

A Brexit Revolution?

By Dr Graham Gudgin, Research Associate at the Centre For Business Research Judge Business school University of Cambridge and and Co-Editor of BriefingsForBrexit

Despite the protestations of Amber Rudd that there is all to play for in the Tory leadership contest, in fact the contest is over. And the winner is..... There is no secret that the runaway winner is Boris Johnson. Almost 80% of ballots have already been returned, weeks ahead of the July 22nd deadline. Polls show that three-quarters of the 160,000 eligible Tory members support Boris Johnson. Although an official announcement will not be made for another week and a half, it is pretty certain that we already know who the next Prime Minister will be. Short of Boris going under one of his route-master buses, or a military coup, Boris Johnson will have realised his childhood dream.

So, what will prime minister Johnson do on Brexit. He is said to have an ABC strategy. A is to negotiate a new agreement with the EU. If that fails, the fallback B is a free-trade agreement. If the EU will agree nothing, then we extend our existing trade on WTO rules to include the EU.

The initial line of attack of the 'remainer' media when Boris emerged as lead candidate was to stress his unreliability and the likelihood that he would let down his ERG allies by going for some cosmetic rewording of the Withdrawal Agreement. The fact that several prominent 'remainer' MPs starting backing Boris suggested to them that he had indicated as much to them. Other MPs just shake their heads at the venality of those among their colleagues who will do or say anything to advance their careers.

Among such commentators is the key idea is that the EU will want to offer something to a new UK administration, albeit something minimal. Despite refusing a hundred times to reopen the Withdrawal Agreement, there are a number of possibilities from the EU point of view. One is to repeat the past tactic of proposing some alteration to the non-binding Political Declaration which accompanies the Withdrawal Agreement and which the EU regards as an intrinsic part of the package. Alternatively, some side-letter might be offered once again, to provide 'clarification'. Although remainers hope otherwise, a

Johnson administration is most unlikely to accept these ideas since they mean accepting a Withdrawal Agreement already rejected three times in Parliament.

Australian trade negotiators with a wealth of experience in dealing with the EU tell us not to take too much notice of EU pronouncements until the last three weeks of the negotiations. Hence, during October the EU may come forward with a new 'final' offer. To attract interest in Downing St. this would have to involve some significant weakening of the Irish Backstop, the part of the Withdrawal Agreement which the UK finds least acceptable. A guess would be that they might offer a five-year sunset clause on the backstop.

Even with the possibility of unilaterally leaving the backstop, this would still mean that the UK remains inside the EU's customs Union and Single Market for another seven years. To put it another way, the UK would still be inside the key economic institutions of the EU fully ten years after the referendum. Theresa May hoped that the British public would settle for being technically outside the EU but bound by its trade rules. Leavers called this a pretend Brexit and her tenure at No. 10 was ended. Boris Johnson can hardly settle for much the same thing. One prominent ERG Tory told me that a time-limited backstop would be completely unacceptable to the ERG.

OK say some remainers, but Boris can go over their heads and reach out to Labour and to pro-remain Tories to get a Withdrawal Agreement with a time-limited backstop through Parliament. This triumph of hope over experience will not work because it splits the Tory party, precisely the outcome that a Johnson government needs to avoid. There may be a 'sweet spot' soon after leaving the EU, and before Jeremy Corbyn is deposed by his colleagues, for Boris Johnson to call a general election. To do this he needs a reasonably united party, and not one which drives off members and some MPs are flocking to a resurgent Brexit party.

Meanwhile, across the Irish Sea the Varadkar government is going for broke and asserting that there must be no weakening on the EU's existing position of the Withdrawal Agreement. Not all of Ireland agrees and the Irish press daily receives anxious indications that such a lack of flexibility may be suicidal. A few days ago, the Irish Government published a revised version of its extensive report on

preparations for 'no deal' but said almost nothing on the biggest issue which is the impact of high tariffs facing Irish food producers exporting into the UK market. This comes at a time when rural Ireland is up in arms about the new draft EU trade agreement with the Mercosur countries (Brazil, Argentina, Uruguay, Paraguay) which allows cheap beef imports into an already oversupplied market. The EU has quickly looked less attractive to parts of Ireland, but for electoral reasons the Irish Government feels unable to show any sign of a U turn.

An amended Withdrawal Agreement thus looks unlikely. Plan B is then a free-trade agreement. To make progress here the EU would have to accept that the Withdrawal Agreement is off the table. Any possibility that Parliament could stop 'no deal' and hence keep the Withdrawal alive delays the EU reaching such an understanding, but if Parliament has been kept at bay until late October a last-minute agreement beginning negotiations on free trade is conceivable. It is in everyone's economic interest, and the UK would be keen, but we cannot tell whether politics will trump economic interest inside the EU. If the global economy continues to weaken the EU may prefer not to add to its woes, but we cannot predict what will happen.

If no deal is possible, we just leave the EU and trade on WTO rules, facing the EU's common external tariffs and imposing our own tariffs on the UK. If Johnson retains the UK's published tariff schedule, which abolishes tariffs excepts for a few goods including food and cars, tariffs on imports will be low. An existing statutory instrument exists to avoid all import tariffs at the Irish border, but this is so one sided and damaging to Northern Ireland food producers that we should assume Boris Johnson will abandon what even by Theresa May's standards is a daft idea. Beyond this a WTO route is doable, and firms would soon settle down to the new routine. Brexit would be done, and life will go on.