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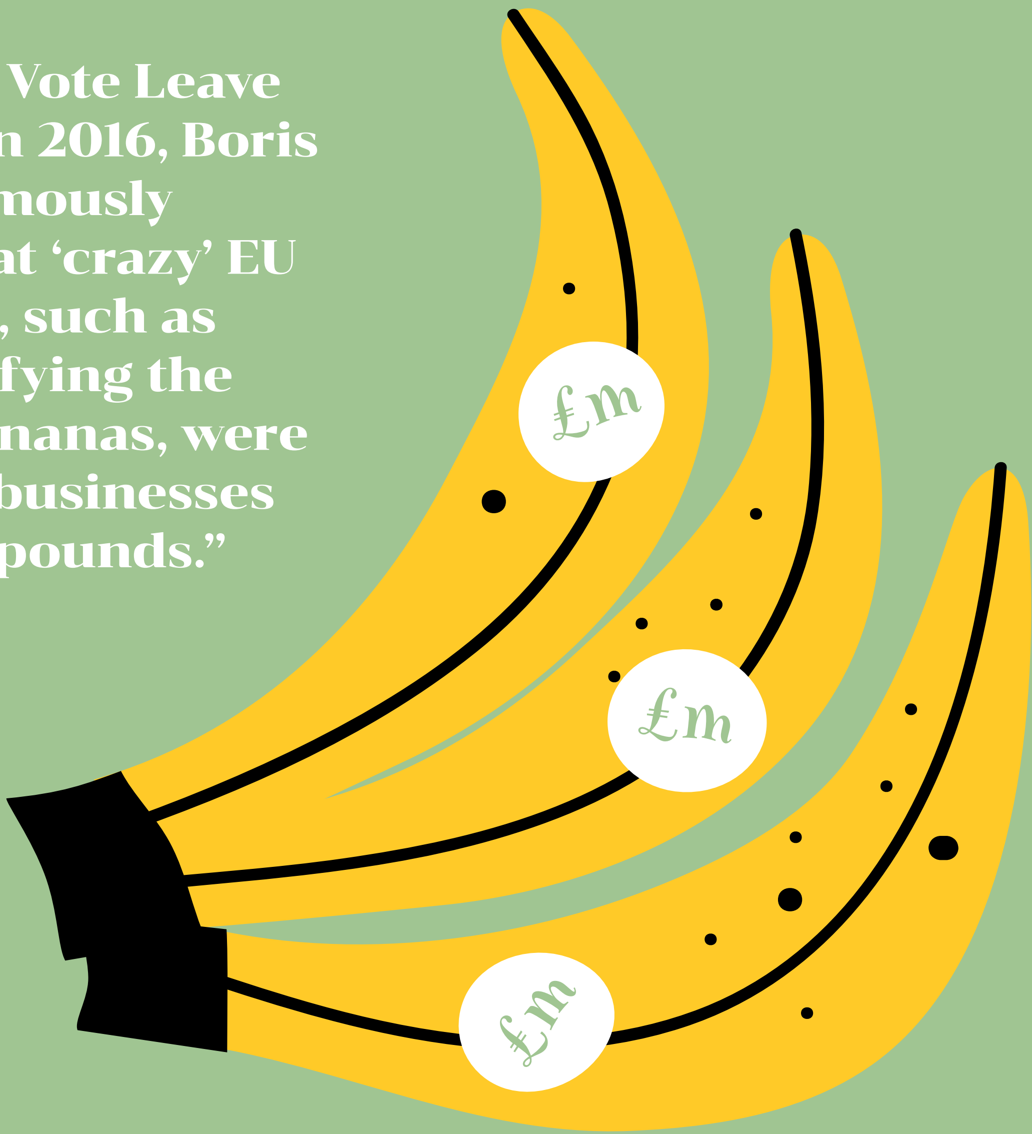

How post-Brexit trade has driven up food bills

By Jan David Bakker, Nikhil Datta, Richard Davies and Josh De Lyon

Consumers paid an extra £210 on average on their food bills between 2020 and 2021. The reason is an important, but little-discussed, area of trade policy: non-tariff trade barriers.

