COST OF NO DEAL
We’ve heard a lot about what “no deal” might mean for the European Union might mean for Britain. According to Theresa May, it would be “beyond a bad deal.” The Chancellor, Philip Hammond, thinks, in contrast, that it would be “perfectly OK.” Boris Johnson, for his part, thinks it would be “perfectly OK.” But what does “no deal” actually mean? And what might its consequences be? Leaving the European Union involves two steps. The first is to be up to the loose ends of membership. This is the so-called Article 50 process, likened by many to a divorce. This is a reasonable analogy, insofar as leaving involves sorting out the practical leftovers of a relationship. For Brexit, it’s budget commitments we’ve already signed up to, Eurocrats’ pensions, our share of the European Investment Bank and citizens’ rights (what happens to Brits living elsewhere in the EU and EU citizens here). In addition, given the particular sensitivities involved, both sides have agreed to add the Irish border to this list.

That, then is stage one. And, whilst the issues involved are largely technical, they are also immensely politically sensitive, as discussion of money and immigration invariably are. And that’s even before we get on to the Irish border.

The second part of leaving is to try and agree on a relationship that works for both parties into the future. With the marriage analogy, that means the kids. The UK government has said it wants a “deep and comprehensive trade agreement.” Above and beyond the economics, there are all sorts of other important issues to be dealt with. Cooperation on security, particularly when it comes to being able to track, share information about and pursue criminal (including terrorist) suspects is a key one. So too are any arrangements put in place to allow the UK to cooperate closely with the EU on matters of defence and foreign policy. This deal will be far harder to negotiate than the Article 50 deal, for two key reasons.

The first is simply the sheer range of issues that need to be discussed and the huge amount of technical detail that will need to be sorted out. On trade, the negotiators from each side – the UK and all the member states – will need to strike a deal that covers sectors from car manufacturers to banks, from universities to farmers. Agreement on tariff rates will be the easy bit. So-called ‘non-tariff barriers’ are more important. These are the many thousands of technical regulations which can get in the way of trade in goods and services. Little wonder that most significant trade deals take many years to negotiate.
We see almost no prospect of a “deep and comprehensive” trade agreement within two years.

This means that some kind of transitional arrangements will almost certainly be necessary. These might allow the maintenance of trade with the EU on something like current terms, while the details and practicabilities of any long term deal are thrashed out. But here again nothing will be simple. There is little prospect that the EU27 will allow this unless we agree to the continuation of free movement of people and the jurisdiction of the European Court of Justice during any transitional period.

So the possible outcomes are not as simple as, to coin a well-known phrase, “deal or no deal”. Indeed, it is possible to identify (at least) four broad scenarios, as follows:

- **Smooth Brexit.** All goes according to plan. We manage to have both the Article 50 and the trade deal signed, sealed and delivered by March 2019; with, where required, agreed extension.
- **Transitional Brexit.** The Article 50 deal is agreed. Discussions begin on a trade deal and are progressing well, but both sides agree on transitional arrangements, or at least some sort of standstill provisions where little or nothing changes, in order to bridge the gap to a full deal.
- **Cliff-edge Brexit.** The Article 50 deal is agreed, but the trade discussions go nowhere: either they break down, or they have made little progress. So there is nothing to transition to. Meanwhile continuing the UK’s Single Market membership and/or free movement is unacceptable to one or both sides. So on March 29, 2019 the UK becomes a “third country”, with no special relationship of any kind with the EU. WTO rules will apply to the UK’s trade with the EU.
- **Chaotic Brexit.** There is no Article 50 agreement within the two year period, and no extension. The talks fail, because of disagreement over citizens’ rights, the role of the ECJ, of standstill provisions where little or nothing changes, in order to bridge the gap to a full deal.

There has been an awful lot of ambiguity about whether “no deal” refers to a cliff-edge Brexit or a chaotic Brexit, and if so both sides agree on transitional arrangements, or at least some sort of standstill provisions where little or nothing changes, in order to bridge the gap to a full deal.

### The Article 50 Deal

<table>
<thead>
<tr>
<th>Pensions</th>
<th>Buildings</th>
<th>Liabilities</th>
<th>Citizens’ rights</th>
<th>Financial commitments</th>
</tr>
</thead>
</table>

### The Trade Deal

- **Halves:**
  - **Financial commitments:**
    - **Citizens’ rights:**
      - **Buildings:**
        - **Assets:**
          - **Pensions:**
            - **Liabilities:**
              - **Halves:**
                - **Citizens’ rights:**
                  - **Buildings:**
                    - **Assets:**
                      - **Pensions:**
                        - **Liabilities:**
the latter, to which of the two scenarios we have outlined. However, the logic whereby the UK needs to be able to walk away from the negotiating table if it is to avoid having a solution imposed on it applies to both the trade and the divorce negotiations. So the prospect of Brexit without either kind of agreement having been reached is a real one.

In what follows, we focus solely on the “chaotic Brexit” scenarios involving no deal on either Article 50 or trade. This outcome would impact not only on those areas covered by the Article 50 talks themselves – money, citizens’ rights, and the backstop border of the island of the UK that is currently affected by EU membership, from fishing nuclear power to drug safety.

So what would ‘no deal’ mean? What would its impact be? Clearly, answering this question requires a significant amount of speculation. We do not claim to provide precise answers; nor would its impact be? Clearly, answering this question requires a significant amount of speculation. We do not claim to provide precise answers; nor

Nevertheless, the stakes are so high that we do not attempt to be comprehensive without either kind of agreement having been reached is a real one.

