

Since Brexit, trade in goods between the United Kingdom and the European Union has declined

Since the free-trade agreement resulting from Brexit came into force on 1st January 2021, trade between the United Kingdom and the European Union (EU) has declined. At the end of 2021, trade with the United Kingdom was therefore significantly lower than its pre-Brexit level. This drop in trade has been uneven between the different European partners: compared to its neighbours in the Eurozone, France is the country where imports of UK goods have fallen least since Brexit, compared to 2018. However, exports of goods to the United Kingdom have dropped more sharply in France and Germany than elsewhere in Europe. These differences between countries are mainly due to dynamics specific to certain products in terms of trade.

In 2021, trade with the United Kingdom remained well below its pre-Brexit level

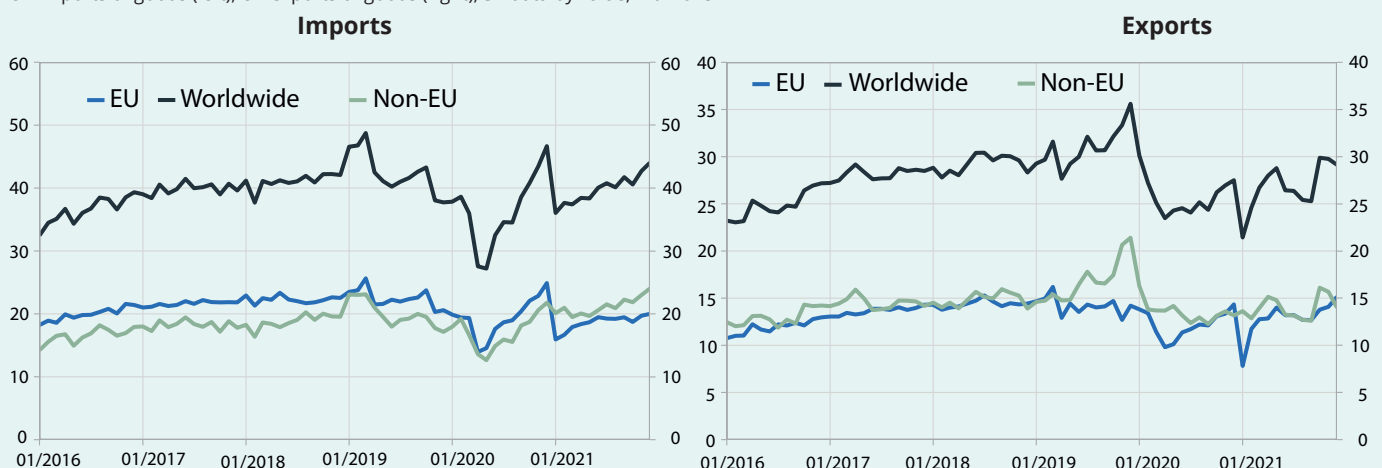
Since 1st January 2021, and in accordance with the EU-UK Trade and Cooperation Agreement signed with the European Union (EU), the United Kingdom is no longer a member of the European Customs Union. Goods transiting between the EU and the United Kingdom are therefore subject to non-tariff barriers, resulting in sanitary and phytosanitary controls, and checks on provenance and destination. Trade in goods was affected in this way as soon as the agreement came into force, even though British customs were not yet applying all the checks provided for in the free-trade agreement, in contrast to the EU. According to a survey by the British Chamber of Commerce last February, 71% of UK companies involved in trade with the EU felt that the free-trade agreement did not help them increase their sales.

In January 2021, after the establishment of the free-trade agreement with the EU, trade in goods with the EU tumbled dramatically, after an inventory phase (► **Figure 1**). For goods exported before Brexit, the share destined for the EU was already less than that going to non-EU countries. But this was not the case for imported goods: the inversion, visible across the whole of 2021,¹ suggests a partial substitution of European imports for those from the rest of the world. In 2021, imports of goods from the EU stood at -18.4% (in value) below their 2018 level,² while imports from the rest of the world were higher than their pre-Brexit level (+6.3%). Concerning exports, they declined irrespective of destination, but the gap between 2018 and 2021 is more pronounced for goods bound for the single market: -14.3% for exports to the EU, against -9.8% for exports to the rest of the world.

