that the UK leaves the Union and trade is only governed by WTO rules, not only would the EU and all of its 28 members be required to trade with the UK like any other third state, but so too would the UK have to trade with any of the EU members as governed by the most favoured nation policy of non-discrimination.

As a publicly voiced position paper from the UK government has indicated that it will rescind its membership of the single market and the customs union, and instead is seeking unified customs arrangements through a bespoke deal (EY 2017), further findings on the customs union framework started to repeat a similar message with the results that were presented previously: a customs union deal like the one Turkey has in place is mentioned as a possibility, but regarded as unlikely. With this in mind then, even though the current customs union agreement with Turkey may only cover industrial goods in the EU's single market, it still acts as an existing and empirical example of how a non-EU member can partake in trade in goods with the EU and its member states. So considering it as a possible post-Brexit model for the EU-UK trade in goods; even if the United Kingdom would discontinue its membership in the EU, it could still technically remain inside the customs union with a to be negotiated level of free movement of goods.

With Norway's EEA membership and the relationship with EU acting as an example of another existing trade scenario that was referred to multiple times among the findings, the same framework could possibly be seen applied to UK as well as a post-Brexit option. If the UK were to adopt this model of trade upon their exit from the Union, they would be able to export to the single market and still negotiate their own free trade agreements with

non-EU countries. On the other hand however, bare membership of the EEA would entail rules of origin and non-tariff barriers for trade in goods, as they would remain outside of the EU's customs union. Additionally, EEA members do not benefit from the EU's current and prospective future trade agreements with other countries.

As it has been outlined earlier in the study, various free trade deals and co-operation templates between the EU and third states already takes place under different agreements, and the likelihood of such an agreement following the United Kingdom's withdrawal from the EU was considered among the secondary data. When it comes to the actual details of these agreements however, there is expected to be as many alternative options and outcomes as there are governments and institutions with various levels of ambition establishing them.

Even if some of the frameworks behind the existing trade agreements would serve as models for future relationships between the EU and the UK, the findings could be concluded of being too limited to forecast any demonstrable features of a possible free trade agreement. The analysed data only seemed to support two aspects when it comes down to the specifics: while some sort of a trade agreement is acknowledged as a possible option, it is questioned whether or not one could be reached within the two-year deadline set by the Article 50. Securing a trade agreement will most likely be preceded by prolonged talks about what aspects can be traded to gain footing on something else, and this basically means it is defined by too many factors to grasp at this moment.

5.1 Conclusions

Brexit means that the UK intends to leave the EU in one way or another. Without resorting to speculation about when, how, and if this leave will indeed take place in the upcoming future or not, this research set out initially to gain an understanding of this unique and unprecedented phenomena in the form of what could possibly take place afterwards. While at first the studied phenomena was addressed as the UK leaving the EU with the exact outcomes still unknown, the research process can be concluded of finding and defining a more definitive core to this: the problem is not specifically that the UK is leaving the EU, because at the very core of the situation it is about that any member state for the first time ever is acting on the freedom to do so.

The theoretical framework established what exactly it is that the current state of affairs consists of when it comes to trade in goods on the single market. The UK's effectual membership of the EU can be traced back to three separate entities: a full membership of

the EU, membership of the EU customs union, and membership of the EEA. Having a full member state status in the EU automatically entails the memberships of the customs union and the EEA as well, but there are a few empirical and existing examples of non-EU countries currently granted access to either the customs union or the EEA. With the knowledge about the structure of the effectual membership, individual sections that define the whole integrity can be advanced with inductive analysis based on existing frameworks between the EU and different countries.

Upon joining the EU, a country is voluntarily and willingly forfeiting some control of their policies governing international trade to be taken at the EU level. This division of authority is based on the EU's multiple treaties that override national laws, and as a result the EU itself is responsible for the trade policy of its member states and this is negotiated on their behalf. As such, no individual member state can negotiate trade agreements between non-EU countries. So in the case that the UK leaves the EU, any bilateral trade agreements cannot be settled between individual EU member states, but any possible EU-UK trade agreement that is put into effect would automatically affect each and every remaining member state in the EU.

The EU's single market was established and is still based on the idea of the free movement of goods, services, capital, and people. The single market encompasses the EU's 28 member states together on an internal market where tariffs and quantitative restrictions have been abolished from trade between the member states. Access to the single market however can be extended and granted for non-EU countries as well to allow some level of free movement. The EEA was put into effect to allow member states of the EFTA to participate on the single market on a tariff-free basis, and Norway is an example of a non-EU country joining through this option. For being granted access to the single market, the EEA states are expected to make contributions to the EU's budget and to comply with EU rules, but they are treated as if they were any other EU member when it comes to imposing tariffs on trade as there are none. A membership of the EEA does not in itself however establish the effects of EU's customs union, so the EEA states are subject to customs procedures, but retain the power to negotiate their own trade agreements with third countries.

The EEA membership can be seen as a possible model for the trade in goods in a post-withdrawal situation. Membership in the EEA would be the closest comparison to the current integration and market access, while still requiring giving up the full EU membership along with the customs union. This framework would mean that the UK discontinues its member state status in the EU, followed by possibly joining the EFTA, and then joining the

EEA. This situation would also grant the UK the control to negotiate trade agreements independently.