During the Vote Leave campaign in 2016, Boris Johnson famously asserted that 'crazy' EU regulations, such as those classifying the shape of bananas, were costing UK businesses millions of pounds. The claims were mostly rhetoric, but the message was powerful. Leaving the EU would free the UK from unnecessary trade regulation. And freer trade would be good for the UK economy.

Our recent analysis shows it hasn't quite worked out like that yet. In fact, trade post-Brexit has increased consumer prices of food items in the UK. We find that food prices increased by around 6% due to Brexit, which added an average £210 onto household food bills — costing consumers £5.8 billion across the UK between 2020 and 2021.

Our analysis also identifies the reason for these rising costs: non-tariff trade barriers.

Non-tariff trade barriers, or NTBs, are an important aspect of trade policy, not often discussed in public debate. An NTB is any measure, apart from a customs tariff, that acts as a barrier to trade. These could be, for example, regulations on how a product is handled, rules requiring proof about where goods came from, or checks and inspections at the border.

While trade tariffs generate government revenue, NTBs can be an important tool for protecting public health or the environment — for example through requiring imported goods to abide by the same environmental standards as those produced domestically.

When Britain was part of the EU, it benefited not only from fewer trade tariffs but also from few internal trade barriers. NTBs were avoided through the mutual recognition of standards. For example, while a steak of beef imported to the UK from France was not checked for public health certificates at the border, a steak imported from Algeria was.

Since January 2021, when Britain officially left the EU, the trade relationship between the EU and the UK has been governed by the Trade and Cooperation Agreement (TCA). This agreement ensures that trade between the two areas remains tariff free. But because the UK wanted the option to increase its independence from EU regulation and trade policy, the TCA contains very limited provision for regulatory alignment between the two blocs. The consequence is a regulatory and customs border in the English Channel and an increase in NTBs between the UK and the EU.

We find that this rise in NTBs is directly responsible for a rise in consumer food prices after Brexit. The rise in prices was driven only by products with high NTBs and there was no statistically significant rise in prices for products with low NTBs. This suggests that EU exporters and UK importers face higher costs due to these new barriers, and we estimate that between 50% and 88% of these costs have been passed on to consumers.

It is true to say that while UK importers and EU exporters incur higher costs and UK consumers are hurt by higher prices, domestic UK producers benefit from the price increase. However, overall, this protectionist rise in NTBs has hurt the UK economy.

Our findings highlight the importance of developing trade policy that goes beyond simple tariff reductions and takes into account other potential barriers to trade. Reduction in trade tariffs does not automatically allow consumers to reap the benefits of lower prices. This is because NTBs account for a much larger share of trade policy costs in advanced economies. According to recent estimates (NTBs generate administrative and bureaucratic costs that are not directly observable so have to be estimated), the average ad valorem cost of NTBs in the European Union stands at 13.1% compared to 1.8% for tariffs.

As non-tariff barriers can be used to set environmental and other standards, there will be potential benefits to adjusting regulation unilaterally for the UK. But so far UK regulations have remained very similar to EU regulations, so these benefits have yet to be realised.

It is unclear whether there are any trade policy fields where the UK can benefit substantially from diverging from the EU regulatory framework. The UK may decide to align its regulatory framework with another major trading bloc such as the United States. This would significantly lower trade costs with, and reduce the cost of goods imported from, the US.

But for now, UK consumers will have to get used to higher food bills. ◀

About the authors

Jan David Bakker is Assistant Professor at Bocconi University.
Nikhil Datta is Assistant Professor of Economics at the University of Warwick and a CAGE Associate.
Richard Davies is Professor of Economics at the University of Bristol.
Josh De Lyon is Economist at the OECD.

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