¹ The data presented here stop at December 2021 due to a change in methodology by UK customs in January 2022, which makes it difficult to interpret monthly variations from this date.
² In this study, 2018 is taken as the pre-Brexit reference year, due to the disruption caused by the successive postponements of Brexit in 2019 (inventory effects as the March and October 2019 deadlines approached), and the effects of the health crisis on trade in 2020.

► 1. In 2021, the United Kingdom traded more goods with non-EU countries than with EU countries

UK imports of goods (left), UK exports of goods (right), SA data by value, £ billions



Note: here we consider trade in goods (monthly data), from the point of view of the United Kingdom. Last point: December 2021.
 How to read it: in October 2021, UK exports of goods stood at £30 billion, of which £14 billion for exports to the European Union..
 Source: ONS

French economic outlook

The substantial drop in UK trade between 2018 and 2021 was due in part to the health crisis: in 2020, UK trade plummeted, as it did in Europe and the United States. However, in 2021, after Brexit came into force, UK exports continued to decline (-1.3% after -12.9%), and imports rebounded moderately (+3.8% after -15.8%), whereas in the main Eurozone countries, the rebound was more vigorous. In Q4 2021, UK imports were below their 2018 average, while in the main Eurozone countries, imports had returned to this level (except in France, but the gap was nevertheless negligible, ► **Figure 2**). UK exports were also down compared to their 2018 level. In France, this difference was less, and in the other main Eurozone countries, exports exceeded their 2018 level.

In 2021, the European Union traded less with the United Kingdom than in 2018, whereas trade with its other partners increased

In 2021, the deterioration in trade between the United Kingdom and the EU, compared to pre-crisis levels, was partly because activity in both the EU and the United Kingdom had not yet returned to pre-crisis levels. However, at the same time, the EU increased trade with some of its other main trading partners. Thus at the end of the year, trade in goods with the United States returned to its 2018 level (► **Figure 3**). In addition, imports from China increased significantly during the health crisis, driven mainly by health goods and capital goods associated with the pandemic (teleworking, etc.).

