

Centre for Geopolitics and
International Policy



TRADE AND INTEGRATION

THE EUROPE AGENDA

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June 2026

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This paper was first published in June 2026. © IPPR 2026

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ABOUT THIS SERIES

Britain faces a transformed world: unreliable allies, emerging security threats, and increased pressure on living standards and the climate. In this context, the driving questions for relations with its European neighbours cannot be those of the past, but how the UK can act strategically – identifying opportunities for partnerships and building effective coalitions to advance British goals on growth, security, the climate transition, and shared values.

This note is part of a series by IPPR examining each of these terrains in turn, building on the 2025 reset as a starting point.

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Citation

If you are using this document in your own writing, our preferred citation is:
Morris M and Sassoon J (2026) *The Europe agenda: Trade and integration*, IPPR.
<http://www.ippr.org/articles/europe-agenda-trade-and-integration>

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INTRODUCTION

Over the course of this parliament, the UK-EU relationship has become a growing centrepiece of the government's economic strategy. In light of recent global volatility, the prime minister has said that "our long-term national interest requires closer partnership with our allies in Europe and with the European Union" (Starmer 2026). And in her recent Mais lecture, the chancellor emphasised the "strategic imperative for deeper integration" and warned that no other trade deal would outweigh the importance of the UK-EU economic relationship (Reeves 2026).

The government is expected to develop new plans to advance the UK-EU reset ahead of a summit expected this summer. This briefing note explores the options for the UK to deepen the trading relationship and sets out a proposed path forward.

A CHANGED CONTEXT

For much of the past decade, the UK-EU relationship has been dominated by the political battles over Brexit – from David Cameron's negotiations ahead of the referendum to the many disputes over the process of withdrawal. But 10 years on from the referendum result, there is finally scope to see the relationship beyond the remain/leave paradigm.

This is the result of a dramatic change in context for Europe. The shifting world order, the breakdown of global trade rules and the growing need for higher productivity have transformed the economic and geopolitical outlook.

This has led the EU to centre its economic strategy on competitiveness, as set out in the influential Draghi report. Part of this approach involves a fresh look at trade policy, including greater diversification of supply chains to reduce dependencies. Notably, the Draghi report argues that "trade policy should be based on careful, case-by-case analysis rather than on generic stances toward trade" (Draghi 2024). Given that the UK is the European bloc's second largest trading partner, the competitiveness agenda offers an opportunity to reposition the UK relationship in view of the EU's wider set of strategic economic aims (García Bercero 2024).

In the UK, the domestic context has also transformed. Following a prolonged period of low growth – and more recently the impacts of Brexit, the pandemic and rising inflation – the public is becoming increasingly frustrated with stagnating living standards. With the Westminster psychodrama over Brexit now behind us, the relationship with Europe can begin to be presented afresh.

The new international and domestic context offers a two-pronged argument for a deeper relationship with the EU. First, the EU is the UK's closest and largest trade partner. Whatever the wider merits of the UK's withdrawal from the EU, it is clear that the terms of the deal the UK struck have led to a significant impact on total trade. A 2024 study found that UK goods exports to the EU fell by 16 per cent and goods imports from the EU fell by 24 per cent as a result of Brexit (Kren and Lawless 2024). Moreover, the Office for Budget Responsibility (OBR) estimates that the new UK-EU trading relationship will impact long-term productivity by around 4 per cent, reflecting that new trade barriers are making it harder to exploit the UK's comparative advantage (OBR 2025). Bringing down the non-tariff barriers that have been raised between the UK and the EU offers an opportunity to reduce prices and support growth and living standards in Britain.

Second, there is a strategic case to deepen trade ties with the EU to facilitate greater long-term economic security. Faced with a fragmented geopolitical landscape and an increasingly unpredictable trade partner in the US, there is a growing need to reinforce and diversify supply chains. The Iran war's energy supply shock makes this case even more pressing. The EU's reliability as a trade partner and source of a range of critical goods – from food and drink to chemicals and energy – has grown in importance. A closer relationship will help to facilitate trade in these products and coordinate joint actions with third countries on wider trade issues, including for critical raw materials and goods essential to the energy transition.

Last May, the UK and the EU held the first 'reset' summit and agreed to negotiate deals in a number of areas (Cabinet Office 2025). These included the following.

- A commitment to work towards a veterinary agreement (a common sanitary and phytosanitary area), which would remove the bulk of checks on UK and EU agrifood exports, on the basis that the UK 'dynamically aligns' with EU food safety and animal and plant health standards.
- A commitment to work towards linking the UK's and the EU's Emissions Trading Systems, allowing for the UK to be exempted from the EU's Carbon Border Adjustment Mechanism.
- A statement on exploring UK participation in the EU's internal electricity market, on the basis of a 'level playing field' on electricity market rules and on state aid, renewables and environmental protections where relevant to the electricity sector. This involves dynamic alignment with EU rules.
- A commitment to work towards a 'youth experience scheme' to provide a visa for young people in the UK and the EU to live, work and study in their respective territories for a time-limited period, alongside UK association to the Erasmus+ programme.

