NO DEAL BREXIT
ISSUES, IMPACTS, IMPLICATIONS
Foreword

By law, the UK will leave the European Union at 11pm UK time on 31 October. This situation could, of course, change. The British government could decide to revoke Article 50 altogether. Alternatively, if the UK makes another request, the European Council, acting unanimously, could agree to another extension of the Article 50 process. As we saw in April, the European Council will ultimately determine the length of any such extension. But, equally, the UK Government is not bound to accept any extension offered by the EU.

At the time of writing, however, it is hard to imagine circumstances in which Boris Johnson would either revoke or request an extension. There still remains the possibility that parliament might attempt to prevent a no deal outcome, which we discuss in our recent Endgame Report.

Yet for the moment a no deal outcome remains a real possibility, and one for which both the UK and the EU will need to prepare. If the UK leaves the EU without a Withdrawal Agreement, it will become a ‘third country’ – that is, no longer a Member State - with respect to the EU as of 11pm UK time on 31 October 2019. EU law will cease to apply to the UK from that moment onwards.

In what follows, we attempt to draw together what we know to assess what no deal means, how prepared we (and the EU) are, what the impacts might be, and the broader implications. There is much we do not, and indeed cannot, know about these issues but, given the centrality of the no deal debate, it is clear that this should not prevent people from considering what it might mean for the country.

In putting together this report, we drew on the expertise of a number of leading academics. Jonathan Portes and I would like to like to express my profound gratitude to David Bailey, Catherine Barnard, Helena Farrand-Carrapico, Meredith Crowley, Sarah Hall, Katy Hayward, Tamara Hervey, Steve Peers and Thomas Sampson. All of them tolerated being asked to work to ridiculously short deadlines with professionalism and good humour. Between them, they have helped put together what I think is the most comprehensive independent report on this subject to date.

A number of people also generously agreed to read over the report. Some of them would rather not be named, but they know who they are, and I’d like to express my profound gratitude to them for taking the time to help us out.

Finally, Matt Bevington and Alan Wager worked tirelessly, preparing much of the text that follows and keeping track of the various drafts that, at one time or another, were floating around the office. Navjot Lehl, as ever, took care of the designing and printing with her usual efficiency. I can only apologise for ruining their summer with my increasing tetchiness.

I hope you find what follows both interesting and useful. As ever, do get in touch with any comments you.

Anand Menon
Director, The UK in a Changing Europe

4 September 2019
Executive summary

No deal issues:

- **No deal will mean a prolonged period of uncertainty.** Not only do we not know with any certainty when and how no deal impacts will reveal themselves, but the longer-term UK-EU relationship will still need to be negotiated and agreed.

- **Half of UK goods exports will face disruption.** The share of the UK’s goods exports that go to the EU would face border checks where none currently exist, with new tariffs applying to a substantial proportion, especially agricultural exports and cars. Advance planning, and reductions in trade volumes, may reduce immediate disruption at key ports, but some disruption to trade is inevitable. Some preferential trading arrangements with a number of countries, including Canada, Turkey and Japan, would also no longer apply.

- **Northern Ireland would be particularly badly hit.** The speedy reintroduction of border controls for goods moving to Ireland would mean a decrease in exports, the curtailment of supply chains in key industries, and an increase in black market activity. Unemployment would rise. There would be a very real possibility of a return to direct rule from London, undermining the Good Friday Agreement.

- **No deal would likely reduce the safety of UK citizens.** In a world where data is key to solving crime, there will be a significant impact on policing and security. The UK will lose access to EU databases and other forms of cooperation including the European Arrest Warrant, the Schengen Information System and Europol. No deal would lead to the immediate suspension of EU assistance to operations, including ongoing operations.

- **The UK’s international reputation may suffer.** The UK may not be legally liable to pay the remainder of the £39 billion Brexit bill (although this is contested). But should it fail to do so the EU may withdraw some of the unilateral mitigations that it has put in place, let alone negotiate a new trade deal.

- **Any deal with the EU after no deal would be much more difficult.** Striking a deal outside the Article 50 framework would be far harder, take far longer and might lead the EU to ask for more concessions as national parliaments in member states get involved.

Impacts on 1 November:

- **The impact on trade would be immediate.** New regulatory and customs arrangements would apply immediately. While borders will remain open for travellers and tourists, there may be extra checks and resulting delays. However, some of the immediate impact of no deal would be minimised by stockpiling, business anticipation and a public holiday in the EU27, including in France.
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

- **Sterling would almost certainly fall further.** However, by 1 November the impact of no deal may already have been ‘priced in’ to the value of the pound. The financial system overall will remain stable.

- **Traders from Northern Ireland crossing the Irish border would face an increased burden.** They would have to make customs declarations, pay tariffs, ensure proper certification for goods, make sure notification is given in a timely way and be registered as economic operators.

- **There would be some disruption to supply chains.** This would have knock-on effects on production in sectors such as the car industry and others that are dependent on just-in-time production processes.

- **Residency rights will mostly remain unchanged.** EU citizens currently resident in the UK, and UK citizens resident in the EU, will not lose residence rights and will mostly see no immediate changes.

- **However, the position of new arrivals would be much less clear.** There would likely be a sharp drop in migration flows. The UK would face significant administrative complications in distinguishing between EU citizens who arrived before and after Brexit. Recent government statements have been confusing and potentially damaging.

- **If disruption were prolonged, it is likely there would be shortages of some foods within a fortnight.** November and December is the worst time of year for storage in the food and drink industry.

- **Given current trends, the UK economy could fall into recession, although its depth and severity would be uncertain.** The overall economic impact in the short to medium term would depend on a number of factors: the extent of the direct disruption to trade, the impact on consumer and business confidence, and the effectiveness of any government and Bank of England policy response.

**Long term implications:**

- **No deal would not bring the Brexit process to an end.** It is highly unlikely that debate would cease or that it would mark an end state for the UK’s relationship with the EU.

- **The longer-term impacts would depend on the terms of the future relationship.** These will depend on how quickly and on what terms both sides return to the negotiating table. It is likely that future negotiations would be acrimonious and that the UK’s negotiating position could be significantly weaker.

- **‘WTO terms’ would mean the UK economy growing more slowly.** If the future relationship with the EU was on WTO terms, the UK economy would continue to grow but at a significantly slower pace than if the UK had remained in the EU. Per capita income could be 4% to 9% lower in ten years than it would otherwise have been.

- **It would take years to resolve long-term arrangements for key economic rights of UK citizens abroad.** This applies for issues such as healthcare and social security requirements.

- **A bespoke future security arrangement would take a substantial amount of time to negotiate.** The Europol-Norway agreement took seven years to negotiate.
Introduction

‘No deal is better than a bad deal’ was one of former Prime Minister Theresa May’s favourite refrains. On one level, she was right. One could imagine a hypothetical deal between the UK and the EU that involved such a loss of autonomy – such a large ‘divorce bill’ or such asymmetrical conditions for citizens’ rights – that the UK might simply refuse to countenance it. But that was never realistic.

In practice, the choice facing the new Prime Minister is between no deal and no transition period, and leaving with a deal similar to that negotiated by Theresa May. And given his apparent willingness to take the UK out of the EU without a deal, it is important to try to assess what its impact might be. This is what we attempt in this report.

Doing so poses a fundamental problem. While the legal consequences of no deal are relatively clear, its practical impact is far less so. It is, quite simply, impossible to be precise about a scenario that has no historical precedent. The paradox is that we know with certainty, absent an alternative, that we will leave with no deal on 31 October, but the defining feature of this no deal outcome would be uncertainty. Uncertainty about how businesses would react, how consumers might behave, how public authorities in the EU and the UK would respond, about the effectiveness of mitigation measures put in place, about how long those put in place by the EU might remain in operation, and so on and so on.

But uncertainty is not the same as ignorance. Not knowing exactly what the future holds should not prevent us from seeking to analyse, to the best of our ability, the consequences of no deal. We are still in a position to speculate in an informed fashion about what leaving the EU with no deal, and beginning to trade with EU member states as a third country and on World Trade Organisation (WTO) terms, might mean. For this report we have tried to think through what might happen in the days, weeks, months and years following a no deal exit. Because no deal is not an event but an ongoing process.

The immediate impact is particularly uncertain. Because we are not sure either how the EU and the UK will react to no deal (will all checks be carried out from day one?) or what the politics of no deal will look like (will the UK and EU immediately try to resume negotiations, or will a period of hostility mean no such talks take place?), forecasting what will happen in the first few days and weeks is difficult. There will be disruption, but we cannot say with any confidence how severe it would be or where the changes will hit hardest.