In what follows, we focus solely on the “chaotic Brexit” scenarios involving no deal on either Article 50 or trade. This outcome would impact not only on those areas covered by the Article 50 talks themselves – money, citizens’ rights, and the backstop border of the island of the UK that is currently affected by EU membership, from fishing nuclear power to drug safety.

So what would ‘no deal’ mean? What would its impact be? Clearly, answering this question requires a significant amount of speculation. We do not claim to provide precise answers; nor

The politics of no deal

What the British people think of the “no deal” option depends on the question they are asked. On the one hand, voters are inclined to agree with the Prime Minister’s claim about no deal being better than a bad deal. At the beginning of May, YouGov found that 48% agreed with the proposition while just 20% disagreed. Opinion did much the same thing at the end of June, and found that 40% agreed and 26% disagreed.

On the other hand, if the prospect of no deal is divorced from Mrs May’s soundbite, a different picture emerges. Just after the election, Survation reported that as many as 66% believed that leaving the EU without a Brexit deal in place first, even if this undermines our negotiating position!, while only 32% disagreed. Perhaps the best way to make sense of this is to see the Prime Minister’s statement as a truism. Who, after all, would like the UK to emerge with a supposedly ‘bad’ deal? Meanwhile, the public appear to think that we should at least be willing to walk away from the talks, if necessary. At the time of the manifesta launches, 40% told YouGov that it was a ‘wrong priority’ to rule out a Brexit deal, while just 31% reckoned it was a good idea. However, that does not mean that the public are keen on leaving without a deal – not least perhaps because they are inclined to the view that doing so would not be in the UK’s interest. According to Panebaze, 38%

reckon that the UK has more to lose if no Brexit deal is reached, while just 28% feel the EU would come up worse.

So the political implications of a chaotic Brexit depend crucially on how it happens. Under a timed out Brexit, the most obvious path is that by late 2018 it becomes clear that there has not been sufficient progress on substantive negotiations under Article 50 and that no amount of extension to the two-year period that ends in March 2019 would unblock this. By mutual agreement, both sides let the clock run out and the UK leaves at the end of the period. Much will depend on who triggers the two-year period and who blocked what. For both the UK and the EU, there will be considerable political fall-out, so there will be an incentive to blame the other side.

If, however, the Article 50 process comes to an end without agreement because of a unilateral British decision to remove itself from negotiations – maybe even to declare a unilateral and immediate withdrawal from the EU – then the political recriminations would be even more heated.

In both cases, the incentive for the government to blame “Brussels” for the breakdown would be extremely strong. This might also extend to blaming opponents in the UK (“Remoaners” or “soft Brexiteers”) for weakening the UK’s position. Earlier episodes of overheated political rhetoric (the Daily Mail’s “Crush the Saboteurs” headline) would look mild by comparison. While it is possible that the UK public and politicians would rally behind the government, a bitter and divisive period is more probable.

This is a key point: Brexit is not just about the EU. How the UK acts now will set the temperature of whatever the outcome, matters in terms of its own future. This breaks down into two main elements.

• First, the British political system has already been disrupted by Brexit, which is likely to be the defining political event of this period. Without a deal, there will be further profound dislocations and more widespread discontent with the failure of the establishment. Since the UK would be in a position of being outside the EU, the current oppositional views to the government – softening or aborting Brexit all together – would no longer be viable, leaving all sides in a policy cul-de-sac.

• Secondly, the UK would still have to deal with EU partners. If nothing else, Ministers will regularly bump into EU counterparts at NATO, G7, WTO and many other meetings, where they will need to work together. A mutual blame game following a collapse in negotiations will make such cooperation more difficult. In addition, third parties might consider that a UK withdrawal from the EU would mean that the UK has more to lose if no Brexit deal is reached, while just 28% feel the EU would come up worse.

So the political implications of a chaotic Brexit depend crucially on how it happens. Under a timed out Brexit, the most obvious path is that by late 2018 it becomes clear that there has not been sufficient progress on substantive negotiations under Article 50 and that no amount of extension to the two-year period that ends in March 2019 would unblock this. By mutual agreement, both sides let the clock run out and the UK leaves at the end of the period. Much will depend on who triggers the two-year period and who blocked what. For both the UK and the EU, there will be considerable political fall-out, so there will be an incentive to blame the other side.

If, however, the Article 50 process comes to an end without agreement because of a unilateral British decision to remove itself from negotiations – maybe even to declare a unilateral and immediate withdrawal from the EU – then the political recriminations would be even more heated.

In both cases, the incentive for the government to blame “Brussels” for the breakdown would be extremely strong. This might also extend to blaming opponents in the UK (“Remoaners” or “soft Brexiteers”) for weakening the UK’s position. Earlier episodes of overheated political rhetoric (the Daily Mail’s “Crush the Saboteurs” headline) would look mild by comparison. While it is possible that the UK public and politicians would rally behind the government, a bitter and divisive period is more probable.

This is a key point: Brexit is not just about the EU. How the UK acts now will set the temperature of whatever the outcome, matters in terms of its own future. This breaks down into two main elements.

