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Research Report

A proposal for a Brexit deal: Why a free trade area for goods is in the interest of the EU and how to achieve a sound balance of rights and obligations

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A Proposal for a Brexit Deal

Why a free trade area for goods is in the interest of the EU and how to achieve a sound balance of rights and obligations

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Cologne, 15 October 2018

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Summary

In the political declaration of the Withdrawal Agreement the EU should leave the door open for a free trade area for goods that has been suggested by the UK's Chequers proposals. The EU would profit from such an arrangement due to its comparative advantage in goods. However, in order to achieve the EU's main objective to avoid bandwagon effects, such a trade agreement must not be depicted as a favourable deal for the UK. The narrative of the four freedoms is not indispensable to prevent bandwagon effects. A narrow interpretation can be even counterproductive, if the EU continues to regard a lesser degree of service trade integration (as suggested by the UK) as a key stumbling block for a free trade area for goods. On closer inspection, less service trade integration is not a real problem, because it would not lead to relevant competitive distortions as feared by the EU, as other areas like labour costs and social contributions are more relevant cost factors which are not (and should not) be harmonised in the EU. Moreover, the UK proposes to agree to binding rules to prevent distortions of a level playing field in terms of environmental regulations, state aid and competition policy.

A new and economically stronger narrative is possible that avoids bandwagon effects but also allows for a free trade area for goods. The EU can and should clearly point out that an FHA 3.0 with more restrictions on services than today (particularly in financial services) is the contrary of a favourable deal for the UK. The British government will not obtain what is normal in bilateral FTA negotiations where both countries usually secure better access for their sectors of comparative advantage to the respective partner's market. Moreover, the EU can also prove that the UK will not obtain a favourable deal by highlighting that the British government had to cross many red lines. However, offering a free trade area for goods to a country that leaves the EU must not become a precedent because it could be seen as an invitation to exit the EU for countries with comparative advantages in (certain) goods. Therefore, the EU must make clear that its negotiating strategy relies on preventing favourable access for the sectors of comparative advantage of the leaving country. This new narrative should be introduced when trade negotiations with the UK begin in earnest. The EU must strongly embed it in the public debate and has sufficient time for this as the trade negotiations will take at least until the end of 2020.

A Brexit trade deal that avoids bandwagon effects has to represent a sound balance of rights and obligations. In order to justify the EU's concession of a free trade area for goods, the UK would have, firstly, to agree to a dynamic harmonisation of rules for products and certain production processes as envisaged by the Chequers proposal which the EU should render into a binding and reliable arrangement. Secondly, the UK would have to stick to the basic rule of the free movement of workers that already allows for certain limited exceptions. However, the fineprint of this principle should be specified to prevent problematic incentives for EU migrants to move into the social welfare systems of richer EU countries and to allow for limited safeguards in case of high migrant inflows or high unemployment in certain regions or sectors, which could be achieved by relying on the public policy exception of Article 45 TFEA. Thirdly, the UK needs to contribute in a meaningful way to the EU's cohesion policy in order to compensate Eastern EU countries that might oppose the specification of the fineprint of the principle of the free movement for workers.

1 Introduction

It is high time that the European Union (EU) and the United Kingdom (UK) come to an agreement regarding their future economic ties in order to prevent a No-deal Brexit and the potential ensuing legal and economic chaos. The signals from the Salzburg Summit were not encouraging, as both sides hardened their positions. Theresa May is reported to have presented her Chequers proposal as a take-it-or-leave-it choice and the EU continued to refuse a free trade area for goods only, mainly based on the stipulated indivisibility of the four freedoms of the Single Market.

Indeed, the negotiation guidelines the European Council gave to the EU Commission (European Council, 2018) include the indivisibility of the four freedoms. Moreover, as another precondition for a future trading arrangement, a balance of rights and obligations has to be obtained for the UK. These conditions are intended to avoid bandwagon effects, i.e. to prevent incentives for other EU members to also leave the Union.

This paper recommends keeping the door open for a free trade area for goods when the political declaration on the future trading arrangement between the EU and the UK is drafted in the context of the Withdrawal Agreement under Article 50. Moreover, a new narrative is proposed to prevent bandwagon effects.