Second, the impact of no deal would not be felt evenly across the economy or across the UK. Some sectors and places will be more affected than others. The automotive, agri-food, chemicals and pharmaceutical industries, for instance, would face great uncertainty in the event of no deal. As we explain, car manufacturers rely on short delivery and production schedules, and store supplies for only a few hours. Any disruption at Dover/Calais that delays delivery of these supplies would severely impede their ability to continue production at the same capacity.
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

How no deal plays out in the medium term will partly depend upon public perceptions of how bad the immediate effects are. A sharp shock could lead the UK government to quickly return to the negotiating table and seek a new deal – although it will do so with a weaker negotiating hand than it has at present. By contrast, if the impact on 1 November and immediately after is relatively modest – which is a plausible outcome, given government planning and private sector preparations for a no deal – it could quickly settle in the minds of the public and businesses that no deal warnings were overstated. This has important political implications for those who have been advocating against a no deal exit. Perhaps more importantly it could lead businesses to stall, delay or reduce necessary preparations for when the longer-term impacts of no deal kick in, especially when the EU’s temporary unilateral measures to soften some of the impacts of a no deal Brexit begin to expire, some (for example, that relating to road transport) as soon as the end of 2019, only two months after a no deal Brexit.

And – perhaps paradoxically – we are more confident in our long-term predictions than our short-term predictions. Modelling produced by the Centre for Economic Performance and the UK in a Changing Europe found that leaving the EU on WTO terms would lead the UK economy to be between 4% and 9% smaller than it would otherwise have been by 2030, depending on the assumptions used; other credible forecasters, including the government’s own economists, come to similar conclusions.

So while the impacts of a no deal exit are hard to predict precisely, we know that they will be significant and negative when it comes to the economy. In what follows, we attempt to put some flesh on these bones, indicating where and when impacts might be felt, and what, if anything, the UK and the EU have done to mitigate them. We have not attempted to be exhaustive. Impacts will vary over time, by region and by sector. We have focussed more on some key sectors – especially automotive and financial services – than others, and are aware there is much we have left unsaid. Our hope is that what follows represents a balanced, evidence-based assessment, to the extent this can be done, of what a no deal might mean.
What is a no deal Brexit?

A no deal Brexit means that the UK leaves the EU without any Withdrawal Agreement in place under Article 50. In these circumstances, Article 50(3) provides that the EU Treaties ‘shall cease to apply’ to the UK ‘two years after the notification’, unless the European Council, in agreement with the member state concerned, unanimously decides to extend this period. The European Council has in fact agreed to two extensions, the second one expiring on 31 October 2019.

In legal terms at least, the consequences of this are relatively clear. In the event that no Withdrawal Agreement or no further extension are agreed, EU law will cease to apply. This means several things. First, the transition period, which would largely have maintained trade with the EU under existing terms until (potentially) the end of 2022, would not occur, since it was included in the Withdrawal Agreement which would not come into force.

Second, in the absence of such a transition period, trade with the EU will largely be governed by the rules set down by the World Trade Organisation (WTO) (though as later sections will show, there is considerable uncertainty about how these rules will be implemented). There has been much discussion of the potential for Article XXIV of the General Agreement on Tariffs and Trade (GATT), one of the WTO’s multilateral agreements, to enable both sides to avoid the imposition of tariffs. But this is unlikely. Whether through the mechanism of a quick free trade agreement or an interim agreement prior to concluding a longer-term free trade agreement or customs union, all routes require the agreement of both the EU and the UK. And the public position of the EU – legally determined by its negotiating mandate – has been that it would not begin negotiating future trading arrangements until the UK has agreed to resolve the major issues covered by the Withdrawal Agreement (citizens’ rights, the divorce bill and the backstop).

Third, and perhaps most obviously, a no deal Brexit on 31 October would result in the termination of the Article 50 process, since the UK will no longer be a member of the EU. This has important consequences for future negotiations, which will take place under different, and more demanding, legal rules. From the point of view of procedure, Article 50 provides a fairly benign and streamlined legal regime. The conclusion of any Withdrawal Agreement could be achieved with the support of a qualified majority of member states in Council. However, any agreement concluded once the UK has ceased to be a member state would have to be done under a different legal rules. If the agreement goes beyond simple trade in goods – which it almost certainly would, given the EU’s insistence on resolution of the withdrawal issues – member state governments and quite possibly national parliaments will have to approve it and hence might make their own demands.

The flip side of this argument is that, outside the Article 50 process, the withdrawal and future trade issues could be negotiated together, allowing the UK to link, for instance, its payment of liabilities to the trade deal.

Fourth, contrary to popular belief, most EU rules would, in practice, continue to apply in the UK, even though after a no deal Brexit EU law itself would no longer apply. In order to ensure continuity and thus legal certainty, the UK’s EU (Withdrawal) Act 2018 brings all of EU law into UK law and makes it ‘retained EU law’. 
However, those rules which require reciprocity – ranging from those allowing UK accountants to practise in the EU through to those ensuring the validity of the European Health Insurance card (EHIC) – will cease to apply.

And what about the money? Some argue that if the UK leaves the EU without signing the Withdrawal Agreement, it does not need to pay the £39 billion divorce bill. However, there are two things to note here. First, the 'bill’ is not a down payment to smooth the process of the divorce, but rather a settlement of the financial commitments the UK has previously agreed to – a fact acknowledged by Theresa May’s government. Second, some of the money has, in fact, already been paid: by the end of October the UK will already have contributed to the budget as a member state for a further seven months, following the extension of its original exit date of 29 March 2019; the OBR estimates that £33 billion will remain to be paid.

And if the UK doesn’t pay? There is the possibility of a legal challenge by the EU, possibly before the International Court of Justice or via arbitration. Whether this happens, and what would transpire, is difficult to predict. The House of Lords concluded that:

“the strictly legal position of the UK on this issue appears to be strong. Article 50 provides for a ‘guillotine’ after two years if a Withdrawal Agreement is not reached unless all member states, including the UK, agree to extend negotiations. Although there are competing interpretations, we conclude that if agreement is not reached, all EU law – including provisions concerning ongoing financial contributions and machinery for adjudication – will cease to apply, and the UK would be subject to no enforceable obligation to make any financial contribution at all.”

However, non-payment would raise other problems. Politics – and negotiating strength – are likely to trump legal considerations, at least in the short term. And, as will be seen below, the EU’s leverage after a no deal Brexit will be considerable. For one thing, the EU is unlikely to want to start negotiating a future relationship with the UK until the financial settlement has been agreed. Should relations degenerate even further, the EU could also withdraw, or simply allow to expire, some of the various unilateral mitigations it has put into place, for example with respect to road transport. While this would inflict further damage on the economies of the EU27, the damage to the UK would be considerably greater. There are also reputational risks; for a country wishing to negotiate international trade agreements, it would be damaging to be seen to be reneging on its commitments under EU law.
The impact of no deal will be shaped by the various steps taken by the UK and the EU to mitigate its impact. In February, the government said that it needed to pass six further Brexit bills to prepare fully for no deal. Since then, only one – the Healthcare (European Economic Area and Switzerland Arrangements) Act 2019—has made it onto the statute book. However, the position of the government is that no further primary legislation is needed prior to leaving the EU on 31 October. The EU (Withdrawal) Act 2018 acts as a partial safety net in the case of a no deal Brexit. The Act was originally intended to help facilitate Brexit in the event a deal was signed but it also gave very wide powers to enable the government to draft statutory instruments (secondary law) to prepare for a no deal Brexit.

Some secondary legislation – which is likely to be subject to an affirmative procedure, so MPs are given a binary yes/no vote on it but cannot amend it – will be required to ease customs processes and set up the UK’s tariff schedule and to ensure that financial services regulations are equivalent to those of the EU. Although the government has committed to enshrine the rights of EU citizens in law, it does not appear to intend to honour this commitment before Brexit. Boris Johnson’s reluctance to legislate is due to the fact that he does not want any bill to be hijacked by Parliament as a vehicle to frustrate Brexit. A government majority of one makes winning any vote highly unpredictable.

There are, however, some areas where primary legislation might be necessary. It would be required, for instance, to introduce direct rule in Northern Ireland in the absence of a functioning power sharing executive at the time of no deal.

The possibility of an emergency budget in September or October, in order to increase the resilience of the economy in the face of no deal, has also been discussed. It might be possible to do this without facing the prospect of parliamentary amendments. As Chancellor, Philip Hammond successfully restricted the ability of MPs to amend his November 2017 budget. Ironically, the current government would be likely to do something similar in the hope of thwarting Hammond, amongst other potential rebels, trying to stop a no deal Brexit. Any finance bill only needs to pass second reading 30 days after the budget statement is made: the latest date touted, the week of 7-11 October, would mean a second reading would not have to take place until after 31 October.
While all this work can be done to mitigate risks up to 31 October, there will still be some (by definition unknowable) gaps that may surface very close to the end of October. The Civil Contingencies Act 2004 provides powers for the monarch or a senior minister of the Crown to make emergency regulations under certain circumstances. The cabinet secretary Mark Sedwill has suggested the Act could act as a ‘bridging solution’ for the government. This provides (at best) a temporary solution for areas where government preparation may be deficient. Such regulations must be laid before Parliament ‘as soon as is practicable’, and lapse after 30 days. They expire within a week if not approved by the House of Commons and the House of Lords. After a month, even if nodded through by Parliament, they need to be replaced by legislation.