► 2. Difference between trade in Q4 2021 and the 2018 average

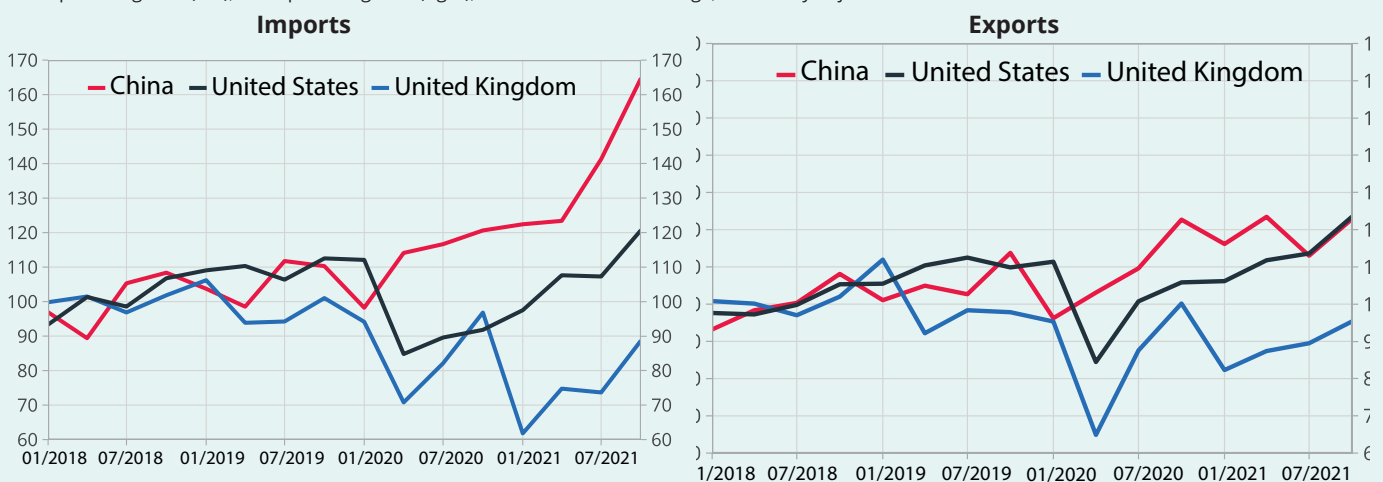
in %

	Germany	France	Spain	Italy	United Kingdom
Imports	+5.4	-0.4	+3.4	+4.7	-6.8
Exports	+2.4	-4.5	+2.4	+2.7	-7.0

Source: Destatis, INSEE, INS, Istat, ONS

► 3. Trade with the United Kingdom in European goods has declined since 2018, whereas it has increased for the other main trading partners

EU imports of goods (left), EU exports of goods (right), in base 100= 2018 average, seasonally adjusted in value terms



Note: here we consider trade in goods (monthly data), from the perspective of the European Union. How to read it: in December 2021, European imports of goods from the UK were 11% below their average level in 2018. Source: Eurostat

Trade with the United Kingdom, on the other hand, was still well below the pre-health crisis level at the end of 2021. Imports from the United Kingdom seem to have been more affected than exports to the UK. This may possibly be due to the fact that British customs have not yet put in place all the border controls applying to goods arriving from the single market. The EU, on the other hand, has not applied a derogation and implemented all the border controls stipulated in the EU-UK Trade and Cooperation Agreement as soon as it came into force.

Bilateral trade between the United Kingdom and its European partners has not declined in the same proportions for each country

Between 2018 and 2021, trade in goods between the United Kingdom and its different European partners fell in varying proportions depending on the country. Concerning the main Eurozone countries, and exports of goods to the United Kingdom, it is in Germany and France that this trade has fallen most: between 2018 and 2021, the decline was -18.6% in Germany, -14.1% in France, against -10.7% on average for the EU as a

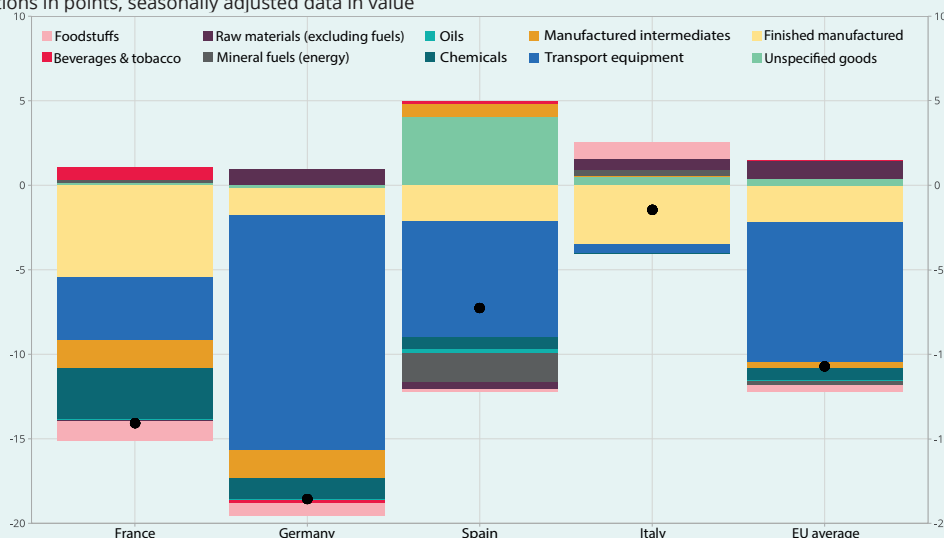
whole (► Figure 4). The main reason for the net decline in exports of German goods is the sizeable drop in machinery and transport equipment (-13.9 points), linked to the difficulties that the German automobile sector has experienced since 2019. This sector accounted for more than half of German exports of goods to the United Kingdom in 2018. In France, the decline in exports since Brexit is spread more evenly across the products in the classification considered,³ but these are made up for the most part of manufactured goods, especially finished products. On average, across all the EU countries, transport equipment remains the category of goods that contributed most to the drop in exports between 2018 and 2021. This was not the case for Italy, however, where exports of goods to the United Kingdom were close to their pre-Brexit level in 2021 (-1.5 %).

