

‘Get Brexit Done’ – It’s only the start of things to come!

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On the surface, the UK General Election appears to have resolved the foremost political issue of our times – Brexit. The large Conservative majority in the House of Commons means the Government’s Withdrawal Agreement will quickly pass through Parliament, and the UK will formally leave the European Union on 31st January 2020. ‘Brexit will be done’, the Department for Exiting the EU will close and Downing Street will no longer use the term ‘Brexit’ – since the UK will have ‘Brexit-ed’[\[i\]](#).

But behind the rhetoric and soundbites, what does ‘getting Brexit done’ actually entail?

Post 31st January, 2020, the UK and the EU will enter a period of transition, in which the UK will remain in the Customs Union, the Single Market and under the jurisdiction of the European Court of Justice until 31st December 2020 –although it will have no say on EU rules. During the 11-month transition period, the UK will seek to negotiate a new trading relationship with the EU – its’ biggest market. This 11-month timeframe is incredibly tight – on average, Free Trade Agreements (FTAs) take several years to negotiate! Yet, the government has indicated it will remove its own room for manoeuvre by legislating against any extension. This raises the possibility of another cliff-edge no-deal scenario, in which the UK may end up trading on World Trade Organisation (WTO) rules[\[iii\]](#).

No deal is the worst-case scenario and will mean UK businesses facing damaging tariff and non-tariff barriers (*such as new regulatory barriers*) when exporting into the EU *Single Market*. Relying on WTO rules also means the UK will have little leeway in changing its own import tariffs since – outside of an FTA – if it arbitrarily decides to reduce import tariffs on say cars from Brazil, it has to extend this tariff reduction to all other countries (*including the EU*), under the *Most*

Favoured Nation Clause. Moreover, any import tariff reduction does not have to be reciprocated.

Calls by some Brexiteers to slash all import tariffs, post-Brexit, would undoubtedly cause substantial damage to the UK's manufacturing base and agriculture which would be cruelly exposed to low-cost foreign competition and 'dumping'.

So, post Brexit, the most pressing challenge for Boris Johnson's new government is to secure a new trade deal with the EU. While remaining in the *Single market* and *Customs Union*, would limit the adverse economic consequences of Brexit (*and ensure there is no hard border on the island of Ireland*), both have been ruled out, since they cross the government's own red lines^[iv].

Instead, a Canada style FTA^[v] (CETA) has been suggested. This would eliminate the majority of tariffs and might allow the UK to diverge on regulations, such as on worker's rights, consumer and environmental protections. Services are, however, unlikely to be covered – at least initially – by such an agreement. A CETA type deal would still mean border checks, with UK manufacturers having to comply with 'rules of origin' and 'local content' restrictions which may be difficult to meet given the complex nature of UK supply chains.

Indeed, UK supply chains are highly integrated within the *Single Market*, with components for cars and aerospace often criss-crossing the Channel several times before ending up in the finished product. The end of seamless, frictionless trade with the EU may mean lengthy border checks and invariably lead to significant job losses, lost investment and falling real incomes. Ironically, those UK regions that^[vii] predominantly voted to leave will be the most adversely affected – largely because they are relatively more reliant upon manufacturing and exports to the EU.

It was these 'Leave' areas which voted Conservative at the recent General Election – breaking 'the red wall' – and gave Boris Johnson his majority in the House of Commons. The government will be desperate to ensure any post Brexit, EU trade deal will not damage the livelihoods of its new electoral base. Industries based in these new Tory heartlands^[viii] such as automotive, aerospace, textiles and ceramics (*whose main markets are the EU*), are especially vulnerable.

Yet while the government has a healthy majority in Parliament, this does not strengthen their bargaining position with the EU, who will be keen to maintain the integrity of the *Single Market*. Indeed, imposing a legal restriction not to extend the transition period actually weakens the UK's bargaining position – since it confines the time to strike a deal. A game of 'chicken' is likely to ensue and who will blink first?^[ix] It should be noted that in revising Theresa May's Withdrawal Agreement, the government crossed one of its own red lines when they agreed to a customs border in the Irish Sea.

Could a quick trade deal with the US soften the blow? Striking such a deal, would be politically expedient but one should be wary of deals done in haste. Tariffs between the UK and US are already very low, and the UK already enjoys a trade surplus^[xi] and benefits from over 100 EU-US bilateral agreements spanning different industries/sectors. It is widely known US farmers are keen to gain access UK agricultural markets, while US healthcare providers and pharmaceutical companies are eager to gain greater access to the NHS. By their nature, trade negotiations often favour the bigger party (*which in this case would be the US*). Would the UK accept lower agricultural and food standards (*hormone beef injected beef/chlorine washed chicken?*), or longer patents on pharmaceuticals which would force up drug prices for the NHS?^[xii] If not, would Boris Johnson's government walk away from such a deal?

These are sensitive issues for the Johnson government, and he would be wise to go beyond the simple soundbites and pay attention to the actual detail. Otherwise, the Conservatives new-found favour in those Leave constituencies will be soon turn to anger and recrimination. He should also be aware that in terms of votes cast at the General Election, 53% of the electorate backed parties that favoured Remain or offered a second referendum (*with a soft Brexit option*). Failure to bring these electors on side will mean that an 80 seat majority will not be impregnable in 2024.

Indeed, rather than Brexit being done, 2020 will see the start of a decade in the UK become involved in a series of intense and lengthy negotiations that will last sometime, as it seeks to secure a new set of bilateral trade deals. Get ready for the ride – it's likely to be very bumpy!

[i] <https://unherd.com/thepost/boris-bans-the-word-brexit/>

[ii] <https://www.theguardian.com/commentisfree/2019/nov/18/boris-johnson-get-brexit-done-tories-majority-eu>

[iii] <https://ukandeu.ac.uk/wp-content/uploads/2018/12/What-would-trading-on-WTO-terms-mean.pdf>

[iv] https://www.huffingtonpost.co.uk/entry/michel-barnier-killer-graphic-brexit-theresa-mays-red-lines-on-bespoke-model_uk_5a39497ce4b0fc99878f2058

[v] <https://www.theweek.co.uk/brexit/90320/what-is-a-canada-style-brexit>

[vi] <https://www.instituteforgovernment.org.uk/explainers/trade-rules-origin>

[vii] <https://theconversation.com/how-brexit-will-hit-different-uk-regions-and-industries-91287>

[viii] <https://www.bbc.co.uk/news/live/election-2019-50784651>

[ix] <https://www.theguardian.com/commentisfree/2018/feb/28/brexit-eu-draft-agreement-britain>

[x] <https://www.belfasttelegraph.co.uk/news/northern-ireland/brexit-dups-concerns-with-boris-johnsons-deal-customs-consent-and-vat-38604045.html>

[xi] <https://www.ft.com/content/78c811a0-0a42-11e7-97d1-5e720a26771b>

[xii] <https://www.ft.com/content/5b403814-1111-11ea-a7e6-62bf4f9e548a>