**Operation Yellowhammer**

The government’s preparations for no deal can be divided into short-term and medium-term plans. The immediate response to no deal would be managed largely by the Civil Contingencies Secretariat (CCS), which is a co-ordinating body based in the Cabinet Office that manages the UK government’s response to major incidents. The CCS has code-named its no deal plans ‘Operation Yellowhammer’ and various documents relating to it were recently leaked to the press.

The main purpose of Operation Yellowhammer is also handling contingency – ensuring, to the extent it is possible, the continued functioning of the most critical parts of the UK’s infrastructure and industry in the event of no deal. This includes the UK’s transport system, borders, healthcare, energy and water systems, law enforcement and national security. Operation Yellowhammer became operational in March and April 2019, in anticipation of a potential no deal exit, before being put on hold following the extension of the Article 50 period to 31 October 2019.

Overall, government funds allocated to Brexit preparations amount to around £6.3 billion. For comparison, the average whole life cost of major government projects is £3.2 billion. The majority of the spending is being done by departments: for instance, of the £2.1 billion additional funding announced by the Chancellor on 1 August, £434 million is being spent to help with the continuity of medicines supply by the Department of Health and Social Care. Much of this money is being spent repeating preparations that were previously undertaken in March and April, rather than creating additional levels of preparedness.

The new government has put additional emphasis and £138 million behind a wide-reaching communication strategy aimed at providing information to UK citizens in the UK and the EU, which will be handled by the Cabinet Office. This new sum is significant for a communications budget, equivalent to the global marketing spend of a major blockbuster film, and roll out was due to begin in the second half of August. The government has also published 106 no deal technical notices, and a large number of communications that have built on as part of a longer-term public information campaign to ensure that businesses and citizens are as prepared as they can be for no deal. They set out what the rules will be across sectors affected by the UK’s exit after 31 October, assuming the UK does leave the EU on that date. The notices indicate the implications of rule changes and the actions that businesses and citizens should take across a range of activities, from rules on importing and exporting goods to those regulating energy markets. These information campaigns will have to strike a difficult balance – ensuring that businesses and households are indeed aware of the potential impacts of no deal and can make preparations accordingly, without encouraging actions that might make matters worse rather than better, such as households trying to stockpile their own medicines or fuel supplies.
Preparations for what should happen in Northern Ireland in the event of a no deal Brexit are particularly critical and difficult – not least because avoiding a hard Irish border (as will be brought about overnight, at least in law, if not in practice, by a no deal Brexit) was the very rationale for the backstop which is the purported obstacle to UK-EU Withdrawal Agreement. While civil servants in Northern Ireland manage the same challenges as those in the rest of the UK, they also have to address the peculiarities of Northern Ireland’s unique geographical, security and political context. Preparation for no deal has had to include work for managing the current border between Northern Ireland and the Republic – an internal EU border – becoming the external border of the EU.

What the Irish government decides – in conjunction with the European Commission – to do will have as much of an effect on experience of movement across the Irish border after a no deal as what the UK government does. The Irish government published a contingency plan on 9 July which gave more detail on the increase in capacity for customs facilitation in Irish ports – thus being prepared for treating trade with Great Britain as from a non-EU member state. However, although Irish ministers have acknowledged there will need to be some checks and controls on goods entering from Northern Ireland, there is still a lack of public detail as to what these will be.

Trade

The government has taken a number of steps to deal with the handling of the UK-EU border. It has introduced a temporary procedure for importing goods – Transitional Simplified Procedures – reducing the information that importers have to provide in import declarations and allowing them to pay any duties at a later date. However, at the end of May, it was revealed less than 10% of eligible businesses had signed up. In recent weeks, the government has also said that it will automatically issue Economic Operator Registration and Identification (EORI) numbers for businesses. However, the government and the European Commission have put out confusing and contradictory messages about which EORI numbers businesses require to continue trading.

While these measures may mitigate disruption to some extent, the central fact remains that the EU will treat the UK as any other third country in respect of tariffs and customs checks. This will mean that more than half of UK goods exports to the EU – half of the total of total UK goods exports would face new charges, while all exports will in principle be subject to new checks and controls. This is likely to be most significant for agricultural and food products, and heavily regulated products like medicines.

As a result, the Department for International Trade expects substantial disruption to cross-Channel trade. The government’s worst-case planning assumption is that, as a result of French checks and lack of businesses readiness ‘the flow of goods through the Short Channel Crossings (Dover and Eurotunnel) could be very significantly reduced for months.’

Theresa May’s government adopted a temporary no deal tariff schedule, setting the duties the UK would charge on goods coming into the UK. Most products – whether from the EU or elsewhere – will have a zero tariff, with food and vehicles being two important exceptions. It is not clear whether the Johnson government will adhere to this or decide to draw up a new schedule.
The UK also currently benefits from existing trade agreements between the EU and third countries. The government has sought to roll these agreements over, to maintain preferential access to foreign markets in the event of no deal. Overall, the government is targeting continuity agreements with countries that account for around 11% of total UK trade. As of July 2019, agreements had been reached with just under two-thirds of this group (including Switzerland), accounting for around 7% of UK trade. However, these agreements are not as comprehensive as those they will be replacing; services firms which enjoy a close single market relationship with comprehensive access to EEA members may have to apply for new licenses in the event of a no deal Brexit. The rollover agreement with Switzerland only preserves three out of 20 mutual recognition agreements that currently exist. For the 17 that fall away, testing and inspection of goods manufactured in the UK will no longer be recognised in Switzerland – forcing significant duplication for businesses exporting goods such as medical devices and machinery.

For the other trade agreements that were targeted by the government, including with Japan and Canada, agreements have not been reached. This is in large part due to the temporary no deal tariff schedule described above; countries such as Canada will in any case benefit from lower tariffs under the new temporary no deal tariff schedule without any need to reciprocate.

What will businesses do?

Government can be as prepared as practically possible, but if businesses and citizens don’t take action themselves, a no deal outcome could still lead to significant disruption. Perhaps the largest single area of uncertainty when it comes to no deal concerns the degree to which the private sector has taken the necessary steps to prepare. While government can issue advice, and industry associations can provide guidance about the general readiness of the companies in their sector, even the latter may not be fully aware of the extent to which individual companies are prepared. The government’s Operation Yellowhammer plan, recently leaked, anticipates that business readiness will be low, particularly among small businesses. For example, the leaked document revealed that up to 85% of lorries travelling through the main Channel crossings ‘may not be ready’ for French customs on 1 November.

And remember that businesses have faced a potential no deal exit twice already: in March and April. Many will have suffered short-term competitive disadvantages as a result of investing in no deal preparedness while their competitors did not. Some may see the threat of no deal this time as more likely and will act when they did not before; others who invested substantial amounts in the spring may be reluctant to do so a third time. Many businesses (and particular smaller ones which do not enjoy the same resources as their larger counterparts, and which may feel they cannot adjust until no deal is a reality) will doubtless now wait until no deal actually happens before committing to substantial investments. And how the initial no deal period plays out will have a large impact on the business response. There is a clear ‘boy who cried wolf’ problem here.

However, there are reasons to believe that the impact on 1 November itself and in the immediate aftermath might be less severe than assumed in the worst-case scenarios. It is reasonable to expect those involved in travel or trade between the UK and EU to have taken the exit date of 31 October into account when drawing up their plans, and possibly avoiding the subsequent few days wherever possible. The 1 November is a public holiday in France, which means restrictions on the ability of lorries to use France’s motorway system.

If the impact on day one is relatively modest, this could lead to complacency among businesses that the worst has passed (buttressed, no doubt, by a political narrative
claiming the erroneous nature of ‘Project Fear’). Yet an initial lack of profound disruption does not imply that this situation can be maintained indefinitely. The impact of no deal will not peak on 1 November. Quite the contrary.

**What has the EU done?**

Contrary to some claims, the UK and the EU have not agreed any ‘side deals’ to mitigate negative consequences. Rather, each side has undertaken unilateral measures, many of which are temporary. Each side, therefore, has no direct control over what the other will do. And we would argue – though obviously do not know for sure – that the likelihood of reaching any mitigating agreements once no deal transpires would be slim given the likely hostile political atmosphere.

As of the end of June 2019, the Commission reported it had tabled 19 legislative proposals and adopted 63 non-legislative measures covering things like temporary basic air, road and rail transport access for UK operators in the event of no deal. These have been supplemented by 100 preparedness notices which provide information for EU citizens and businesses to prepare for no deal. It is also important to note that, while these measures have been put in place to mitigate the impact of no deal on the EU27, they also give the EU27 very considerable negotiating leverage in the event of no deal. They are temporary and time-limited, and in principle could be withdrawn at any time – with negative consequences for the EU27 to be sure but with far greater such impacts on the UK. Some, for example that on road transport, expire as soon as December 31, only two months after a possible no deal Brexit.