The UK and the EU are now in the process of striking deals on each of these priorities. While the negotiations are still underway, the agreements in principle represent an important step forward. In particular, they demonstrate the potential for unlocking market access if the UK dynamically aligns with the EU in certain areas. Moreover, the UK was able to secure these gains while at the same time avoiding the EU's common objection that it wants to 'cherry-pick' the parts of the single market that it likes.

Yet estimates suggest that the key reset measures which have been provisionally agreed could increase GDP by only around 0.3 per cent by 2040 – not insignificant, but not enough to shift the dial economically (PMO 2025; Menon and Portes 2025). This is why further deepening the relationship is a clear priority.

THE UK'S OPTIONS

This does not mean the way forward for the UK-EU relationship is easy. There are a number of options to strengthen trade relations, but all come with risks and challenges.

The first option is to try to rejoin the single market – that is, to once again subscribe to the principle of free movement of goods, services, capital and people within the EU. This would offer the most significant benefit for growth and living standards. But it would also pose challenges. Most obviously, it would breach the government's red lines as set out in the Labour manifesto. It would also by definition require the UK to accept the free movement of EU citizens. More broadly, it would mean the UK ceding policy independence to the EU across significant parts of the economy – including in sensitive sectors such as finance, where there may be advantages to greater autonomy given the UK's

dominant global position (Hall 2026). This could prove difficult to justify both economically and politically.

The second option is to seek a customs union with the EU. This would remove the rules of origin requirements for trade in goods, which are an important non-tariff barrier, and would bring economic benefits. To give an indication of an upper bound, government Brexit research from 2018 estimated that non-tariff barriers related to customs would have a long-term negative impact on GDP of around 1 per cent (House of Commons Exiting the European Union Committee 2018).

However, while a customs union would facilitate trade, it would also come with significant complexity. The UK would be expected to align its tariff regime with that of the EU's. This would limit its autonomy to strike new trade deals independently of the EU and would require reviewing the terms of the deals it has already negotiated. Moreover, the UK would not automatically gain the benefits of trade deals the EU strikes with third countries; it would need to negotiate with these countries in parallel. Without parallel negotiations, once the EU strikes a deal the UK would be obliged to liberalise its tariffs in line with the EU's, but the third country would not be obliged to grant market access to the UK on the same terms it has agreed with the EU. This asymmetry could put the UK at a significant disadvantage in trade talks.

The third option is to seek a deeper relationship through specific deals, building on the approach of the initial reset. This would, in particular, involve dynamically aligning with the EU in certain areas in return for additional market access. There are clear challenges here too: the EU may be unwilling to countenance an approach based on 'cherry-picking' and the gains may not be sufficient to boost economic growth and security. There are also limits to a 'sector-by-sector' approach given the cross-cutting nature of EU and trade law. But, provided there is appetite from the EU's perspective, it currently represents the best way forward in the current domestic and international context.

PRIORITIES FOR ACTION

1. Goods trade

If the UK intends to pursue the third option, it will need to select the sectors it wants to prioritise for dynamic alignment. The table below offers a useful starting point by identifying where there have been falls in goods exports from the UK to the EU relative to the rest of the world since Brexit. We use Office for National Statistics (ONS) data to compare the real changes in UK exports to the EU and to the rest of the world (RW) following the Brexit transition period at the end of 2020.

Table 1 should be understood as a guide to where the UK has experienced falls in EU exports following Brexit and not as a definitive account of the impacts of Brexit (other confounding factors could explain a fall in trade). But it provides an initial indication of the potential impact of Brexit on some major tradeable sectors, as well as an early sense of where the UK might want to focus any efforts to dynamically align with EU legislation.

Several key sectors – notably automotives and pharmaceuticals – appear to have experienced significant losses. This is most likely a result of new non-tariff barriers introduced following Brexit.

TABLE 1: SECTORS WHERE THERE HAVE BEEN FALLS IN UK GOODS EXPORTS TO THE EU RELATIVE TO THE REST OF THE WORLD SINCE BREXIT

Sector	Real EU change (CVM)	Real RW change (CVM)
Food products	-2,036 (-18%)	895 (18%)
Beverages and tobacco	-369 (-7%)	374 (6%)
Wearing apparel	-4,288 (-67%)	-415 (-17%)
Chemicals & chemical products	-4,604 (-19%)	334 (3%)
Pharmaceutical products & preparations	-3,233 (-19%)	5,355 (25%)
Rubber & plastic products	-924 (-14%)	-318 (-9%)
Basic metals	-1,898 (-19%)	4082 (24%)
Machinery & equipment not elsewhere classified	-655 (-4%)	-370 (-2%)
Motor vehicles, trailers & semi-trailers	-4,280 (-21%)	-2,303 (-8%)
Other manufactured goods	-1,368 (-23%)	-1,725 (-22%)

Source: IPPR analysis of ONS (2026).