With regard to European imports from the United Kingdom, the decline between 2018 and 2021 ranged from -13.5% for France to -36.2% in Spain (► Figure 5). Thus France is the country where imports from the United Kingdom have fallen least, compared to the other main Eurozone countries, and the EU

³ The Standard International Trade Classification (SITC) distinguishes between “manufactured goods” and “miscellaneous manufactured articles”, which here we call respectively “manufactured intermediate goods” (in that they contain intermediate products such as paper, iron and steel, etc.) and “manufactured finished goods” (in that they contain consumer products, such as clothing, furniture, etc.).

► 4. Between 2018 and 2021, exports of goods to the UK fell sharply in France and Germany compared to the rest of the EU

changes in %, contributions in points, seasonally adjusted data in value



Note: Exports of goods by value to the UK are considered here (annual data).
How to read it: In 2021, French exports of goods to the UK were 14.6% lower than in 2018. Foodstuffs contributed to this decline by -1.2 percentage points.
Source: Eurostat

French economic outlook

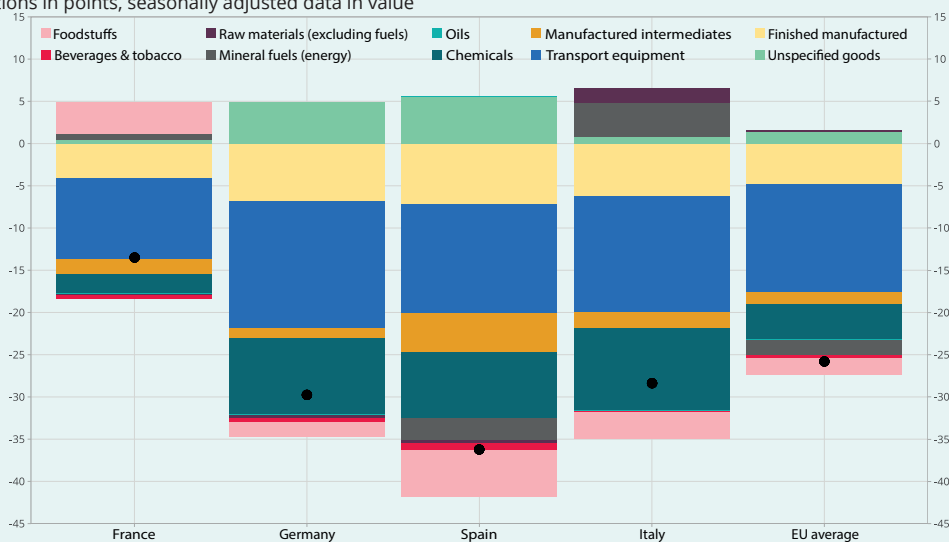
average. Food products are one contribution to these differences: the French economy increased its food imports from the United Kingdom, whereas they have declined for the other main Eurozone countries. This particular feature of French imports is mainly the result of a strong rise in imports of British fish since the beginning of 2021. In addition, French imports of British chemical products fell less than elsewhere in Europe

between 2018 and 2021. Across all the European countries, on average, machinery and transport equipment contributed most to the decline in imports from the United Kingdom. The significant contribution of this type of product stems both from its substantial weight in European imports of UK goods (35%), and the input flows that were substantially degraded in 2021 compared to 2018 (-37%). ●

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► 5. Between 2018 and 2021, UK goods imports fell less in France than in the other major euro area countries

changes in %, contributions in points, seasonally adjusted data in value



Note: Imports of goods by value to the UK are considered here (annual data). How to read it: in 2021, Germany's imports of goods from the UK were 29.8% lower than in 2018. Goods from the UK in 2021 were 29.8% lower than in 2018. contributed to this decline by -1.8 percentage points. Source : Eurostat

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