In the event of a political downwards spiral – precipitated, for example, by the UK’s refusal to recognise its financial obligations, or possible an election in which the Conservative Party attempted to rally support by blaming the EU for a no deal outcome, or by a deterioration of the situation in Northern Ireland – it cannot be ruled out that the EU will decide to withdraw these measures.

Preparations on the ground have been carried out by member states. On citizens’ rights, national rules will apply, and these will vary across the EU. In Spain, for example, UK citizens will be given a 21-month grace period after no deal, giving them temporary residence rights to continue to live, work and study in Spain. After this, they will have to apply for permanent residence under national rules. If they have resided in Spain for more than five years, UK citizens will be able to apply for permanent residence status immediately. The length of time that UK citizens have to apply for residency and work permits varies from country-to-country: for example, a three month grace period in Germany and six months in France. Mitigations put in place in other member states include border preparations, such as the construction of additional Border Inspection Posts (BIPs) and hiring of extra customs officers.

The Commission conducted a tour of EU27 capitals in early 2019 and concluded that ‘the visits showed a high degree of preparation by member states for all scenarios.’ However, the Confederation of British Industry (CBI), recently concluded that ‘the EU has taken fewer steps to reduce the damage of no deal than the UK has’. In particular, according to business surveys, private sector businesses appeared less prepared than their UK counterparts. For example, a survey of members of the French employers’ federation MEDEF found that a third thought Brexit had already happened, while a third thought it wasn’t going to happen.
No deal: possible consequences

So we know what the legal implications of no deal are and what the UK and EU has done to prepare for such an outcome. What is far less clear is what its impact might be. In what follows, we try, insofar as we can, to assess what might happen in the short, medium and long term.

Day one

Economics

A year ago – when no deal seemed a more distant prospect – we wrote that if it became seen as the central scenario, the run-up to Brexit would see a further large drop in the exchange rate, falls in business and consumer confidence, and some relocation of business activity from the UK to the EU27, in anticipation of the possible disruption of supply chains. All of these predictions were accurate. Sterling has fallen about 7% down over the last three months, and there is mounting evidence that many businesses are putting major investments on hold. While this has been slow to translate into hard economic data – particularly because consumer spending and the labour market have been relatively resilient – the UK economy shrank in the second quarter.

So the UK economy would enter no deal with growth already close to zero – although renewed stockpiling and spending on no deal mitigation measures may provide some temporary boost. Moreover, it would do so against a background of broader global economic weakness, with growth slowing in both the eurozone and US, a trade war already in progress between the US and China, and one between the US and EU not far off.

The first impacts of a no deal Brexit will be seen in financial markets. Since financial markets are forward-looking and, unlike the referendum result itself, no deal will be known with some degree of certainty days or even weeks in advance, these will largely manifest themselves before 31 October. In this period, a further fall in sterling is likely, and possibly falls in equity prices for companies whose operations are primarily in the UK.

It is important to distinguish between the financial system and markets. Tighter regulation since the financial crisis means that UK banks retain substantial capital buffers to deal with even extreme economic shocks, and given the extent of contingency planning by the Bank of England, the EU authorities and the financial sector, major financial market dislocations seem unlikely.

It seems likely therefore the immediate direct impacts on the wider economy would be limited, as in June 2016. While the UK’s credit rating would probably be downgraded, recent experience suggests that this is almost entirely irrelevant. Long-term interest rates on government debt might rise slightly, but there is no reason to believe that the UK government won’t be able to continue to borrow in its own currency at rates which remain low by any historical standard.
Borders and trade

Following a no deal outcome, UK goods exported to the EU would face the EU’s third country tariffs as set out in the Common External Tariff. These are low for the majority of traded goods, but high for agricultural and some other products. They are also problematic when it comes to products that might cross borders multiple times, such as car parts.

The EU will also start checking UK goods for compliance with EU regulations, checks that are particularly intrusive when it comes to goods such as animal products. Research by the Federation of Small Businesses indicates these non-tariff barriers – such as technical barriers to trade, quotas and sanitary and phytosanitary measures – play just as important a role as tariffs in determining where small businesses export to. The CBI estimates that if UK firms were to face even half of the costs US exporters face to the EU, this would be equivalent to an additional tariff of 6.5% on UK exports to the EU.

The UK, as noted above, has published a temporary tariff schedule for imports, under which most imports will be tariff-free, and has completed roll over trade deal with just under two-thirds of the states that have a deal with the EU. Those with which it has not will, under WTO rules, have to charge the same tariffs as they charge other countries with which they do not have a free trade agreement.

The system in place for customs clearances will also be crucial in terms of the immediate impact of no deal. The UK maintains different systems to record the entry and the exit of goods into the country. Under the current system, businesses which import more than £1.5 million, or that export more than £250,000, are required to report detailed information such as sales dates of specific products to HM Revenue and Customs (HMRC). Firms whose trade with the EU falls below these thresholds simply report the total value of all sales to EU destinations as part of their VAT declarations.

Around 245,000 small businesses trade with the EU without reporting detailed data. In contrast, the system in place for non-EU trade requires significantly more information from businesses. They must register for an Economic Operator Registration and Identification (EORI) number and submit customs declarations on all sales or purchases to EU destinations. These rules would apply to trade with the EU in the event of no deal. Some 70,000 out of the roughly 245,000 companies that require an EORI number have registered (about 30%), a number that rose by just 1,000 between June and August. This has led to calls from business organisations for these numbers to be issued automatically to VAT-registered traders and in recent weeks the government has signalled that it intends to do so.

In the event of a no deal outcome, the annual number of customs declarations for the UK is expected to rise from 55 million to 250 million. It would take approximately two years for the UK to move from a system in which the government suffers some fiscal losses to a fully functional ‘steady state’ customs clearing system. Although extensive efforts have been made to help businesses prepare for no deal, HMRC has recognised that not all businesses would be ready to submit customs declarations properly. When goods enter the UK from non-EU destinations, only a small fraction are physically inspected. Only around 3% of imports from outside the EU are subject to documentary checks prior to clearance. These inspections serve a number of different purposes, including verifying merchandise for tax purposes or ensuring compliance with sanitary or other regulatory regimes. Only about 40% of checks are connected to tariffs. The rest are for tariff rate quota checks, safety or security checks and the like.
In November 2018, HMRC representatives told Parliament that there was not enough time to implement IT systems that would identify risky traders from the EU for inspection. Further, even if risky consignments could be identified, there was not enough time to build sufficient physical infrastructure at ports to inspect the consignments. Jim Harra of HMRC told Parliament that the priority of HMRC under no deal is ‘to keep trade fluid’ even if this results in losses of tax revenue. It seems likely that on the import side, the Border Force will likely be lenient with customs in the early days of no deal.

On the export side, however, the rules for safety and sanitary inspections are clearly documented. While it is not entirely clear how quickly the EU will impose the necessary checks, it has been clear that, following Brexit, it will treat the UK as a ‘third country’ and hence checks will be imposed. In this sense there is an important difference between the UK and EU approaches. As we have seen from the evidence given by HMRC, the government’s priority will be ‘flow’ rather than revenue. In other words, it will minimise checks in order to maintain the supply of goods into the UK market. The EU, for its part, has emphasised that it will implement existing rules rather than prioritising the maintenance of trade.

A no deal Brexit will then have an immediate impact, particularly on UK exports to the EU. However much the UK government chooses to prioritise flow, the imposition of checks on the EU side will profoundly affect trade. The biggest potential costs would come not directly from new tariffs, but from the disruption that results from an abrupt shift to new regulatory and customs arrangements. Moreover, the EU has made it clear that it will impose these arrangements immediately in order to protect its market. The practical implications of this for the operation of the border is, at this stage, uncertain.

The government’s Operation Yellowhammer document assumes mandatory controls will be in place in France on day one and that 50-85% of HGVs travelling across the short straits may not be ready for customs. This will reduce the flow rate to 40-60% of current levels within one day. While we argue that the first day impact will be harder to predict than this assumes, it is clear that there will be disruption to the movement of goods.

How this affects individual sectors, however, will depend on the specific preparations undertaken. Take the crucial case of medical products. Around three-quarters of medicines and over half the clinical consumables the UK uses come from (or via) the EU. The vast majority are reliant on crossings between Calais, Dunkirk and Coquelles, and Dover and Folkestone. The UK government has asked pharmaceutical companies to have an extra six weeks of supplies stockpiled in anticipation of disruption to cross-Channel trade to avoid immediate problems. It has also requested that companies reroute freight away from the short straits. The government has agreed contracts for additional storage capacity (though it will be up to companies to pay for it) to ensure medicines can be stockpiled and is procuring additional freight capacity on which medicines and medical products would be prioritised.

