

# Beyond Brexit

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The 2016 referendum was hugely divisive.

However, we need to consider what is to happen beyond 1<sup>st</sup> January. The prudent prepare. That is true in business, but it should also be true for governments. The most effective businesses are agile, but a significant portion of that agility stems from the fact that they are well prepared. Of course, there are some things that nobody can foresee: I would have laughed had you told me 12 months ago that 2020 would be dominated not by Brexit but by a global pandemic.

Nevertheless, there are a great number of things for which considerable preparation can be done and Brexit is one of them. Yet, puzzlingly, we continue to make the same mistakes as ever. This is not tied to specific political personalities – the Cameron government utterly failed to prepare any kind of contingency plan in the event of Brexit.

As of 1<sup>st</sup> January 2021, either there will be a free trade agreement between the EU and UK or there won't. If there is no agreement, then we are likely to see a period of substantial disruption to elements of trade.

However, even if the EU and UK don't sign and ratify an FTA, time will not stop. "No deal" or "WTO" or "Australia style" or whatever else we choose to call it is not an endpoint. To suggest otherwise is hugely disingenuous. So what then?

I don't doubt that there will be a period of acrimony and anger. However, since the UK is proximate to the EU, the two sides will ultimately need to return to the negotiating table since both sides can be made better off with an agreement. Do we really want to pay 10% tariffs on cars for evermore?

As a result, in the long-term the pressures to do so will be inexorable, not least since the interim period is likely to see us move towards the break-up of the UK. In any event, even Australia has certain

measures in place to minimally facilitate trade. There will be much to discuss, including even basic agreements on aviation. At which point we'll be forced to ask – does anybody really benefit from imposing ridiculous stipulations on airline ownership?

We will face a whole host of questions over regulatory duplication. As a result, even where implications are identical it will have profound (negative) implications for businesses. Two sets of paperwork. Two authorities. There will be implications for the flow of data, the provision of financial services, cross-border broadcasting and the provision of services (including legal services). An acrimonious end to negotiations is not an atmosphere conducive to resolving these problems in a timely fashion.

The upshot of all this is that even if there is no agreement, various negotiations and discussions will continue. Eventually the two sides will return to the negotiating table, at which point the same issues will resurface.

If there is an FTA signed then we have some idea as to its likely contents. Firstly, we know it will be (mostly) a single agreement rather than the plethora of different legal texts that apply in the Swiss case. That was a strong preference by the EU and has been conceded by the UK government.

It will probably be a zero/zero (no tariffs, no quotas) agreement. That's the strong preference of both sides and in spite of various ideas floated by the UK for residual tariffs on certain product lines, anything other than zero/zero would be much more complicated. Since simplicity is key, it's reasonable to surmise that zero/zero is the most likely outcome.

Beyond that, there will probably be some form of “non-derogation” clauses involved (i.e. a commitment that the two sides will not lower standards from their present level), particularly around labour rights and environmental standards. I cannot envisage the EU agreeing an FTA without these<sup>[1]</sup> and there does not appear to be much appetite in the UK to slash worker's rights and environmental protections.

Indeed, many in government have suggested that we should increase them. Much less clear is what rules will be applicable as regards

state aid and this is a red line for both sides. There will also need to be some form of independent arbitration mechanism. Nevertheless, that gives reasonable contours for an agreement.

Fishing is another grey area and is highly emotive politically, although its economic importance is small in absolute terms (accounting for some 0.04% of GDP[2] and somewhere between approximately 6,000 and 10,000 jobs in the UK[3]). What next? Whilst we know that there will be additional customs (and probably sanitary and phytosanitary) checks on goods flowing from the UK into the EEA (plus Northern Ireland), there is still enormous uncertainty over other elements of pan-European cooperation.

There will certainly need to be some duplication and additional paperwork. However, it also makes very little sense for the UK to be excluded (either by others or of its own volition) from pan-European cooperation and the various agencies that underpin this. Ironically, many of these will be things that the UK was instrumental in creating (e.g. the European Aviation Safety Agency). What will the UK's relationship with these regulatory bodies be?

We also need to start thinking about the many areas where we might choose to cooperate more closely in future. When the UK was a member of the EU, this was automatic and there were obvious procedures to be followed. There are well-trodden routes to do the same now (e.g. membership of the EEA), but these are politically unpalatable to the UK.

For all the recent rhetoric, the two sides have a great number of common interests. Close cooperation is in the interests of all of us. We need to find a way to make it happen. Time to move beyond Brexit: what's next?

*[1] It's worth noting that agreements on labour and environmental standards are not uncommon in modern international agreements and they would be symmetric – neither side could undercut the other.*

*[2] <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates>*

[\[3\] https://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=189](https://www.nomisweb.co.uk/query/construct/summary.asp?mode=construct&version=0&dataset=189)

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