2 Going for a free trade area for goods and an FTA 3.0

The EU's current negotiating position insists on the indivisibility of the four freedoms in the Single Market – the freedom of movement of goods, services, capital and labour. From this perspective, the EU cannot agree to the UK's proposed free trade area for goods only. The UK has indeed stated that it does not want to accept the free movement of persons and that it would also be prepared to accept restrictions on the free movement of services.

The EU's position basically allows to offer to the UK a free trade agreement (FTA) broadly comparable to the FTA with Canada (CETA). This FTA with the UK would probably not go much further on trade but would be enhanced by arrangements on internal security and foreign policy cooperation. Alternatively, the EU would accept a fully-fledged Norway-type arrangement with all four freedoms on both sides (see Matthes/Busch (2016a) for an explanation of the Norway-type model). Thus, the EU would not allow for a degree of economic and trade integration between these two models.

This dichotomy is a political stipulation, however. From a purely economic perspective, such a dichotomy does not exist. Rather, trade integration can be continuously increased. This can be explained by drawing on the example of TTIP (Transatlantic Trade and Investment Partnership), i.e. the failed FTA negotiations between the EU and the US. An important intended new feature of TTIP was to go beyond tariffs and to also reduce non-tariff barriers to trade, which result from

different regulations on both sides. This regulatory difference tends to induce significant costs (non-tariff barriers) because products have to be changed in order to be granted access to the respective partner's market and because costs for approval and certification procedures usually are incurred twice. TTIP aimed to avoid such costs by allowing for mutual recognition of products under certain conditions. Sound scientific evidence would have been required to prove that different product rules on both sides of the Atlantic ultimately have the same or very similar results, e.g. with regard to the safety of cars or to consumer or environmental protection. Under these circumstances the mutual recognition of products could lead to a sharp reduction of non-tariff barriers.

In the case of the UK, the preconditions for such a deeper degree of economic and trade integration are much better than in the US. Due to the UK's EU membership, product rules are broadly harmonised already. If the UK continued to harmonise all relevant product rules with the EU also in the future, this could allow for a full-scale mutual recognition of products across the board between the UK and the EU. The Chequers proposal goes exactly in this direction (Chapter 5.1). The EU regards such an arrangement as amounting to the free movement of goods. But one could also call it a very ambitious FTA that goes beyond TTIP.

Such an agreement could be described as a FTA 3.0 (Matthes/Busch, 2016b) – with the traditional EU trade agreements being a FTA 1.0 and the ambitious concept for TTIP a FTA 2.0. The EU is therefore faced with the question of whether to open the FTA space beyond TTIP (and below Norway) for an FTA 3.0, or whether it insists on the politically imposed dogma of indivisibility of the four freedoms.

3 How to prevent bandwagon effects

This question has to be put into the right perspective. The EU's objective in the Brexit negotiations rightly consists of preventing bandwagon effects. At the same time, economic integration with the UK should remain as deep as is allowed for by a balance of rights and obligations that depends on the red lines of the British government. In economic terms, this problem boils down to an optimisation of the degree of economic integration with the binding constraint of preventing bandwagon effects. To achieve this aim, it might not be required, however, to insist on the indivisibility of the four freedoms. What is clearly needed are two key issues: a sound balance of rights and obligations based on the eventual red lines of the UK and the clear communication by the EU that the UK does not obtain a favourable deal.

To prove that the UK does not obtain a favourable deal is easier to achieve than often thought, as the following considerations point out:

- Due to its relatively weak negotiation position the British government was already forced to cross (or stretch) important red lines. Despite loud lamenting, the UK has largely accepted the EU's principles for the financial settlement in December 2017. In addition, the Chequers

proposal implies that the UK would continue to harmonise any product regulation that is relevant at the border with the EU – without having a real say in setting new regulations (Chapter 5.1). Recently, even the red line to leave the customs union with the EU has been blurred. The clearest indication for the defensive retreat in the UK's negotiation position is the recent resignation of two prominent ministers from the Brexiteers' camp.