With these contingency plans the government hopes there will not be any immediate medical shortages. However, issues such customs delays might still lead to problems. The Department for Health and Social Care (DHSC) has developed a so-called ‘Serious Shortage Protocol’ that can be used in the event of no deal, which would allow prescribers to offer a reduced dose, vary drug strengths, provide a generic alternative or offer alternative products.

There is also the significant possibility service-orientated businesses, although generally unaffected by border issues, will suffer immediate problems. The government’s analysis of the impacts of no deal identified a number of
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

potential issues. Some businesses that require EU accreditation – for example accountancy or auditor firms – may find they can no longer operate in some countries in the EU based on a UK qualification, and this will vary from country to country. Some UK businesses relying on importing data from the EU to the UK are likely to find they cannot do so, as the EU will not make an Adequacy Decision on UK data laws until the UK becomes a third party. And businesses that rely on labour mobility, either short or long-term, may face immediate issues with transferring staff or with short-term work assignments. In short, while disruption for businesses trading in goods crossing the border will be the most visible problem, other effects on service industries are likely.

And of course, while any government measures might mitigate immediate damage, the longer-term outlook is far more uncertain.

Northern Ireland

Although Brexit has been a subject that has exacerbated political divisions in Northern Ireland, one point that all parties have emphasised is that they want things to change as little as possible after Brexit. No deal means not only that things will change drastically, they will do so quite rapidly too.

The EU has always been clear about what its external borders entail: customs procedures as per trade with all third countries, plus checks and controls to ensure that what is entering the EU is permitted to do so. Such checks and controls are particularly strict in the area of agri-food, given the risks to consumer safety and health that can arise from food products such as meat, milk and eggs. All goods crossing the Irish border from Northern Ireland would need to comply with the required procedures, and it is hard if not impossible to see how the Irish Government will be able to police this from day one. In a no deal scenario, the assumption could not be that what is produced in Northern Ireland meets the necessary standards. Moreover, customs declarations would be required on goods moving across Ireland’s borders with the UK.

We can imagine that, in the short term, managing the Irish border will include some of the measures proposed by those seeking ‘alternative arrangements’ for the Irish border, such as inspections on premises. But where this falls down is on the question of sensitive products, such as meat. According to EU rules, such products must enter the EU through designated border inspection posts. At the moment, the closest one to the Irish border is in Dublin port (some 60 miles away). The difficulties of enforcing the strict EU rules on such products without the infrastructure to do so will lead to invidious decisions having to be made by the Irish government in order to maintain the confidence of the rest of the EU.

The Irish government faces very difficult decisions – but it has been consistent in saying that its priority is to remain a trusted and integral member of the EU’s single market. The political imperative on the Irish government will be to avoid the impression of a ‘hard border’ at the same time as implementing one. This is, of course, unsustainable. If unaddressed, it will give rise to tensions and inadequacies in border management. And the longer these last, the greater the incentives for black market activity across the Irish border and, consequently, the greater the risks to the integrity of the EU’s single market. Tariffs that will be introduced will be significant, creating a huge financial incentive for illegal activity: the Northern Ireland Food and Drink Association estimate that a 28 ton lorry can expect to face a tariff of £70,000 for beef or £52,000 for cheese and butter.
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

The high areas of risk from a no deal in Northern Ireland are a decrease in exports, the curtailment of supply-chains in key industries, rise in black market activity, a growth in unemployment, and a subsequent expansion of criminal activity. These in turn might conceivably provide fertile ground for an increase in paramilitary activity.

For its part, the UK government has said that, on a temporary basis, it will enforce ‘no new checks with limited exceptions’, a policy it had previously announced on 13 March. This will see a slight increase on checks on certain goods moving from Great Britain into Northern Ireland seaports in order to ensure that what is entering Northern Ireland meets EU standards. The intention is to reduce the need for checks on those same products moving across the Irish border. However, goods produced in Northern Ireland will no longer be considered as being automatically of EU standard. There are also knock-on effects for Northern Ireland businesses, which will be squeezed on both sides. The pertinent question is: how long can ‘temporary’ arrangements endure before causing lasting damage to the economic reputation of Northern Ireland (and thus the wider UK) as a reliable trading partner?

In sum, on day one, the legal reality will be that traders from Northern Ireland crossing the Irish border will have to make customs declarations, pay tariffs, ensure proper certification for goods, make sure notification is given in a timely way and be registered as economic operators. Those that comply will face additional costs, organisational burdens and time constraints, as well as a competitive disadvantage. Those that choose not to comply will be putting the reputation of Northern Ireland business at risk, as well as risking prosecution. Day one of no deal Brexit, in other words, means excruciating vulnerability for Northern Ireland businesses.

The medium term

Economics

Some economists argue that no deal will, for better or worse, at least give business certainty and allow investment to rebound. But no deal does not imply certainty. Quite the contrary. The UK’s trading relationship with the EU, and perhaps other countries (some of which will wait to see what relationship is devised with the EU before embarking on trade talks with the UK), will remain in limbo for some time.

However, in other respects, the UK is more resilient. With a floating exchange rate, a lower pound is a useful shock absorber, precisely because it directly reduces the real wages of UK workers. And with a relatively low fiscal deficit and long-term interest rates at historically very low levels, there is space to loosen fiscal policy in the short term – and the new Prime Minister and Chancellor have indicated that they would not hesitate to do so. This could mean targeted tax cuts to support business (for example, raising capital allowances temporarily, or cutting employers’ National Insurance contributions to support employment), such as agri-food, or, in extremis, general tax cuts to support consumer demand. Moreover, while the Bank of England might face a difficult policy dilemma if inflation rose at the same time as the economy weakened, it is likely that it would prioritise supporting the economy by cutting interest rates and, if necessary, undertaking more quantitative easing over achieving the inflation target.
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

There has also been some discussion of financial aid packages to sectors most directly affected (Operation Kingfisher); while such measures might in principle contravene state aid rules or constitute export subsidies under WTO rules, it is likely that political imperatives would override such considerations in the short term.

The impact of a further depreciation of sterling would reduce the purchasing power of UK consumers at home and makes spending abroad more expensive; this will cause inflation to rise. Although a further depreciation of sterling might be expected to boost the competitiveness of UK exports, the response of UK trade to the post-referendum depreciation has been disappointing, perhaps because many UK exporters are also reliant on imported inputs. Recent research by the IMF finds that a currency depreciation leads to only a modest improvement in a country’s trade balance with most of the effect coming from a reduction in imports rather than an expansion of exports.

In any case, the impact of depreciation, both on domestic inflation and on the competitiveness of UK exports, will take some months to feed through, as many business contracts will have been agreed at a fixed earlier exchange rate. Indeed, many UK companies may have sought longer contracts than normal in order to lock in the pre-depreciation value of sterling. Following the depreciation after the referendum, it wasn’t until February 2017 – some eight months later – that inflation rose above the Bank of England’s 2% target.

There is also likely to be a significant reduction in migration flows between the UK and the EU, given the uncertainties outlined below about the legal position of those moving after a no deal Brexit.

Overall, no deal would undoubtedly represent a negative short-run shock to the economy, but the size of the shock is uncertain. The greater the disruption to cross-border flows – of goods, services, capital and people – the larger the effect will be. The OBR’s recent ‘Fiscal Risks’ report is a useful benchmark. It focused on a ‘less disruptive’ no deal scenario drawn up by the IMF, which assumes significant increases in non-tariff barriers, but only limited impact on financial markets. The economy would enter recession immediately, with the hit to GDP compared to the baseline peaking at 4% in the short to medium term. As Theresa May said, it would not be the end of the world, but nor would it be a walk in the park. And remember, this scenario assumes that no deal, while a big shock, proceeds relatively smoothly and without major disruption. That’s a big if.

Borders and trade

Beyond the first few days, the most immediate concern about no deal concerns its impact on trade. Some manufacturers and agri-food businesses will have great difficulty in adapting to the new trading conditions described above, and particularly to the imposition of checks by the EU. And this will be the case particularly for those that rely on just-in-time production systems. Others, especially smaller businesses, may not have the capacity or resources to deal with the new trading conditions. Over time, the measures to manage the short-term impact of a no deal will fall away. For example, Transitional Simplified Procedures (TSPs), designed to make importing easier, are being reviewed after three to six months and are due to last for a year. Temporary operators’ licenses, provided for hauliers by the EU, will expire at the end of December 2019, unless the EU chooses to extend these provisions – a prospect that will be much less likely in the event of an acrimonious no deal Brexit.
Beyond those sectors most directly affected, no deal is likely to be a sharp shock to business and consumer confidence, which may in turn have wider impacts on demand. Business would be hit by a combination of rising input prices, resulting both from the fall in sterling and, if EU trade is disrupted, the need to replace EU imports with more expensive ones sourced from outside the EU. Consumers would face rising inflation at a time when they will be trying to reduce discretionary spending, and with little prospect of large pay rises.