• First, the British political system has already been disrupted by Brexit, which is likely to be the defining political event of this period. Without a deal, there will be further profound dislocations and more widespread discontent with the failure of the establishment. Since the UK would be in a position of being outside the EU, the current oppositional views to the government – softening or aborting Brexit all together – would no longer be viable, leaving all sides in a policy cul-de-sac.

• Secondly, the UK would still have to deal with EU partners. If nothing else, Ministers will regularly bump into EU counterparts at NATO, G7, WTO and many other meetings, where they will need to work together. A mutual blame game following a collapse in negotiations will make such cooperation more difficult. In addition, third parties might consider that a UK withdrawal from the EU would mean that the UK has more to lose if no Brexit deal is reached, while just 28% feel the EU would come up worse.

So the political implications of a chaotic Brexit depend crucially on how it happens. Under a timed out Brexit, the most obvious path is that by late 2018 it becomes clear that there has not been sufficient progress on substantive negotiations under Article 50 and that no amount of extension to the two-year period that ends in March 2019 would unblock this. By mutual agreement, both sides let the clock run out and the UK leaves at the end of the period. Much will depend on who triggers the two-year period and who blocked what. For both the UK and the EU, there will be considerable political fall-out, so there will be an incentive to blame the other side.

If, however, the Article 50 process comes to an end without agreement because of a unilateral British decision to remove itself from negotiations – maybe even to declare a unilateral and immediate withdrawal from the EU – then the political recriminations would be even more heated.
That considerable legal uncertainty will extend this period. So, educated guess state concerned, unanimously decides to Council, in agreement with the member notification …, unless the European or, failing that, two years after the question from the date of entry into shall cease to apply to the State in text merely stipulates that the ‘Treaties the event of there being no deal. The Article 50 is silent on what happens in (formerly known as the Great Repeal Bill). The effect of this would be that EU (e.g. enforceability) in the UK. This would domestic law) from having direct effect and preventing EU law (as a matter of its choosing, thereby bringing an end to the supremacy of EU law in the UK and preventing EU law (as a matter of domestic law) from having direct effect (i.e. enforceability) in the UK. This would put the UK in breach of EU law and the European Commission could, at least in theory, bring enforcement proceedings against the UK for non-compliance with EU law.

Premature Brexit

If the UK walks away from the negotiations in the next few months, the full legal consequences may not, in fact, be felt straightaway. In principle, the UK will remain a member state and so EU law will continue to apply to the UK. Therefore British individuals and firms will continue to operate under EU law until Brexit day, 29 March 2019. At this point, Article 50 stipulates that the treaties will cease to apply.

The situation becomes more complex if the UK decides not only to walk out on the negotiations but also to renounce on its commitments under EU law. In this scenario the UK may decide to invoke the powers contained in clause 19(2) of the EUWB, assuming the EUWB is passed by Parliament without amendment. Clause 19(2) implicitly gives the UK government power to terminate the European Communities Act (ECA) 1972 at any time of its choosing, thereby bringing an end to the supremacy of EU law in the UK and preventing EU law (as a matter of domestic law) from having direct effect (i.e. enforceability) in the UK. This would put the UK in breach of EU law and the European Commission could, at least in theory, bring enforcement proceedings against the UK for non-compliance with EU law.

The legal position

Article 50 is silent on what happens in the event of there being no deal. The text merely stipulates that the treaties will cease to apply. This leads some to argue that if the UK repeals the ECA as part of a premature Brexit, this may constitute a material breach of the EU treaties which, under Article 60 of the Vienna Convention of the Law of the treaties, would entitle the EU to invoke the breach as a ground for terminating the EU treaties or suspending their operation in whole or in part. This means that UK nationals and firms become third country nationals overnight. Some of the implications of this for individuals are considered in the immigration section.

Cost of No Deal

Timed out Brexit

If the UK gets to the end of the two year period with no deal, Article 50 stipulates that the treaties will cease to apply. This will lead to legal chaos. The UK will no longer be a member state. This scenario will give rise to huge uncertainties, particularly for UK firms exporting to other EU countries or trading elsewhere in the EU. Consider, for example, contracts for the long-term supply of goods between the UK and an EU country. The EU has already made suggestions for transitional rules to govern this situation. But if there is no deal, then these transitional rules will not apply. UK producers of, say, China dinner services – to take a relatively simple case – exporting into Europe will be subject to the supremacy of EU law in their countries when the UK has made it so clear that it wishes to turn its back on the EU? This leads some to argue that if the UK repeals the ECA as part of a premature Brexit, this may constitute a material breach of the EU treaties which, under Article 60 of the Vienna Convention of the Law of the treaties, would entitle the EU to invoke the breach as a ground for terminating the EU treaties or suspending their operation in whole or in part. This means that UK nationals and firms become third country nationals overnight. Some of the implications of this for individuals are considered in the immigration section.
to whatever tariffs EU law provides. Currently, no duty is paid on those goods crossing an EU border. Following a timed out Brexit, if goods are shipped from Kent to Hamburg in Germany duty will be payable.