Note: The table compares average annual exports for 2016–19 with average annual exports for 2021–25 on chain volume measure (2020 has been excluded due to Covid-19). Only sectors which have seen a decrease in EU exports relative to the rest of the world are included (in other words, real EU change < real RW change). We also only include sectors with high levels of total exports (defined as worth more than £20 billion in the years 2016-19). Figures may not sum due to rounding. Data is in millions of pounds. Percentage changes are in brackets.

In other sectors such as clothing the data may overstate the effect on the UK economy, as they reflect a decline in re-exports (products imported to the UK and then exported on to the EU without significant additional processing).¹ This means that any impact on domestic value added would be limited. However, this is not entirely unproblematic. Shrinking re-exports could undermine the UK’s status as a trade and logistics hub and cause economic harm. For example in the Netherlands, it was found that every €1 re-exported returned €0.11 for the Dutch economy (Lankhuizen and Thissen 2019).

This initial analysis suggests the next step for the UK-EU relationship should be a Mutual Recognition Agreement (MRA). An MRA would allow conformity assessment bodies in the UK to certify products to EU standards without the need for further

¹ Our own analysis of ONS Prodcom (UK Manufacturers’ Sales by Product) data indicates that sales in apparel stayed constant, even as exports fell after Brexit, implying a loss of re-exports. See also Radford (2025).

testing once they are exported to their country of destination in the EU (and vice versa for products exported from the EU to the UK).

There is evidence that MRAs reduce obstacles to trade associated with testing and certification. One recent paper brings together research demonstrating that MRAs increase the value of exports to participating countries in relevant industries (by up to around 40 per cent depending on the study) (Cernat 2022). There is also appetite from within the EU: when in 2023 DG Trade surveyed 59 conformity assessment bodies in the EU, it found above average interest in an MRA with the UK (EC 2023).

The best model for the UK and the EU is likely to be an ‘enhanced’ MRA, which would involve dynamic alignment of legislation in relevant goods sectors. This would help to minimise regulatory barriers and secure buy-in from the EU. The exemplar for a deal is the EU-Swiss MRA, which is a comprehensive agreement based on alignment of EU and Swiss legislation across a range of product areas.

Based on the analysis above, the UK should seek an enhanced MRA which encompasses at a minimum dynamic alignment for motor vehicles and pharmaceutical products. It should in particular allow for the mutual recognition of batch testing of medicines, removing the need for the EU to retest medicinal products imported from the UK.

2. Services trade

While services trade with the EU has held up relatively well compared to goods, there are opportunities to deepen the relationship here too. The low-hanging fruit are deals to facilitate mutual recognition of professional qualifications (MRPQs) and business mobility.

There are existing arrangements for agreeing sector-specific MRPQs through the Trade and Cooperation Agreement (TCA) Partnership Council, once there is an initial joint recommendation from the relevant UK and EU professional bodies. However, these arrangements have so far proved ineffective. The UK and the EU could therefore strengthen the TCA with a new chapter establishing a general system of mutual recognition of comparable training across regulated professions. Under this system, UK professionals looking to work in a regulated profession in an EU member state would be able to secure approval from the member state’s competent authority on the basis of evidence of equivalent qualifications obtained in the UK (and vice versa). Only in limited circumstances could the member state restrict access or require additional measures (either an aptitude test or a supervised practice period). This would in part reflect the approach taken in the EU Directive on recognition of professional qualifications (EU 2005).

At the same time, the UK and the EU could also agree a new mobility chapter in the TCA to make it easier for UK professionals to travel to the EU for business purposes and vice versa. This chapter could, for instance, expand the provisions on intra-corporate transfers to allow stays of up to five years for managers and specialists (from three years currently).

A PATH FORWARD

The above proposals, while more incremental than a customs union or re-entry into the single market, will nevertheless be hard to secure. It is not clear if the EU is open to negotiating an MRA. So far, the EU appears to have rebutted proposals of this type, and any suggestion of sector-specific dynamic alignment might be considered ‘cherry-picking’ without a more comprehensive package, as with the EU’s approach to Switzerland (which, for instance, includes the free movement of people).

But if the UK can approach the upcoming summit strategically, there is the hope of a deal. After all, the EU has already agreed to sector-specific arrangements, with dynamic alignment in agrifood and energy, on the basis that it is in its own interest. The UK should therefore make the case that a deeper trade relationship is focused on boosting our shared economic security and competitiveness. Therefore it would also be in the interests of the EU and its member states, given the volatile global context and Europe's own policy priorities.

Moreover, to reinforce the point that the reset is about meeting the current geopolitical moment, the UK should ensure it brings together its asks on trade with a wider package of proposals on defence, energy security and the protection of European values. The other briefings in this IPPR series focus on the UK's strategy for each of these three topics.

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