- The UK does not cherry-pick specific sectors but envisages a free trade area for all goods. It is true that the UK proposes a lesser degree of integration for services, but this does not represent a strong argument against a free trade area for goods (Chapter 4).
- In order to prevent bandwagon effects, the EU could easily prove that a free trade area for goods would be clearly disfavoured the UK in terms of comparative advantages and trade balances. To explain: In any bilateral free trade agreement (FTA) the two countries involved intend to obtain better access for the goods or services they are specialised in respectively. For example, in the FTA negotiations with Mercosur the EU pushes for better access for its industrial goods and the Mercosur countries strive for lower barriers for agricultural goods. The UK has a clear competitive advantage in services, particularly in financial services as indicated by a considerable trade surplus. However, the EU has made clear (and the UK has already largely accepted this position) that after Brexit trade barriers in services would be significantly higher for the UK than today. Thus, any new economic partnership will be to the disadvantage of the UK financial industry, as the discussion about relocations of financial firms from the City of London clearly indicate. The EU could easily communicate that the UK has not obtained what other countries regularly achieve in FTAs. This is a strong message that should help preventing others from also exiting the EU.
- This important message can be further reinforced. The EU has a large surplus in goods trade with the UK. So, in terms of political considerations relevant in trade negotiations, it would benefit more than the UK, if it secured far-reaching access to the UK market in merchandise goods trade.

The UK proposals for a free trade area for goods and for frictionless trade at the borders would very likely keep the EU's surplus in goods trade intact. This is why the EU should take this part of the Chequers proposal much more serious.

However, the possibility arises that another member state which might consider to leave the EU has comparative advantages in goods (and not in services like the UK does). If the EU grants the free movement of goods to the UK, such a country could also claim this treatment after exit. This would represent a relatively favourable trade deal and could create bandwagon effects. Countries with comparative advantages in (certain) goods, where strong populist movements might push for leaving the EU on such terms, might be in the Eastern and Northern parts of the EU. However, it does not appear very likely that member states from Central and Eastern Europe would really choose this option as they would lose access to significant EU funds. For Northern EU countries, the suggestions of this paper on the free movement of persons are relevant (Chapter 5.2).

To avoid such bandwagon effects, the EU must prevent a free trade area for goods to become a precedent. This can be achieved by a clear political framing of the future trade negotiations with the UK in terms of trade balances. The EU must clearly communicate that a key strategy of the negotiations is the refusal to grant preferential terms for the UK's sectors of comparative advantage. In this respect, the EU also has to make clear that this strategy implies that a country with comparative advantages in the goods sector would not be offered a free trade area for goods, if it chose to leave the EU.

This new guiding narrative can only be introduced after the exit of the UK, i.e. when the trade negotiations with the UK will begin in earnest. There will be ample time until a final trade deal is reached to establish this new narrative deeply in the public debate.

4 Excluding services: really such a problem?

However, there are concerns that the UK's intention to largely exclude services from a full-scale liberalisation would imply problems or disadvantages for the EU in several respects. These concerns need qualification:

- It is claimed that in today's economy goods and services are too intertwined to be separated in trade deals. It is true that the products of modern companies obtain much of their attractiveness due to the complementarity with services. However, on closer inspection the UK's Chequers proposal does not pose severe problems in this respect since most services used in the production process are embodied in the product. An issue could arise with regard to after-sales services that are complements to today's hybrid products and enable companies not only to provide the mere products but complete solutions to meet their customers' needs. For example, German experts often erect complex German machines abroad and also provide continuous maintenance in the future. If this kind of temporary movement was not allowed in the future trade relationship between the EU and the UK, there would indeed be problems. However, the Chequers proposal suggests far reaching facilitations in this respect (HM Government, 2018, 78)
- Other concerns relate to the fear that not including services would enable the UK to obtain unwarranted competitive advantages. However, this problem has not been raised in FTAs before where product tariffs are reduced to zero irrespective of a very limited service liberalisation. Neither are services fully liberalised and harmonised in the EU so that certain distortions exist anyway. More importantly, even in the Single Market significant cost differentials prevail due to different labour costs as well as due to different taxes and social contributions levied on the factor labour which are not harmonised in the EU either. This variability in cost competitiveness is usually seen as a key feature of locational competition. Regarding costly regulations of environmental and climate protection, the UK has proposed to agree with the EU to keeping the current protection levels intact (HM Government, 2018, 39 f.).

- The limited liberalisation of services is thus not a problem but instead the key argument for the EU's communication strategy to point out that the UK's comparative advantages have not been catered for in the potential trade deal. This is particularly true for financial services.

Therefore, the limited inclusion of services in the UK's Chequers proposal should not represent a stumbling block for the EU to agree on a free trade area for goods.

5 Building a balance of rights and obligations

On the basis of the UK proposal for a free trade area for goods the EU should define which additional UK concessions are required to obtain a sound balance of rights and obligations, as per the negotiation guidelines the European Council laid out for the European Commission in March 2018 (European Council, 2018).