Northern Ireland

A third of the value of trade across the Irish border is in goods that will face tariffs of 15% or more from the EU. When this is added to the consequences of non-tariff barriers, trade from Northern Ireland into Ireland could see a decline of almost one-fifth. The consequences for the agri-food industry could be dramatic and consequential.

Either the means are there to adequately enforce the rules (i.e. border inspection post facilities are established close to the border), or the cross-border supply chains in these sectors will be rapidly curtailed. This would mean a devastating blow to industries in the region, with knock-on effects for rural communities in particular. Socio-economic hardship has long exacerbated anti-government sentiment in the Irish border region and this will undoubtedly be a longer-term destabilising effect of a no deal Brexit.

More broadly, businesses in Northern Ireland will immediately face a competitive challenge from imports from Ireland and (via) Great Britain, which means that some will rapidly lower their prices. This would bring obvious benefits to consumers, albeit only on a relatively small range of goods (noting that most products on supermarket shelves are not locally produced).

And the social and political dimensions of a no deal Brexit in Northern Ireland are enormous. Should a no deal Brexit happen, this would largely be because of a failure of the two sides to reach a compromise over the future management of the Irish border. Should, as seems likely, no deal result in the gradual imposition of a hard border, then the political pressure on both the UK and the Irish governments to blame the other for supposed intransigence is likely to be irresistible. Yet the peace process in Northern Ireland has been dependent on the British and Irish governments managing to find compromise.

As such, the short-term impact on the political situation in Northern Ireland will be to increase instability. If the devolved institutions have been restored by Brexit day, power-sharing arrangements between unionists and nationalists will likely be put under pressure by the worsening relations between London and Dublin and internal disputes on how to handle the fallout of no deal. If (as is more likely) power sharing has not been restored, the current mode of governance of Northern Ireland (i.e. by civil servants) will be insufficient to handle the speedy, weighty and controversial decisions that will have to be made. The UK government is thus likely to impose some kind of direct rule which will prove to many (both pro- and anti-Agreement, and unionists and nationalists alike) that the 1998 Agreement has failed. How to recover from this whilst British-Irish relations are at such a low ebb is a question that will have to be asked before any such decision is made.
The long run

In discussing short term economic impacts, all that we could really do is provide a credible scenario, because actual outcomes will depend crucially both on how business and consumers react, and on the government’s policy response. Over the longer run, however, we can have much greater confidence in the impacts of specific changes to, for example, tariffs, for which we have well-developed modelling tools. There is a degree of consensus, for example, that EU membership has boosted UK growth over the last 45 years by reducing trade barriers and promoting competition and market integration. However, over the next decade, other policy changes (which may have nothing to do with Brexit directly) will cloud the picture; even in retrospect, it will be difficult to distinguish the impact of Brexit from other factors.

Economics

There is a clear consensus among economists about the most important economic impacts of Brexit over the longer term. First, leaving the EU will make the UK poorer because it will make it harder for UK firms and consumers to do business with European countries, as well as reducing labour mobility between the UK and the EU. Second, the costs of a no deal Brexit are significantly larger than the costs of leaving the EU but staying in the EU’s customs union or single market. Third, the EU will also lose from Brexit, but the costs will be smaller relative to the size of its economy because the EU is a larger market than the UK.

Research by The UK in a Changing Europe and the Centre for Economic Performance at the London School of Economics has analysed the long-run effects of trading with the EU on World Trade Organisation (WTO) terms. The analysis finds that, after ten years, a WTO Brexit would reduce the UK’s income per capita by between 3.5% and 8.7%. By comparison, the forecasts in the event the UK left with a deal similar to that negotiated by Theresa May’s government is between 1.9% and 5.5%. In both cases, UK households would substantially worse-off than if the UK were to remain in the EU, but leaving with a deal cuts the economic costs of Brexit almost in half.

The government’s own modelling exercise produced similar results, estimating that a WTO Brexit would reduce UK GDP by about 8% over the next 15 years (that is, it would reduce cumulative growth over that period from about 25% to about 17%, after taking account of some modest positive impacts from deregulation and trade deals with third countries). Again, a deal along the lines of that negotiated by Theresa May would cut this in half.

Borders and trade

It is important to note that, in addition to the normal uncertainties inherent in long-term economic modelling, there are additional uncertainties about future policy. For example, both the UK and US governments have signalled their intentions to negotiate a speedy trade deal. However, while there are major uncertainties about the potential benefits from future trade deals with third countries, it is likely that any benefits from an independent trade policy will be relatively small.
The EU accounts for around half of UK trade, more than three times as much as the UK’s second largest trade partner - the United States. Second, standard free trade agreements do less to reduce trade barriers than the deep integration that is the hallmark of the EU single market. The government’s own analysis said that, even on optimistic assumptions about the number of deals that could be concluded over the next decade, the impact would be very small: overall, new trade deals could boost GDP by between 0.2% and 0.7% in the long term.

Other policy changes to mitigate – or exacerbate – the negative impacts are also possible. Theresa May’s departure opens the way for a more liberal immigration policy than that suggested in the Immigration White Paper, which could boost economic performance; although the new Home Secretary, Priti Patel, has signalled her intentions to pursue a relatively restrictive policy, which would have the opposite effect. Our research suggested that the White Paper proposals would reduce GDP by up to 1.8% over ten years. And it is conceivable that Brexit – and in particular the economic impact of a no deal Brexit – might provide the impetus for government to address some of the longer-term issues, such as the lack of public investment in infrastructure and poor provision of training and skills, that have contributed to the UK’s poor productivity performance.

However, overall, there is little doubt that, whatever else may happen over the next decade, a no deal Brexit will be a persistent drag on economic growth. Models which produce radically different, and more positive, estimates, like that used by Economists for Free Trade, make incorrect assumptions about EU policy and WTO law, and assume, contrary to stated government policy and common sense, that the UK will impose no tariffs or non-tariff barriers (including environmental or safety standards) at all on imported goods. They also assume a willingness by UK governments to preside over a decline in both manufacturing and agriculture.

Northern Ireland

When it comes to Northern Ireland, the UK government’s long-term economic analysis estimated a fall in gross value added (GVA), relative to remaining in the EU, of 9.1% of a no deal exit for the province. According to a paper released on 10 July by Northern Ireland’s Department for the Economy, some 51% of NI goods firms and 46% of NI services firms involved in external trade have low profit margins and/or low sales growth, putting them ‘at risk’ in a no deal Brexit. These businesses have a limited capacity to absorb market access shocks.

In light of this, the Department for the Economy has estimated that at least 40,000 jobs are at risk in Northern Ireland as a consequence of no deal. This equates to one in 20 jobs in the region, particularly damaging in a context where private sector employment is already 10 percentage points lower than the UK average.

And of course whatever happens on or around the Irish border has extraordinary symbolic and political significance in Northern Ireland. For republicans, it would be a material and stark demonstration of the indifference with which the British government view Irish concerns. They can be confident of a rise in support and sympathy for their analysis in the event of a no deal. Although some will treat the negative effects of no deal with political expediency, the fact is that those negative effects will not be confined to just one sector or community in Northern Ireland. The consequences will be measurable, deep and difficult to recover from. Placed in a context of political tension and a crisis in British-Irish relations, this will be extraordinarily difficult to manage.
So much for the overall picture. To understand in a more fine-grained manner what no deal would mean, it is useful to look in a little more detail at some of the issues and economic sectors that stand to be most affected. In what follows, we briefly consider the issue of citizens’ right as well as what no deal might mean for the manufacturing and services sectors.

Citizens’ rights

As announced in December 2018, the EU settlement scheme for EU nationals resident in the UK before ‘exit day’ will proceed, with the scheme running until December 2020. However, despite pressure from representatives of those affected and some MPs, it seems, as we have discussed earlier, that there will be no new primary legislation to enshrine the guarantees made during the referendum campaign by Boris Johnson, Priti Patel and Michael Gove – now Prime Minister, Home Secretary and the Minister responsible for no deal planning – that EU citizens will automatically be granted indefinite leave to remain in the UK and “treated no less favourably than they are at present”.

Consequently, EU citizens will in some respects be treated less favourably, in particular in respect of family rights where protections for mobile EU citizens are more generous than those applying to UK citizens resident here. Nor will this promise cover all the protections set out in the Withdrawal Agreement, in particular those applying to rights of appeal.

EU citizens who arrive in the UK after a no deal Brexit will be in a very different position. Under the Withdrawal Agreement, those arriving immediately after Brexit day, but before the end of the transition period would have been able to apply to remain permanently. With no deal – and no transition – this will no longer apply.

The government has therefore recently stated that for new arrivals, “freedom of movement will end” in the event of a no deal. Unfortunately, this in itself tells us little about what will actually happen to EU citizens who seek to move here to work or study after 31 October. Free movement is not really about what happens at the borders. There are no plans to stop EU citizens with a valid passport from entering the UK, any more than a tiny fraction of Americans or Australians are denied entry at present. The question is whether they have the right to work, as now, to access the NHS, to apply for a National Insurance number, and so on.