The EU and its member states form a customs union, which results in all members setting the same tariffs on goods imported into the EU from non-EU countries in the form of common external tariff. Imports from third countries into the EU are subject to the same tariffs despite which member state they are imported into. The customs union also limits member states' freedom to negotiate their own trade deals. Turkey currently has a customs union deal in place with the EU, which establishes free exports of industrial goods to EU countries, while being required to charge all tariffs from non-EU countries according to the customs union common external tariff. Similar model could be concluded as a possible option for the UK as well. Depending on what is negotiated with the EU in this scenario, a customs union membership as a non-EU country could allow some of UK's goods to move freely across the EU's internal borders, but would require adopting the common external tariffs on imports from the remaining countries besides EU member states, while also limiting the freedom to negotiate trade agreements with non-EU partners.

EU's member states are members of the WTO, but the UK is also a member of the WTO in its own right. Some of the international trade around the world is conducted exclusively under the WTO rules, and this would be the basis for EU-UK trade as well if the UK's full membership status in the EU is discontinued with no form of replacing agreement in place. This can be regarded as the only clearly definitive model for trade in goods as a possible outcome; not implying that it will happen, but it would be the default option if everything else fails and trade negotiations do not advance to any other conclusion.

Different types of trade agreements are currently in place between the EU and third countries around the world, with new ones actively being negotiated. All member states automatically benefit from all and any trade agreements that the EU establishes. Trade agreements are used by the EU to give up some control over their own policies in exchange for other countries doing the same, and different focuses in the trade agreements have traditionally been the reduction of customs duties and tariffs being reduced or eliminated. Without speculating details of what could potentially be covered in an agreement, the post-withdrawal trade between the EU and the UK could still be based on some sort of a bilateral trade agreement as one possible option. This however is probably the trade model that currently raises the most concern, given the timeframe of the exit negotiations. As the UK is a smaller market than the EU, it also assumedly has less bargaining power in trade negotiations than the EU does. As it was also stated that the UK needs a deal more than the EU does, it probably faces an even weaker position in the exit talks due to this.

While preparing for every individual outcome eventuality at this moment however does not seem manageable, the trustworthiness of documentation presented in this thesis seems adequate to support the underlined post-withdrawal trade models between EU-UK trade as possible options. If there is at least something that could be said that the most authors of the analysed publications seemed to agree on, it was the idea that any possible framework between the EU and the UK relationship is expected to include many different dimensions. As this research set out to gain an understanding and to extend knowledge of the UK as member state leaving the EU, it could be concluded with achieving to do so by providing descriptions of the separate plausible frameworks on a practical level.

From a theoretical perspective however, it is worth noting that the nature of conclusions reached with inductive analysis is to establish merely likely outcomes. Even if something could be generalised, they are still not absolutely certain. This is especially the case in the possibility of the UK discontinuing its membership in the EU, as there is no amount of evidence that could support leading to definitive results, and no way knowing that all possible evidence has been gathered and no further bit of unobserved evidence remains. (Merriam & Tisdell 2015, 284-286.)

Even if the situation that was researched revolved around the UK leaving the EU, potentially any other member state leaving afterwards could also be seen facing same procedures of having to choose and negotiate between the same co-operation frameworks for post-withdrawal trade in goods with the EU. The UK has not however adopted the common currency of the single market, the euro, so the research results are limited in transferability. This study was also delimited to only take into consideration the trade in goods, and cannot thus be compared or used to judge what the post-withdrawal situations regarding trade in the remaining freedoms would possibly look like. Aspects regarding these could however be named as possible future suggestions to be studied separately under new investigative questions.

5.2 Thesis process

The beginning of my thesis process can be traced back to the spring of 2017, when the British Prime Minister Theresa May officially notified the United Kingdom's intention to leave the European Union. Even though I had been interested in the situation since the referendum, actually triggering the Article 50 and initiating the exit process took the first real step towards a possible future of European Union without United Kingdom. With my major subjects being international business and logistics, and also supporting a profound

interest towards the United Kingdom in general, I expected this research subject proving out to be beneficial for me not only on practical levels about the country in question, but helping to support my future interests about employment and further education as well.

It is safe to say I had my mind almost stubbornly set on studying Brexit as the phenomena in my thesis pretty early on after the Prime Minister's statement, but managing to delimit the research problem turned out to be surprisingly troublesome. The topic of Britain leaving the European Union felt like an utterly fascinating subject to study at first as it is such an unprecedented situation of its kind, but understanding and getting to the bottom of the phenomena had an unseemly steeper learning curve than I had expected.

The thesis process started out originally with a distinctive focus on what the post-Brexit scenario would look like between Finland and the United Kingdom, but upon familiarizing myself with the theoretical side of the current situation of trade inside the European Union, I comprehensively understood for the first time what the building blocks of a member state in the Union actually consisted of and how exactly the trade policies are split between the EU and its member states. I had taken the current situation and required procedures regarding exports and imports for granted, without previously managing to consider or question what it actually is that enforces certain aspects.

To summarise what is also stated earlier in this research; the EU itself is responsible for the foreign trade policy of its member states and the European Commission negotiates this on their behalf. As a result of this, no individual member state can settle a bilateral trade agreement with a non-EU trade partner. So if the UK leaves the EU, it would be the Union that lays out the terms for the future, and Finland would have no say in the relations. Whatever the final trade agreement that the UK and the EU may settle, the same deal would still be imposed identically across every remaining EU member state.

Upon learning this, it felt that forcibly writing the thesis about a Finnish perspective wouldn't provide any additional value for myself, but instead could just be seen limiting the further usability of the research. The approach was then refined to its current form; to support a wider approach and provide descriptions of possible future UK-EU trade models in general. The research thus took its fair share of time to finally materialize, but the process could almost be described as a learning experience during which where the journey was actually more important than the destination.

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