The question of who bears the risk of this increase in costs may be significant, but in English contract law it is unusual for contracts to be ‘frustrated’ (where performance impossible, which is the usual hurdle which has to be met). When it comes to contracts entered into since the referendum, parties may try to cater for the possibility of no deal as part of a ‘force majeure’ clause providing, for example, that the contract would come to an end in the event of no deal without either party becoming liable. In these situations, the potential negative impact on the export market is clear. The legal enforcement of all forms of contractual and commercial arrangements will also become significantly more complex. While, under the EUWB, the EU rules on ‘choice of law’ (i.e. which law applies to, for example a German contract: English law or German law) and jurisdiction (i.e. which court can hear the case: the English court or the German court) should continue to apply unless ‘corrected’ by clause 7, the reciprocal arrangements which currently apply, for example, in relation to the enforcement of judgments, cannot be replicated in an English law regime. So, at present, if there is a dispute between an English seller and a German purchaser and the case is heard by an English court which finds in favour of the English seller who is awarded damages which the German purchaser refuses to pay, English judgment can currently be enforced automatically in any court in the European Union, including in the German courts. If there is no deal, the English seller will no longer be able to have the award of compensation automatically enforced in the German courts, because the English court judgment will no longer be a judgment from a ‘member state’ court. Instead, the parties will have to rely on national enforcement regimes and so the procedure will be more cumbersome and expensive and enforcement will not be automatic to subject each member state’s own national law requirements and defences.

**UK trade**

As set out above, a premature Brexit or a timed out Brexit would mean considerable legal uncertainty around how trade would continue to flow between the UK and the rest of the EU. What is certain, however, is that the current trading arrangements between the UK and the rest of the EU would cease. Moreover, we trade with the rest of the world not separately, but as members of the EU. So, for example, goods from countries outside the EU are subject to the Common External Tariff when they are imported to the UK, if no special deal trade is in place with the exporting country. The default position would be that World Trade Organisation rules would apply on trade between the UK and the EU, and between the UK and third countries (including countries with which the EU has trade deals). The UK is a member of the WTO in its own right, and although various procedures would be needed to re-establish our autonomy from the rest of the EU – in particular, we would have to agree “schedules” for goods for which the EU currently has quotas - this might be (relatively) unproblematic and could be done without any disruption to trade (assuming those changes had the process had sufficient time to do it). An unexpected chaotic Brexit, in other words, might not be so smooth. What would a move to WTO rules mean for UK exports? Under WTO rules, each member must grant the same ‘most favoured nation’ (MFN) market access, in terms of reducing tariffs and barriers, to all other WTO members. The only exceptions to this principle are that countries can choose to enter into free trade agreements and they can give preferential market access to developing countries.

This means that exports to the EU would be subject to the same customs checks, tariffs and regulatory barriers that the UK and EU currently charge on trade with countries such as the US. The UK impact would be felt at the borders, where in theory all UK exports would have to pass through customs. The practical feasibility of this will vary from port to port, for some busy ports, like Calais, the practicality of this is uncertain. Dover, it is thought, will be particularly badly affected because it lacks the physical space to store all the goods needing to be processed – not to mention managing new immigration checks. Some short-term disruption to trade is likely, over and above that resulting from new trade barriers, which means, for example, that the car industry, which relies on complex cross-border supply chains and “just-in-time” delivery of parts, would be severely disrupted and would likely be forced to restructure their supply chains. In the event of a premature Brexit, the impact of all this would be magnified because there would not be the time and warning needed to put practical
arrangements in place. UK service exporters would also suffer from the loss of passporting rights for financial services, as well as access for other service providers (legal and accountancy services, etc.). There would also be consequences for exports to other countries with which the EU has trade deals, including Korea, Mexico, and Chile, where the UK would have to try to replicate some version of existing arrangements if it wished to avoid the reimposition of some trade barriers.

What about imports? Here the UK would try to replicate some version of existing arrangements in place. This would benefit consumers but would pose significant problems for some UK sectors, especially agriculture. The revenue benefits would also be lost. In practice, it seems inconceivable that any UK government would go down this road, particularly in sensitive sectors like agriculture (see below) at a time of such economic turbulence.

The estimated economic costs of any plausible scenario are large. For example, the Centre for Economic Performance estimates that a move to WTO rules, with the UK applying the same external tariff as the EU, would lead to a large reduction of about 40% in trade with the EU over the next 10 years. The economic effect of this change would be equivalent to a 2.9% reduction in the UK’s income per capita (or 2.6% net of changes in budget payments from the UK to the EU). Adopting a policy of unilateral free trade would mitigate these costs somewhat but only marginally (by about 0.3% of GDP per capita).

Again, the uncertainty and possible lack of warning (depending on the scenario) of a chaotic Brexit would add to the adjustment costs and hence the short-term impact. These estimates are based on the medium to long-term impacts of a move to WTO rules. The short-term disruption resulting from the sudden imposition of these rules, in particular potential disruption to trade, is almost impossible to estimate quantitatively, and would depend crucially on the extent to which measures to mitigate the short-term impact were put in place both by the UK and EU27.

Northern Ireland

Brexit will have a particularly marked impact on Northern Ireland. Although the major parties were on opposite sides of the argument ( DUP backed Leave, Sinn Féin Remain) there is widespread political recognition that Northern Ireland presents specific challenges. The position of the DUP in these discussions has altered significantly since the June 2017 General Election. The deal with the Conservative Party means the party will mitigate some costs somewhat, but only marginally (by about 0.3% of GDP per capita).