From the UK's perspective, *rights* would pertain to the free access to the EU's goods market while *obligations* are measured by the degree of surrendering regulatory sovereignty, paying contributions to the EU and allowing free movement for EU citizens (Matthes/Busch, 2016a; b). What is also needed are benchmarks to measure whether UK concessions would suffice.

The EU's economic relationship to Switzerland can serve as a point of reference (Matthes/Busch, 2016a). Swiss firms benefit from zero tariffs and free access to the EU's goods market in many product groups – i.e. many products admitted to the market in Switzerland can also be sold in the EU Single Market. Interestingly, the Swiss have hardly any preferential access to the EU's services market, which shows that the indivisibility of the four freedoms is not pure. The EU has granted Switzerland the wide-ranging access in the goods market based on relevant concessions by Switzerland to the EU: the continuous harmonisation of relevant product rules in the respective sectors, certain payments to the EU cohesion funds, and the principal free movement of EU citizens in Switzerland. The key question thus is what concessions the UK would have to provide to obtain similar access to the EU's goods market.

5.1 Regulatory harmonisation

The UK White Paper, which is based on the Chequers proposal, suggests – in simple terms – that the UK would continue to harmonise relevant product rules with the EU – without any longer having a veto on the establishment of new such rules by the EU-27 (HM Government, 2018, 19 ff.). Moreover, the White Paper also addresses the EU's anxiousness that the UK could enter into regulatory dumping regarding production processes in order to obtain a competitive cost advantage. In order to reassure Brussels, the British Prime Minister suggests to agree with the EU not to lower standards in environmental protection and social and employment protection right (HM Government, 2018, 37 ff.). Moreover, she proposes common rules on state subsidies

and a cooperation framework in competition policy. These are major concessions and the EU has not sufficiently appreciated the astonishing willingness by the UK to surrender regulatory sovereignty, which these proposals imply.

It is true that the wording on these issues in the White Paper is still very vague. However, the EU can and should be able to negotiate binding, reliable and durable commitments by the UK in all regulatory aspects deemed relevant to prevent undue competitive distortions (this also includes a sufficient role of the European Court of Justice). While this is not an easy task, it appears to be achievable in view of the strong negotiation position of the EU. Moreover, generally it does not appear plausible that the UK lower environmental, consumer and labour standards because this would lead to strong domestic opposition (Matthes/Busch, 2016a; b).

However, the question arises whether future British governments and the House of Commons will continuously stick to the above-described regulatory alignment in coming decades. This clearly depends on the sanctions that a negative decision would have in this respect. The EU could stipulate that in such a case the free trade area for goods would no longer be granted (after a certain adjustment period needed to introduce regulatory border controls). Obviously, this arrangement would create strong incentives for the UK to stick to the alignment agreement with the EU. Alternatively, if UK decided to no longer align regulations for certain products or sectors the EU could theoretically only cancel the free movement for these products. However, this would not be an attractive solution for the EU, because it could be regarded as cherry-picking sectors and would also require the establishment of costly infrastructure for border controls (only for the respective products).

5.2 Freedom of movement of workers

A more difficult and politically sensitive issue concerns the free movement of EU citizens. As mentioned above, Switzerland (as well as Norway and the other members of the European Economic Area (EEA)) principally allow for this freedom. In the UK, however, the Brexit referendum is understood to be a vote to restrict immigration. In fact, the British government has announced plans to treat EU citizens no longer preferentially compared to other immigrants after the transition period and to introduce a skill bias in the new immigration scheme that would favour highly skilled persons.

However, this very strict position should to some degree be interpreted as building up a bargaining position for the negotiations with the EU. It is likely that in an ambitious FTA with the EU, the EU negotiation position will be sufficiently strong to obtain concession for a preferential treatment for EU citizens. Moreover, demands for such a strict immigration stance are not very credible as this would very likely lead to severe labour shortages in the low-skilled sector. Therefore, the key question is, how to find a compromise that is viable for the EU and the UK.

