Not out of the woods yet – And a trade deal to land in less than six months

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Now that Brexit is done, we are able to look forward to the certainty our EU trade deal is promised to bring. Or so we are told. However, it seems we are not out of the woods yet. And on top of many months of grinding uncertainty we have now been thrown the Covid 19 curveball and no one knows where this one will land.

The Brexit process and three years of '*dither and delay'* have, inevitably, taken their toll. Last week Labour MP, Rupa Huq, highlighted that Brexit had already cost us £130bn, or £900 for each and every household.

Bloomberg Economics has calculated the cost to the UK economy by end 2020 will be around £200bn. Our economy will be 3% smaller than it should have been, with economic growth having halved from its 2% trend rate, to 1%. Business investment has been cut by an estimated 11%, according to the National Bureau of Economic Research, equivalent to a further £20bn hit to the economy.

Brexit was, according to Bloomberg Economics, on course to cost the UK more than its combined total payments to the European Union budget over the past 47 years.

But the coronavirus could cap all that with consummate ease. With stock markets down £3.89 trillion over the past week, 11% had been wiped off the value of all listed companies, representing the worst sell-off since the 2008 financial crash and global growth forecasts were being downgraded from 3% to closer to 2%.

In the West Midlands, home to much of the UK's transport production, Jaguar Land Rover (JLR) had been flying in parts by suitcase from

China, JCB was cutting back production because of components shortages, and Ralf Speth, CEO, JLR, was ominously warning that sales in China – previously one of its most significant growth markets with sales typically accounting for 10,000 cars a month – had ‘completely stopped’.

With the UK 2020 budget anticipated on 11th March, upheavals in the upper ranks of government were taking their toll. Added to the ‘unforeseen’ departure of former Chancellor, Sajid Javid, was the ‘unprecedented’ resignation of Sir Philip Rutnam at the Home office.

Nature was not making life easier either, with further turbulence delivered courtesy of Storms Ciara, Dennis and Jorge in just about as many weeks, leading to record flooding across the North and Midlands. With EU trade talks kicking off, it looked set to be a rocky year ahead with the threat of No-Deal still hanging over our heads and impacting business decision-making. In fact for business No-Deal remained the only certain option they were able prepare for.

The course being charted by the UK through these murky waters was not at all clear. Were we heading for the sort of ‘Singapore on Thames’ model, much vaunted by John Longworth, with low tax and low regulatory standards, or something else? As Hans Kundnani of Chatham House noted in The Observer, 1st March, the UK’s position was confusing.

It was, “odd to be campaigning for free trade at the exact moment you are creating new barriers to trade.” In finding a way through this conundrum he pointed out the need to find a way to balance ‘openness and economic efficiency’ – achieved through deeper integration – with ‘democracy and a sense of control’. His suggestion was to achieve this by developing a new model of ‘sustainable globalisation’.

Former West Midlands Lib Dem MEP and farmer, Phil Bennion appeared sanguine about it all, noting:

“Where all this will end up, we really don’t have a clue.

“We are getting different messages from different individuals all the time. I think we are likely to do a ‘bare bones’ deal. The government are talking up the inevitability of border checks and we will only get zero tariffs if we don't try to become an off-shore economy. Everyone will start off the negotiations with their red lines, and we are all presuming these will not necessarily be the end point.

However, we are seeing a predictable opening position from our government. The UK wants everything for nothing. But all we can do at this stage is get our opening positions stated."

It seems things are indeed warming up as we look ahead to the first round of trade talks between Brussels and London on Monday 2nd March. France's Europe Minister, Amélie de Montchalin, had warned that "this is not a battle" but a moment to show "economic rationality." But how rational we will all be remains far from clear as Phil Bennion noted:

"Of course No-Deal Brexit might end up being the destination, especially given the government's statement about walking away from talks in June to prepare for an "orderly" exit after the transition period…The more intransigent the government are, the more likely it will be a No-Deal Brexit. And they don't have to report to Parliament as this was one of the things they put into the leaving deal. Parliament voted itself out of the picture in January.

As a consequence of our departure from the EU the Agricultural Bill 2019-21 was currently making its way through the Houses of Parliament, with Phil Bennion observing that, as a farmer himself, 'one of the key problems is having things on sale here that we are not allowed to produce here, which would be tying our hands behind our backs.'

This last point, having been flagged up by the NFU and by the Labour Party through an amendment they had tabled, had been voted down by a margin of 114 votes. This had drawn attention to the proposed legislation's failure 'to provide controls on imported agricultural goods, such as chlorinated chicken, whilst failing to guarantee the environmental, animal welfare and food safety standards', no doubt leaving the door open to a much anticipated US trade deal.

The Bill was stated to reveal ‘a radical shift’ by government, moving farming subsidies away from the EU’s CAP system of direct payments correlated to the total amount of land owned and farmed.

Instead, farmers and land managers in England would receive payments for benefits delivered, such as better air and water quality, higher animal welfare standards, improved access to the countryside or measures to reduce flooding. The intention was to move the UK towards “a future where farmers are properly supported to farm more innovatively and protect the environment,” according to a statement from DEFRA.

The Bill’s passage through Parliament provided an opportunity for debate around greater import substitution, perhaps as an early example of a greater focus on sustainability. With 80% of tomatoes consumed being imported, the opportunity to grow more in the UK was noted.

With claims by growers that supermarket price wars had led to plummeting sales of British salad lines, UK production of cucumbers, peppers and aubergines, had all also slumped.

With no reference having been made to farming in the early Trade Deal talks, fishing and finance had, however, both been in the news. Government’s preference for a Japanese or Canada style deal, requiring no alignment to EU laws as outlined in its initial broad framework, made clear that a hard Brexit was the most likely outcome for the UK, although exactly what kind of hard Brexit was yet to become apparent.

Michael Gove had conceded to Michel Barnier that just as the UK could not expect the same rights and benefits of membership having left the EU, neither could the EU expect the same rights and benefits of access from the UK.

This applied in particular to access to our open waters. He stated, in an opening salvo, “They are our national waters and we will decide the basis of access to them”.

However, France’s Europe Minister, de Montchalin, was quick to respond, outlining that the EU would not sign up to a deal that was not good enough, ‘simply because time was running out’.

There is, it seems, just a possibility that the whole EU-UK trade deal could collapse over fishing rights, despite fishing accounting for less than 1% of the EU’s GDP.