Adopting a policy of unilateral free trade would result in some revenue gains for the UK, estimated at about £12 billion; however, this would also lead to a significant increase in prices which would likely be passed on consumers. Alternatively, the UK could, as some Brexit-supporting economists have proposed, adopt a policy of unilateral free trade (as noted above, this would have to apply to all the UK’s trading partners). This would benefit consumers but would pose significant problems for some UK sectors, especially agriculture. The revenue benefits would also be lost. In practice, it seems inconceivable that any UK government would go down this road, particularly in sensitive sectors like agriculture (see below) at a time of such economic turbulence.

The estimated economic costs of any plausible scenario are large. For example, the Centre for Economic Performance estimates that a move to WTO rules, with the UK applying the same external tariff as the EU, would lead to a large reduction of about 40% in trade with the EU over the next 10 years. The economic effect of this change would be equivalent to a 2.9% reduction in the UK’s income per capita (or 2.6% net of changes in budget payments from the UK to the EU). Adopting a policy of unilateral free trade would mitigate these costs somewhat but only marginally (by about 0.3% of GDP per capita).

Again, the uncertainty and possible lack of warning (depending on the scenario) of a chaotic Brexit would add to the adjustment costs and hence the short-term impact. These estimates are based on the medium to long-term impacts of a move to WTO rules. The short-term disruption resulting from the sudden imposition of these rules, in particular potential disruption to trade, is almost impossible to estimate quantitatively, and would depend crucially on the extent to which measures to mitigate the short-term impact were put in place both by the UK and EU27.

Brexit in which neither side had time to prepare contingencies, and in which, as we have seen, legal uncertainty would be significant, would, for Northern Ireland, be truly chaotic. A major concern is the agricultural sector, where much economic activity and service provision is very closely linked with that of the Irish Republic, with severe consequences for Northern Ireland if different tariff arrangements were to operate on either side of the border. This would be likely to disrupt their highly integrated agri-food supply chains and encourage the illegal movement of goods and animals and other goods. The suggestion (even in the form of political rhetoric or as a negotiating tactic) that there might be ‘no deal’ would destabilise further an already unsettled situation. Northern Ireland risking becoming collateral damage in a political conflict between the UK and the EU; the impact would be negative and severe for people, communities and businesses in Northern Ireland and on the island of Ireland.
imported from outside the EU. Some
produce in the EU with domestic products and
plans in place to replace imports from
This seems improbable, as major food
an entire supermarket shelf disappear?
This does not, however, mean
tariffs and border checks would
the default scenario would be that
by far. In the event of a chaotic Brexit,
tariffs in the medium term.
barriers will be far more important than
dominate in the short term, non-tariff
and plant health regulations and rules of
are embedded in those of the EU, and
will need to be separated with the
and tariff rate (preferential quotas),
will replicate as closely as possible the
and on the level of domestic support, and
will vary across farm types.
and income, will depend on the changes in farm-gate
prices, while unpredictable, is likely to
impact on the structure
occur but this is likely to be short term.
However, the impact on the structure
tariff schedules (specific commitments) and
tariff rate (preferential quotas), but
more importantly it will need to formulate its own, WTO-
compliant, domestic agricultural policy.
The UK government seems committed
to establishing tariff schedules which
will replicate as closely as possible the
current obligations. However, our present
WTO obligations (and obligations
are already embedded in those of the EU)
and will need to be separated with the
agreement of both the EU and WTO.
This will not necessarily be straightforward if
the breakdown of negotiations with the EU has been acrimonious. In
any event, it will be more consuming and
difficult to see how, in the event of a
chaotic Brexit – particularly a premature one – the necessary work could be
done in advance. What happens in the
intervening period is unclear.

So, the impact on agriculture and food
prices, while unpredictable, is likely to be
large, and will vary by sector. For example, for
products where the UK
will be large, and will vary by sector. For
domestic support, and will
price, for both outputs and inputs) and
prices (for both outputs and inputs) and
will depend on the changes in farm-gate
prices, while unpredictable, is likely to
impact on the structure
occur but this is likely to be short term.
However, the impact on the structure
tariff schedules (specific commitments) and
tariff rate (preferential quotas), but
more importantly it will need to formulate its own, WTO-
compliant, domestic agricultural policy.
The UK government seems committed
to establishing tariff schedules which
will replicate as closely as possible the
current obligations. However, our present
WTO obligations (and obligations
are already embedded in those of the EU)
and will need to be separated with the
agreement of both the EU and WTO.
This will not necessarily be straightforward if
the breakdown of negotiations with the EU has been acrimonious. In
any event, it will be more consuming and
difficult to see how, in the event of a
chaotic Brexit – particularly a premature one – the necessary work could be
done in advance. What happens in the
intervening period is unclear.

So, the impact on agriculture and food
prices, while unpredictable, is likely to be
large, and will vary by sector. For example, for
products where the UK
will be large, and will vary by sector. For example, for
products where the UK
is a net importer, such as fruits and
vegetables, pig meat and beef, prices
may rise significantly. For (the fewer)
products for which the UK is a net
exporter, prices may fall, reflecting lower
world prices. At the farm level, income
will depend on the changes in farm-gate
prices (for both outputs and inputs) and
on the level of domestic support, and
will vary across farm types.

But it seems certain that, overall, imports
will dominate in the short term, non-tariff
barriers will be far more important than
tariff rate (preferential quotas), as
a result of the fall in the value of the
pound, and on our agricultural exporters.

The UK’s withdrawal from the Common
Fisheries Policy (CPF) has been one of
the most high-profile aspects of Brexit.
Indeed, the shape of the UK’s fisheries
policy in the future hinges almost entirely
on the deal that the UK and the EU reach
when the withdrawal negotiations have
concluded. In the scenario whereby the
UK walks away from negotiations without
a deal, what will happen to fisheries?