In this respect, it is important to understand that, under current EU laws, the free movement of workers and citizens in the EU can be restricted under certain conditions, particularly concerning the access to social benefits (European Council, 2016):

- According to Article 21 TFEU, the free movement of citizens who are non-active in the labour market is subject to limitations. In particular, those persons have to be able to support themselves. If this is not the case, access to social benefits and minimum existence allowances can be restricted. This is also true if the inactiveness is related to a phase during which they are looking for employment.
- According to Article 45 TFEU, the freedom of movement of workers can be restricted on grounds of public policy. It is understood that overriding reasons of public interest include, inter alia, encouraging recruitment, reducing unemployment, and averting risks to the sustainability of national welfare systems. However, any restriction would have to be independent of the nationality of the worker in order to prevent discrimination. One measure considered possible to limit access to unemployment benefits is to require a certain (longer) payment period of social contributions before granting full access.
- For in-work social benefits, i.e. where low incomes of employees are topped up by public transfers, limiting eligibility is more difficult. This can become relevant if low incomes are due to part-time employment. If generous in-work benefits are paid, an unwarranted incentive could arise to move to a country with such a benefit system mainly with the objective to obtain social transfers. This is considered to be the case in the UK.
- Some concrete examples can serve as an illustration of what current EU rules render possible (The Economist, 2018): Belgium has a registration scheme in place that offers the basis to follow up with the extradition of migrants who cannot support themselves and who have not found a job after six months. Most EU countries are considerably more restrictive than the UK in conditioning the access to social welfare on migrants having paid social contributions for some years.

Before the Brexit referendum, the EU had negotiated an agreement with the then British Prime Minister David Cameron. It aimed at keeping the UK in the EU by principally sticking to the free movement of workers but by offering certain concessions for which the European Commission would have initiated the respective changes of secondary EU legislation (European Council, 2016):

- Considering in-work benefits, the EU offered a temporary safeguard that would have allowed to restrict access if a member state notified an exceptionally high inflow of workers from other EU countries over an extended period that affects essential aspects of its social security system. Based on the evidence to be provided by the country in question, the Council could have authorised access restrictions to in-work benefits for up to four years. This authorisation was intended to remain valid for a (not quantified) limited duration, with the possibility of two extensions. In early 2016, the UK was considered to meet these requirements.

- The possibility would have been introduced to reduce child benefit allowances paid to employees from other EU member states for children living in the home country of the employee. The reduction would have been proportionate to the difference in living standards between the respective host and home member state.

Non-EU countries that are members of the EEA have additional options:

- Liechtenstein, as a very small country, uses quotas on EU migrants.
- Norway and other EEA members have a (yet unused) safeguard option to apply an “emergency brake” if immigration from the EU becomes excessive (Article 112 of the EEA Treaty). Using this option would, however, allow the EU to reciprocate and withdraw certain market access concessions for the respective country.
- Switzerland has introduced a preference for Swiss employees regarding job offers. Swiss employers have to notify vacancies to public job centres in certain professions with relative high unemployment rates so that domestic persons can apply earlier than foreign persons (SWI swissinfo, 2018).

This list shows that the free movement to EU workers is a strong principle and that exceptions to the rule are rather limited. The fingerprint only allows for limited restrictions in case of clearly problematic incentives to merely move into social welfare systems and certain safeguards in case of national vulnerabilities like high migrant inflows or high unemployment. A compromise between the EU and the UK could thus be based on keeping up the principle of free movement but, at the same time, on better specifying the fingerprint to meet the above-mentioned objectives:

- The deal offered to David Cameron has shown that the EU was already prepared to better address unwarranted incentives to immigrate into social welfare systems that induce immigrants to move to richer EU countries irrespective of market signals. The EU should put this offer on the table again and further specify it. Child benefit allowances should be indexed to the standard of living in the home country of the child. Access to in-work benefits could possibly be conditioned on minimum weekly working hours or phased-in – similar to the minimum contribution requirements in case of unemployment benefits allowed by Article 45 TFEU.
- To address national vulnerabilities like high (regional) migrant inflows or high unemployment, safeguard options should be considered also for EU countries. This could include preferences for domestic workers for certain job offers (as is the case in Switzerland) in case of high unemployment in certain regions or professions. Such an arrangement should be based on the public policy exception of Article 45 TFEU so that it would not breach the principle of free movement of workers.

This approach (which should be available to EEA countries as well) would also address concerns in many Western and Northern EU countries (including Germany) where immigration from EU countries into the social systems has been identified as problematic and has contributed to a

populist backlash against immigration. Moreover, if the above-mentioned options were available it would be more difficult for populist parties to campaign for leaving the EU, which could be a particular concern in Northern EU countries.