It seems that if the new Home Secretary, Priti Patel, has her way, the objective is that they should not; that free movement would indeed end, not just in the legal sense but in practice. The problem, however, is distinguishing between pre- and
post-Brexit arrivals. As noted above, the former have already been told that to preserve their rights here in the event of no deal they need to apply for the government’s ‘settled status’ scheme, sometime before the end of 2020. So far about a million – of the three million or more who are eligible – have done so. When that deadline bites, and applications have been processed, there will be a clear distinction between EU citizens who arrived before Brexit and those who arrived after.

But until then, it will be very hard – if not impossible – to distinguish. If EU nationals arriving here after 31 October have different rights than those who are already here, it is unclear what employers, landlords and public services – accustomed to regarding an EU passport as all the documentation they need – are supposed to do. Imposing extra checks would be practically complex, perhaps impossible, as well as legally dubious. And not doing so would, at best, make a mockery of the new policy.

Theresa May’s government proposed a pragmatic approach to deal with this problem. EU citizens arriving here after a no deal Brexit would be obliged, in due course, to apply for ‘temporary leave to remain’, which would give them the right to work and so on for three years, pending the introduction of a new system, after which they would have to reapply. For now, employers wouldn’t have to do anything different. This would have resulted in some uncertainty for people moving here for jobs and their employers, not to mention obvious issues with the many university courses that last more than three years. But it would at least have averted large-scale immediate problems.

However, this policy has apparently been rescinded; at the time of writing, the government has stated simply that new plans will be published in due course, and it is unclear how it intends to deal with the issues outlined above. Confronted with the practicalities, the government may revert to something very like its original pragmatic solution, perhaps with a few extra light-touch checks or recording mechanisms at the border. However, this episode has further reduced the confidence of EU citizens resident in the UK, as well as employers, in the government’s overall approach to this issue.

Meanwhile, the status of a million or so UK nationals elsewhere in the EU is potentially more complex and potentially much more problematic than that of EU citizens here, especially over the medium term.

The Commission has argued that member states should adopt a ‘generous approach’, and be ‘pragmatic’ in granting temporary resident status. As with EU nationals in the UK, the risks of large numbers of people currently resident finding themselves in an irregular position overnight have been overstated. There is no desire on the part of any EU member state to punish UK nationals for Brexit. Many, perhaps most, countries have or will put in place approaches that are indeed generous and pragmatic, and that provide for grace periods during which UK citizens can register and, as in the UK, continue to enjoy ‘broadly’ the same rights. The Commission has published a useful summary table.

However, the treatment of third country nationals is largely, but not entirely, up to member states, although EU law provides some underpinning minimum standards. Implementation, of course, is entirely in the hands of member states. In practice, there is likely to be considerable divergence in how they treat UK nationals, and this may well grow over time. Longer-term arrangements for key economic rights – healthcare and social security entitlements, particularly when built up across member states – will take years to resolve. People that cross borders (for example, those who live in one continental member state but work or conduct business in others) will face a particularly complex set of issues.
No deal Brexit: issues, impacts, implications

The position of those arriving after Brexit day is even less clear, but it seems likely that in many countries they will be treated as third-country nationals, meaning that if they want to live, work or study they would need to apply under the relevant immigration rules for those coming from outside the EU. But, as in the UK, applying this in practice is likely to be extremely difficult.

Overall, then, the likely implication of a no deal Brexit for EU citizens resident in the UK and Britons elsewhere in Europe is not mass deportations or immediate legal limbo. Instead, it will be one of gradually increasing confusion and complexity, as attempts by the UK and other member states to find pragmatic legal and administrative routes collide with the messy realities of peoples’ lives, which are about much more than simply whether one is or is not legally resident. Moreover, the situation has been aggravated by recent government statements, which have undermined confidence among EU citizens currently resident. One immediate consequence is likely to be sharp drop in migration flows, in both directions, as people will be unwilling to move if they are uncertain of their long-term status. If the no deal period is brief, the consequences will probably be manageable, but if it extends for any significant period of time, disruption – both economic and personal – will be considerable.

Goods & manufacturing

The immediate impact of no deal would be keenly felt by manufacturing sectors which operate fine-grained ‘just-in-time’ production, operations and logistics systems across Europe. Think of aerospace firms such as Airbus, major automobile assemblers such as Nissan, Toyota, Honda, Jaguar Land Rover, BMW, Vauxhall and Ford (in the latter case engines), or automotive component suppliers such as GKN.

The operations of many manufacturing firms run on short delivery and production schedules, with inventory levels often kept at just a few hours’ supply to ensure low cost and high efficiency. For firms like these, just-in-time systems underpin the whole logic of their activities, and they will face major challenges adjusting to the delays and uncertainty of customs and border checks in the event of no deal.

While manufacturers undertook frantic stock-building in the run up to the original Brexit deadline at the end of March 2019, there is a limit to how far this can go, as holding high levels of stocks undermines the efficiency and quality of production and delivery systems.

In addition, rapid and widespread switching to local UK suppliers as an alternative to importing parts is not possible. Something like 60% of the components going into a UK-assembled car are imported, mainly from the EU. The UK’s supply base simply is not geared up to supplying many of these components. Reshoring component supplies would be a long-term process, requiring a dedicated industrial policy to back it up.

Customs delays under a no deal Brexit would throw a big spanner in the works of just-in-time systems commonly used across UK and EU manufacturing. Take Honda. The company retains just an hour’s worth of parts at its Swindon production line, and requires 350 trucks’ worth of components to be delivered every day from...
Europe. Every 15 minutes of customs delay would cost it up to £850,000 a year, and it would take the firm 18 months to set up new procedures and warehouses if the UK left the customs union. With two million daily component movements, even minor delays at the Channel Tunnel and Port of Dover would force hundreds of its trucks to wait for hours.

No deal is likely to mean short-term disruption in the sector as some firms run out of components after a few days. Stop-start production is likely, with rising costs and a significant hit to efficiency and profits. And there are similar supply chain issues in aerospace, where exports are highly dependent on participation in the EU supply chain, since the sector is highly specialised in a few key areas. The bulk of exports are of parts (wings, fuselages, landing gear and engines) rather than whole aircraft. The OECD estimates that around 40% of the value-added in UK aerospace gross exports originates abroad. European aerospace supply chains compete in large part on speed as well as production cost. Airbus, for example, has stressed that possible customs delays would be a ‘critically bad’ issue for them.

Another major issue in the event of no deal would be tariff barriers. Aerospace is relatively protected via UK participation in the WTO Agreement on Trade in Civil Aircraft, which eliminates tariffs on aircraft and most aircraft components. However, tariffs of around 10% would push up import and export prices of cars, and affect exports and hence production in the UK. The short run production hit arising in this way from no deal has been estimated at around 175,000 cars a year (which does not include the recently announced Honda closure), amounting to over 10% of UK car output. It is doubtful that a depreciation in sterling in the event of no deal would be enough to offset the impact of tariffs on automotive exports, as manufacturing costs in the UK would be pushed up through the higher prices of imported components post depreciation.

In the automotive sector, there is a significant longer-term risk that some firms would consider shifting production outside of the UK. Honda and Ford have already announced plants closures in the UK. They cited a variety of reasons, with Brexit uncertainty being seen by many as one factor. Other assemblers may follow in the event of a no deal, especially when new model production is being planned. Peugeot has already stated bluntly that no deal would mean no investment at its Vauxhall plant at Ellesmere Port (the current Astra model is due to be replaced in 2021).

It is worth noting that there is plenty of spare capacity in the European auto industry. Other countries would jump at the chance to attract such assembly activity, hoping that they could also pull in significant (especially higher value) parts of the value chain. In that sense the employment effects of losing assembly operations could be significantly higher than the jobs associated merely with the big assemblers.

As a result, the longer-term effects of no deal could be worse than the short-term impact, as investment in new models in the UK may be lost. If decisions on where to build new models go against the UK, then annual auto production could be over 500,000 units lower in the second half of the next decade than under a Brexit deal.

Beyond the automotive and aerospace sectors, the life sciences sector, which includes pharmaceutical companies and manufacturers of medical devices and diagnostics, also relies on just-in-time supply chains and on being able to get medicines and medical products across borders as quickly as possible. While the government and companies have put measures in place to try and mitigate the impact of a no deal Brexit, companies remain concerned that there could be some disruption to the supply of medical products to patients.
Another significant concern for the sector is divergence from the EU regulatory framework for medicines and medical products. Under a no deal, the UK would be outside of the EU’s regulatory infrastructure and the UK government will have to establish its own systems to regulate medicines and medical devices. Any duplication of licence applications and/or delays in getting new medicines approved in the UK could have an impact on the attractiveness of the UK market and could lead to a delay in UK patients accessing new innovative treatments. A no deal could damage the UK’s position as a major pharmaceutical manufacturing base, a global supply hub and as a manufacturer and recipient of new and innovative medicines.