Of great importance, whether there is a
deal or not, is for the recently announced
Fisheries Bill to put in place a legal
framework for the day Brexit occurs
in
filling the gap left by removing a legal
tool. Leaving the CPF means that
the UK will have complete responsibility
for its fisheries. In contrast, as it currently is,
the Law of the Sea (UNCLOS) would
apply. The UK would have no automatic legal
right to fish there.

The shape of the UK’s fishing
industry therefore becomes
of great importance. Whether there is a
deal or not, is for the recently announced
Fisheries Bill to put in place a legal
framework for the day Brexit occurs
in
filling the gap left by removing a legal
tool. Leaving the CPF means that
the UK will have complete responsibility
for its fisheries. In contrast, as it currently is,
the Law of Sea (UNCLOS) would
apply. The UK would have no automatic legal
right to fish there.

The UK government seems committed
to establishing tariff schedules which
will replicate as closely as possible the
current obligations. However, our present
WTO obligations (and obligations
are already embedded in those of the EU)
and will need to be separated with the
agreement of both the EU and WTO.
This will not necessarily be straightforward if
the breakdown of negotiations with the EU has been acrimonious. In
any event, it will be more consuming and
difficult to see how, in the event of a
chaotic Brexit – particularly a premature one – the necessary work could be
done in advance. What happens in the
intervening period is unclear.

So, the impact on agriculture and food
prices, while unpredictable, is likely to be
large, and will vary by sector. For example, for
products where the UK
will be large, and will vary by sector. For example, for
products where the UK
is a net importer, such as fruits and
vegetables, pig meat and beef, prices
may rise significantly. For (the fewer)
products for which the UK is a net
exporter, prices may fall, reflecting lower
world prices. At the farm level, income
will depend on the changes in farm-gate
prices (for both outputs and inputs) and
on the level of domestic support, and
will vary across farm types.

But it seems certain that, overall, imports
will dominate in the short term, non-tariff
barriers will be far more important than
tariff rate (preferential quotas), as
a result of the fall in the value of the
pound, and on our agricultural exporters.

The UK’s withdrawal from the Common
Fisheries Policy (CPF) has been one of
the most high-profile aspects of Brexit.
Indeed, the shape of the UK’s fisheries
policy in the future hinges almost entirely
on the deal that the UK and the EU reach
when the withdrawal negotiations have
concluded. In the scenario whereby the
UK walks away from negotiations without
a deal, what will happen to fisheries?

Of great importance, whether there is a
deal or not, is for the recently announced
Fisheries Bill to put in place a legal
framework for the day Brexit occurs
in
filling the gap left by removing a legal
tool. Leaving the CPF means that
the UK will have complete responsibility
for its fisheries. In contrast, as it currently is,
the Law of Sea (UNCLOS) would
apply. The UK would have no automatic legal
right to fish there.

The on one hand, British fisherman
would be able to catch more fish.

However, they would also face tariffs,
when it came to the export of UK
seafood to EU markets, by far the UK’s largest export markets; the UK’s biggest
export market for seafood is France. The only non-EU country in the UK’s five
largest export markets is the USA. In the event of a chaotic Brexit, this
would be able to catch more fish.

On the one hand, British fisherman
would be able to catch more fish.

However, they would also face tariffs,
when it came to the export of UK
seafood to EU markets, by far the UK’s largest export markets; the UK’s biggest
export market for seafood is France. The only non-EU country in the UK’s five
largest export markets is the USA. In the event of a chaotic Brexit, this
would be able to catch more fish.

On the one hand, British fisherman
would be able to catch more fish.

However, they would also face tariffs,
when it came to the export of UK
seafood to EU markets, by far the UK’s largest export markets; the UK’s biggest
export market for seafood is France. The only non-EU country in the UK’s five
largest export markets is the USA. In the event of a chaotic Brexit, this
would be able to catch more fish.

On the one hand, British fisherman
would be able to catch more fish.
Energy and the environment

In the short term, the EUWB will incorporate EU environmental regulations into UK law, and the UK will also continue to be bound by international environmental commitments. So, in policy terms, there would be continuity. However, this would not deal with the monitoring, reporting and reciprocal recognition requirements currently associated with EU membership.

This is a massive task, and would raise at least two risks in the short term; first, that without monitoring and reporting, some environmental protections would be, de facto, considerably weakened.

Second, and even more problematic, the danger of the vacuum that may exist in various areas while new arrangements are agreed or approved by international partners, which could do serious damage to business and trade. Even if there is no substantive change in standards and rules, there may well not be time to get wholly domestic systems in place and achieve the formal recognition of the UK’s processes and standards that allow trade to take place. For example, chemicals product regulations are covered by EU rules. Without equivalent domestic approvals being put in place, UK exporters would find themselves unable to trade with the EU. It is conceivable they might even struggle to do so internationally should there be no UK registration and authorisation system. In the energy market, a no deal Brexit may mean that the UK has no established safety procedures and systems for the operation of nuclear power plants.

These are currently safeguarded under the auspices of Euratom, which the UK has also notified its intention to leave. The UK’s nuclear power stations would be unable to operate, which could raise the risk of a move back to coal to stem the shortfall in energy production, with very serious impacts, with many airlines reducing their schedules to the UK, both immediately and in the medium term.

