# Frequently Asked Questions

1. **To what degree are the implications of the five possible trade scenarios presented here accurate? In other words, what assumptions is your model based on?**

Our research uses a macroeconomic model of international trade which allows for the quantification of the effects of various changes in *tariff* and *non-tariff* barriers-to-trade on a number of macroeconomic variables. Our model does not take into account possible changes in fiscal or monetary policy, nor the planning and operations of production runs.

**2. Are the scenarios presenting an average of all sectors/regions across the UK, or relative to the sector/region?**

In our model, the scenarios presented are all for the UK as a whole. The model can offer some indicative predictions on the relative impact on different regions on the basis of regional characteristics (such as the regional unemployment rate and pattern of international trade). However, our model does not quantify the impact of a possible trade scenario on different regions, just suggests whether a region is likely to be more or less impacted than the UK as a whole.

**3. Under the first three scenarios, notably `No Deal', we see a sharp drop in unemployment, followed by a sharp rise. Why?**

In our model, as non-trading UK firms enter the market in anticipation of a decrease in competition from the EU after the new barriers to trade come into force, they will demand labour, which will lead to a decrease in unemployment. Once the new barriers to trade come into force, UK firms exporting to the EU will demand less labour, due to the decrease in demand for their products. Note that the UK firms that export to the EU have no incentive to reduce their labour force before the new trade barriers come into force, so their number of employees will not change prior to the exit date.

**4. Under the first three scenarios, UK firm profits drop dramatically, yet domestic sales soar and unemployment remains under the starting point. Why?**

The drop in total profits of UK firms reflects a substantial decrease in the profits of UK firm exporting to the EU, which will fall as a result of higher barriers to trade. This decrease is offset by an increase in the profits of domestic firms operating on the UK market, as competition from the EU will decrease (as a result of the higher barriers to trade). This decrease in competition will allow less productive firms to enter the domestic market, decreasing the unemployment rate.

**5. Do these scenarios account for different customs scenarios?**
Both the *'Barnier' Free Trade Agreement* and the *Full FTA* scenarios assume that the UK remains in the customs union, but not in the single market. All the other scenarios assume that the UK leaves both the single market and the customs union.

**6. How would changes to migration affect these scenarios?**

Our model does not account for labour migration. Changes in the pattern and size of migration flows has the potential to either dampen or enhance the size of the changes in GDP, depending on the extent to which the flows of (skilled and un-skilled) migration are disrupted.

**7. If the length of time between the announcement of the future UK-EU trade arrangements and them coming into force was to be/would be extended beyond the one year, would the model predict a better outcome in the scenarios analysed here, or just an extended projection of the one year period?**

In the long run (10+ years) the outcome would be the same no matter the length of the period of the transition period. In the short run however, beyond three years, the addition of one extra year will have only a marginal effect on the size of the decline in GDP, productivity, the average real wage and profits.

**8. Based on the analysis of these scenarios, which one does Durham University believe to be the most beneficial outcome?**

The most beneficial outcome depends entirely on business/Government priorities. UK businesses that export to the EU would be best served by a customs union or remaining in the European Union. However, UK business that only produce for the domestic market or export to non-EU countries would be better served by leaving the customs union and the single market.

For more on this, see our Written Submission to the *International Trade Select Committee UK trade options beyond 2019 Inquiry,* which assesses the advantages and disadvantages of the various UK trade options beyond 2019.

**9. How much of an impact would the signing of major FTAs, with USA for example, change these models?**

Each FTA the UK will sign, will reduce both the short and long run falls in GDP, productivity, the average real wage and profits. Our model shows that if the UK will sign a FTA with the USA, this would lead to a 1.3% increase in UK GDP in the long run, relative to the case of no FTA.

**10. What, if any, assumptions are made about domestic demand?**

The only assumption that is made about domestic demand is that as goods from the EU become more expensive as a result of increases in barriers to trade, UK consumers will, to some extent, substitute EU produced goods for UK produced goods, and for goods produced by non-EU countries.

**11. How important is it that business is planned and prepared for these scenarios/eventualities? Should I prepare for all of these scenarios?**

During the Great Recession, the UK experienced a year-on-year fall in GDP of around 4.2%. Even if the UK is able to secure a 'Barnier' FTA, GDP is expected to fall by 5% in the short run, and if the UK left the EU with no deal of any kind, the fall in GDP is expected to be around 10%. Therefore, it is of key importance that businesses are prepared for the possibility of large changes in GDP, although our research cannot predict how likely each trade scenario is, only the likely outcomes if each scenario is realised.

It is important to note that all firms will be affected by the changing relationship between the UK and the European Union whether or not they themselves export or import to/from the European Union.