Eastern EU member states are likely to oppose such steps. However, they conceded the changes offered in the Cameron deal. With the ongoing negotiations about Brexit and the new Multiannual Financial Framework (MFF) there could be sufficient aspects on the table to arrange package deals.

5.3 EU contributions

One part of getting Eastern EU member states on board could be a direct compensation by the UK. For example, the UK could be required to financially contribute to the EU's cohesion policy in a meaningful way. Also Switzerland has to do so to a limited extent (Matthes/Busch, 2016a).

Also, more generally, the UK should contribute to certain EU programmes in order to create a sufficient balance of rights and obligations.

6 Conclusion

In the political declaration of the Withdrawal Agreement the EU should leave the door open for a free trade area for goods that has been suggested by the UK's Chequers proposals. The EU would profit from such an arrangement due to its large trade surplus and comparative advantage in goods. Moreover, a free trade area for goods would render a really ambitious free trade agreement (FTA 3.0) possible that both sides strive for. However, such a trade agreement must not be depicted as a favourable deal for the UK in order to achieve the EU's main objective to avoid bandwagon effects, i.e. that other member states see an EU exit as an attractive option.

The narrative of the four freedoms is not needed to prevent bandwagon effects. A narrow interpretation of this political dogma can be even counterproductive, if the EU continues to regard a lesser degree of service trade integration (as suggested by the UK) as a key stumbling block for a free trade area for goods. On closer inspection, less service trade integration is not a real problem, because it would not lead to relevant competitive distortions as feared by the EU, as other areas like labour costs and social contributions are more relevant cost factors which are not (and should not) be harmonised in the EU. Moreover, the UK proposes to agree to binding rules to prevent distortions of a level playing field in terms of environmental regulations, state aid and competition policy.

A new and economically stronger narrative is possible that avoids bandwagon effects but also allows for a free trade area for goods. The EU can and should clearly point out that an FHA 3.0 with more restrictions on services than today (particularly in financial services) is not a favourable deal for the UK. The British government will not obtain what is normal in bilateral FTA negotiations where both countries usually secure better access for their sectors of comparative advantage to the respective partner's market. It is a positive (and not a negative) signal that the UK has accepted that service trade integration will worsen considerably. Moreover, the EU can also prove that the UK will not obtain a favourable deal by highlighting that the British government, due to its weak negotiation position, had to cross many red lines (i.e. financial settlement, regulatory harmonisation, potential temporary customs union).

However, offering a free trade area for goods to a country that leaves the EU must not become a precedent because it could be seen as an invitation to exit the EU for countries with comparative advantages in (certain) goods. Therefore, the EU must make clear that its negotiating strategy relies on preventing favourable access for the sectors of comparative advantage of the leaving country. This new narrative should be introduced when trade negotiations with the UK begin in earnest. The EU must strongly embed it in the public debate and has sufficient time for this as the trade negotiations will take at least until the end of 2020.

A Brexit trade deal that avoids bandwagon effect has to represent a sound balance of rights and obligations. To justify the EU's concession of a free trade area for goods, the UK would have to

- agree to a dynamic harmonisation of rules for products and certain production processes as envisaged by the Chequers proposal which the EU should render into a binding and reliable arrangement.
- stick to the basic rule of the free movement of workers that already allows for certain limited exceptions. However, the fingerprint of this principle should be specified to achieve two important objectives. First, problematic incentives for EU migrants to move to richer EU countries mainly to access their more generous social welfare systems should be reliably prevented. Moreover, limited safeguards should be possible in case of high migrant inflows or high unemployment in certain regions or sectors, which could be achieved by relying on the public policy exception of Article 45 TFEA. The EU had already been prepared to move in this direction in the so-called Cameron deal in early 2016 before the Brexit referendum.
- contribute in a meaningful way to the EU's cohesion policy in order to compensate Eastern EU countries that might oppose the specification of the fingerprint of the principle of the free movement for workers.

It is hard to tell, whether the UK is prepared for such a deal. Particularly, the immigration issue is politically sensitive. However, the EU could make clear that it could only allow for a free trade area for goods if it obtains significant concessions. The British government is highly interested in maintaining a close integration in the goods market and has shown amazing flexibility in its negotiation positions and red lines. Taking into account that the EU has the stronger negotiation position, the attempt to go into the proposed direction should be worth the effort.

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