Pharmaceuticals

Similar regulatory issues arise with respect to pharmaceuticals. A chaotic Brexit will mean that we would no longer be a member of the European Medicines Agency, and hence part of its approval processes. While the Government has indicated that they would recognize approvals where given by the EU, that would not help us in relation to the registration of any approvals given to drugs developed and produced in the UK in other parts of the EU.

Clinical trials, including cross-border clinical trials currently in progress, would be adversely impacted. We are due to implement the new EU Clinical Trials Regulation in 2019 - if this is before Brexit we would need to be part of a major EU database on which clinical trials are entered; a chaotic Brexit would be likely to disrupt this. Overall, the impact on pharmaceutical research in the UK would be immediate and adverse. In practice, large pharmaceutical companies would have to plan well in advance for such an eventuality, which would presumably mean moving some or all of their research and development activities.

Immigration and resident citizens

Would EU citizens living in the UK immediately become “illegal immigrants” on Brexit Day if we left the EU with no deal? Would EU citizens coming to the UK for work, study or tourism require visas...
– something which would immediately lead to chaos at ports of entry to the UK and which would be disastrous for UK tourism?

This seems unlikely. The main provisions of European law on freedom of movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporated into UK law. So the right of EU citizens to movement have been fully incorporate...
themselves in limbo very soon after Brexit Day, resulting in significant hardship. The resulting political and media reaction would likely be felt well before Brexit Day. Many economists expected that a vote to Leave would affect the economy almost immediately, because of its impact on business and consumer confidence (although no academic economists undertook the kind of short term forecast exercise performed by the Treasury and the International Monetary Fund). In fact, although there was an immediate sharp fall in confidence, this was quickly reversed, as people realised that nothing very much was going to happen in any practical sense in the short term. Both businesses and consumers carried on more or less as before, until the fall in the exchange rate began to exert upward pressure on inflation. However, if “no deal” begins to look certain or even likely – still more so if we unilaterally decide to abrogate our membership - this will change. Business in particular will be aware that there will be a sharp regime change, in legal and regulatory terms (although see the comments on the EUWB above), on Brexit Day. Leaving aside the impacts on individual sectors, likely macroeconomic impacts would include:

- A further significant fall in the exchange rate. Pre-referendum predictions that a vote to Leave would result in a 30-50% fall in sterling proved accurate. A further fall of similar magnitude could be expected;
- A (consequent) rise in inflation, and fall in real wages and consumer demand. These impacts would probably materialise more quickly than in 2016-2017, that is soon after the breakdown in negotiations;
- A fall in business confidence. Unlike the referendum, this would likely be sustained, and translate quite quickly into a slowdown in investment, particularly in sectors reliant on trade with the EU (either exports or imported components) or where regulatory certainty is important for investment decisions.

The reaction of financial markets (beyond the exchange rate) is harder to predict but, at least in the short term, would not necessarily have a major impact on the economy. Long-term interest rates remain at historic lows, despite persistently high deficits over the last decade, and their failure to react to the referendum this way is likely to be a reflection of the economic fundamentals, and of the accommodative monetary and fiscal conditions in place.

The political and economic consequences – and the lasting ill-feeling on all sides that would likely result – that is, falling in dollar terms – are sufficiently horrific that this scenario seems unlikely, but it is not impossible.

So what does all the above add up to? As explained above, a chaotic Brexit would affect not just those importing and exporting from the EU, but several other key sectors, as well as throwing a cloud of legal uncertainty over much of the economy – and we have made no attempt to be comprehensive. It is therefore certain that the impact of a chaotic Brexit on the UK economy would be felt well before Brexit Day.

Before the referendum, many economists expected that a vote to Leave would affect the economy almost immediately, because of its impact on business and consumer confidence (although no academic economists undertook the kind of short term forecast exercise performed by the Treasury and the International Monetary Fund). In fact, although there was an immediate sharp fall in confidence, this was quickly reversed, as people realised that nothing very much was going to happen in any practical sense in the short term. Both businesses and consumers carried on more or less as before, until the fall in the exchange rate began to exert upward pressure on inflation. However, if “no deal” begins to look certain or even likely – still more so if we unilaterally decide to abrogate our membership - this will change. Business in particular will be aware that there will be a sharp regime change, in legal and regulatory terms (although see the comments on the EUWB above), on Brexit Day. Leaving aside the impacts on individual sectors, likely macroeconomic impacts would include:

- A further significant fall in the exchange rate. Pre-referendum predictions that a vote to Leave would result in a 30-50% fall in sterling proved accurate. A further fall of similar magnitude could be expected;
- A (consequent) rise in inflation, and fall in real wages and consumer demand. These impacts would probably materialise more quickly than in 2016-2017, that is soon after the breakdown in negotiations;
- A fall in business confidence. Unlike the referendum, this would likely be sustained, and translate quite quickly into a slowdown in investment, particularly in sectors reliant on trade with the EU (either exports or imported components) or where regulatory certainty is important for investment decisions.

The reaction of financial markets (beyond the exchange rate) is harder to predict but, at least in the short term, would not necessarily have a major impact on the economy. Long-term interest rates remain at historic lows, despite persistently high deficits over the last decade, and their failure to react to the referendum this way is likely to be a reflection of the economic fundamentals, and of the accommodative monetary and fiscal conditions in place.

So just how bad would it be? It is impossible ex ante to quantify the immediate impact of a vote to leave the EU on the UK (% difference from base level unless specified otherwise)

<table>
<thead>
<tr>
<th>Shock scenario</th>
<th>Severe shock scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-2.0%</td>
</tr>
<tr>
<td>CPI inflation rate (percentage points)</td>
<td>+3.3</td>
</tr>
<tr>
<td>Unemployment rate (percentage points)</td>
<td>+5.6</td>
</tr>
<tr>
<td>Unemployment (level)</td>
<td>&gt;520,000</td>
</tr>
<tr>
<td>Average real wages</td>
<td>-2.8%</td>
</tr>
<tr>
<td>House prices</td>
<td>-10%</td>
</tr>
<tr>
<td>Sterling exchange rate index</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Public sector net borrowing (£ billion)</td>
<td>£24 billion</td>
</tr>
<tr>
<td>House prices</td>
<td>-18%</td>
</tr>
<tr>
<td>Average real wages</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Sterling exchange rate index</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Public sector net borrowing (£ billion)</td>
<td>£24 billion</td>
</tr>
<tr>
<td>House prices</td>
<td>-18%</td>
</tr>
<tr>
<td>Average real wages</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Sterling exchange rate index</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Public sector net borrowing (£ billion)</td>
<td>£24 billion</td>
</tr>
</tbody>
</table>

Immediate impact of a vote to leave the EU on the UK (% difference from base level unless specified otherwise)

- No impact. No doubt the credit rating agencies would further downgrade the UK, but, as in the past, they can safely be ignored. Stock markets were likely to react as they did to the referendum result – that is, falling in dollar terms compared to other markets, but with some companies, particularly those with earnings denominated in foreign currency, seeing share prices rise in sterling terms. As with the aftermath of the referendum, a policy response would be expected. The Bank of England would be likely to undertake further quantitative easing; however, in an environment of weak consumer demand and business confidence, monetary policy might prove relatively more than “pushing on a string.” In addition, if inflation was likely to rise as a consequence of any fall in sterling, the Bank’s room for manoeuvre would be constrained. There would be a case for an emergency fiscal response, in particular to boost public sector investment to counterbalance the likely fall in business investment. However, the government would want to avoid being seen to panic into an “emergency” stimulus package along the lines of that introduced in 2008 (when it was part of a coordinated international effort to respond to an international economic crisis, not a domestically generated one). So just how bad would it be? It is impossible ex ante to quantify the
Impact of "no deal", both because it would depend crucially on its timing and circumstances, and because of the inherent difficulty in estimating the impact of some of the effects described above (in particular "uncertainty") on hard macroeconomic data. However, the Treasury analysis of the short-term economic impacts of Brexit does at least attempt to quantify the economic impact of a rise in uncertainty, the transition to a new, more restrictive trade regime, and financial market volatility. The Treasury modelled two scenarios, a "shock" and a "severe shock", differentiated primarily by the inherently unknowable degree to which a vote to Leave impacted on uncertainty. (inherently unknowable) to which a vote to Leave impacted on uncertainty.

Clearly the implications we have suggested will vary across sectors and, as we have seen in the case of Northern Ireland, regions. And while it is hard to be precise about the implications of a chaotic Brexit, several points can be made.

• A lot will depend on how "no deal" comes about and how much time the government has to prepare, legally and administratively. A "timed-out Brexit", with both sides agreeing to give up and wait out the rest of the period until 29 March 2019, would be the more benign of the two in that it does not (necessarily) imply a total breakdown in trust and provides more time for arrangements to be put in place on both sides unless the EU decides to invoke Article 60 of the Vienna Convention. A "premature Brexit", which talks break down acrimoniously, and the UK government unilaterally terminates its membership of the EU, and the associated legal obligations, would be even more disruptive.

• Despite the uncertainties, we know enough to say with reasonable certainty that a chaotic Brexit, under either scenario, would be a political and administrative disaster. Even with time to prepare, major sectors would face sudden and disruptive change.

• In particular, the impacts of a "hard Brexit" that are generally highlighted – "no deal" doesn’t mean the country would come to a stop. But even under relatively benign conditions and with time to prepare, the impacts would be widespread, damaging and pervasive.

The reality is that chaotic Brexit does not mean the problems away. UK companies will still want to trade their goods and services with EU states, EU nationals will continue to live in the UK and UK nationals in the EU. For them, a chaotic Brexit leaves them in limbo.

Moreover, the potential for tit-for-tat "retaliatory" actions by the UK and EU, in response to actions by one side that are perceived to impact on the interests of citizens or businesses from the other, is obvious.

So – to answer the original question – "no deal" doesn’t mean the country would come to a stop. But even under relatively benign conditions and with time to prepare, the impacts would be widespread, damaging and pervasive.

Indeed, we’ve barely scratched the surface in some areas. What about the chaos likely to occur in a no-deal scenario as a result of the UK crashing out of the EU, regions. And while it is hard to be precise about the implications of a chaotic Brexit, several points can be made.

• A lot will depend on how “no deal” comes about and how much time the government has to prepare, legally and administratively. A “timed-out Brexit”, with both sides agreeing to give up and wait out the rest of the period until 29 March 2019, would be the more benign of the two in that it does not (necessarily) imply a
The UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is funded by the Economic and Social Research Council and based at King’s College London.