There may also be crossover effects between sectors. Many auto components suppliers also supply into the aerospace sector, for example, so a weakness on the auto side might have a knock-on effect on the aerospace supply chain, or vice versa.

Finally, the chemicals sector is highly integrated into EU markets. According to the Chemical Industry Association (CIA), 60% of UK chemicals exports go to the EU and 75% of chemicals imports come from the EU. It is also a just-in-time industry with limited capacity for long-term storage of components and products, and temperature and pressure-controlled vehicles carrying chemicals will be affected by disruption to road transport. Tariff issues are less acute than in the food sector, averaging 5.5%-6.5%, but their immediate introduction would damage UK competitiveness.

Overall, the government’s analysis of the economic impacts of no deal found that the most exposed sectors would be chemicals, pharmaceuticals and automotive, with a potential long-term fall in output of 20-25% in both sectors. As a recent CBI report pointed out, however, the cost of accessing the data necessary to re-register chemicals in the UK could be one of the biggest issues from no deal. In some cases, companies may not be able to access this data, much of which is held by companies in the EU, meaning UK companies would have to re-test chemicals and incur the associated costs.

Healthcare

Healthcare stands to be affected both by two key facts: changing rules on citizenship in the UK and the EU, and the new terms of trade with the EU.

Citizenship rules

The co-ordination of social security on which reciprocal healthcare rests will cease immediately. This means that planned treatment in other member states will be disrupted, while the European Health Insurance Card (EHIC) for emergency treatment will no longer function. Some UK patients may lose rights to treatment in an EU country when visiting or as residents. Access to health care will depend on the domestic law in each country.

Several countries, including Spain, Italy and Greece will allow short-term conditional access to health care for residents and visitors in the event of no deal. These alternatives to EU law are untested, and lack administrative infrastructure. Patients will not be turned away in an emergency, but non-acute health needs may not be met. In the longer term, access will depend on reciprocal healthcare agreements, which are yet to be negotiated. Practical matters such as data sharing are unresolved.

The 65,000 EU27 nationals who work in NHS England (5.5% of the relevant workforce), the 3% of the workforce in Scotland and the 1.6% in Wales will be entitled to apply for settled or pre-settled status in the event of no deal. There are major concerns about capacity, especially in nursing, in rural areas and London. The UK has...
already stepped up recruitment of nurses and other healthcare workers from outside the EU, while recruitment from within the EU is likely to fall further (and return migration from the UK to the EU may rise), particularly given the confusion created by recent government statements. In the longer term, all will depend on the details of the new immigration system.

**Trade impact**
No deal also means border delays for ‘just-in-time’ manufactured products. These cross the EU-UK border many times. Many products used in the NHS, from relatively simple medical consumables such as syringes to complex biopharmaceuticals, cross borders more than once.

The UK government has put contingency plans in place, including for essential NHS products. It has tendered for an express delivery service from 1 November 2019, and established a 24/7 NHS Brexit supply disruption hotline. It asked the pharmaceutical and devices/consumables industries to stockpile an extra three-month buffer of medicines for 29 March 2019.

The government asked NHS organisations and patients not to stockpile, but there is anecdotal evidence that some patients are doing so with insulin. The Secretary of State will have power to allow substitution of prescribed medicines if it becomes necessary.

It is difficult to scrutinise these contingency plans. Parliament has repeatedly requested information, but has not even received a list of products subject to the plans. There are concerns that pharma companies will not repeat contingency planning, as they suffered losses following 29 March 2019. The Public Accounts Committee is concerned about timeliness and cost. No one has been clear about where the extra costs of these contingency plans are to fall in an already stretched NHS budget.

**Services**

The UK is the world’s second largest services exporter, with services exports valued at £283 billion, or 45% of total UK exports, in 2018. Of this, £117 billion were exported to the EU. Moreover, the UK runs a large trade surplus in services; the UK’s imports of services were valued at £176 billion and comprised about 27% of total UK imports.

If the UK exits the EU without a formal deal, it will no longer be covered by the services agreements of the European Economic Area (EEA), but will have its trade with the EU governed by the General Agreement on Trade in Services (GATS), a treaty under the World Trade Organization. GATS provides far less access than the EEA agreements. The November 2018 White Paper on EU Exit estimated that the cost of services trade would be 5% to 18% of the value of trade in the event of no deal.

An immediate challenge for businesses providing professional services in the EU will be the recognition of professional qualifications. Under the EEA, UK professional qualifications are subject to mutual recognition agreements that allow UK qualified accountants, architects, and
NO DEAL BREXIT: ISSUES, IMPACTS, IMPLICATIONS

other professionals to provide services via cross-border supply or traveling to a site. Under no deal, these qualifications would no longer be automatically recognized. Professionals will have to apply to have their qualifications recognized in different EU member states.

Moreover, there is uncertainty regarding the provision of visas to professionals travelling to the EU for the purpose of delivering a service. Under a no deal Brexit, obtaining a travel visa could become time-consuming. Alan Vallance, Chief Executive of the Royal Institute of British Architects, testified to a House of Commons Select Committee that “of the £500 million that UK architecture earned from international work in 2016, a no deal exit could reduce UK architecture exports by £73 million per year.”

A further challenge for service providers under no deal Brexit relates to restrictions on the movement of personal data from the EU to the UK. Currently, as an EU member, UK businesses can transmit personal data from EU subsidiaries to UK headquarters. However, under no deal, UK businesses would need to set up alternative data-sharing arrangements. For example, if a UK business’s subsidiary in the EU holding data on a client’s income wanted to transmit that information to a UK headquarters for processing or analysis, it seems unlikely that it would be able to do so under no deal.

It is worth dwelling for a moment on the specific impact on the financial services sector. Financial services remain an important part of the UK’s economy following the 2007-08 financial crisis. In 2018, it contributed £131.9bn to the UK economy, or 6.9% of the total. Financial and related services such as those offered by insurance and legal firms provide an important source of employment, particularly in London and the south east of England. Moreover, UK financial services (including insurance) is estimated to make total tax contributions of £75bn in 2018 – 10.9% of total UK tax receipts (including income tax, national insurance, corporation tax, VAT and business rates). The sector is also vital to the operation of the ‘real’ economy, facilitating everyday financial transactions, savings, investment and insurance to firms and households across the UK.

Brexit has already had an impact on the sector. Output has decreased by 0.7% in the three months to May 2019 and has not seen positive growth since the three months to April 2017. This is the longest period without increased output in the financial services sector since records began. Growth in the sector has been subdued since the vote to leave the EU in 2016. This reflects the importance of the EU market for the UK’s financial services sector.

Following a no deal Brexit, the most immediate impact would be on banks and other financial services providers based in the UK who use so-called passporting arrangements to serve EU markets from their UK base. Passporting currently allows these financial firms to access EU markets without the need to obtain additional regulatory clearances and licences in other EU member countries.

The UK has passed legislation to set up a temporary version of passporting so that EU firms could continue to operate in the UK after exit date. However, the EU has not passed equivalent legislation.
Moreover, in a no deal scenario, there would not be a transition period during which these equivalence arrangements could be finalised. This means that UK based firms will need to consult with national regulators on a country-by-country basis to assess how they might be able to continue to service EU based customers in the event of a no deal Brexit. The financial regulator in the UK, the Financial Conduct Authority, has described such a scenario as a “cliff edge for UK firms who need to carry on servicing customers under existing contracts”.

Given this uncertainty, it is likely that some financial institutions and banks would activate plans to relocate the parts of their businesses that serve EU clients from London to European financial centres including Frankfurt, Paris and Dublin. In June 2019, EY’s financial services Brexit tracker reported that 41% of large financial firms surveyed in the UK had publicly stated their intention to move operations and/or staff from the UK to the rest of the EU. Recent estimates suggest that international and wholesale financial services related to the EU, worth £18-20bn out of the £132bn total, could be relocated in this scenario, associated with the movement of 31,000-35,000 jobs and an associated reduction in tax revenues of £3-5bn.

It is hard to accurately predict the scale and destination of such relocations without knowing what the future regulatory relationship will be between the UK and the EU. It is also impossible to predict the number of jobs that would have been attracted to the UK's financial services sector in rapidly growing sectors such as financial technology (fintech) but that do not come in the first place because of Brexit. These labour market implications will not be limited to London but will include other cities that have used financial services as part of their wider economic development strategy in recent years, including Edinburgh, Belfast, Birmingham, Manchester and Leeds.

Moreover, there are a number of UK-EU regulatory arrangements that would be affected by a no deal Brexit, with consequences for households and firms. For example, UK citizens living in EU member states may lose the ability to access lending and deposit services, as well as insurance contracts because UK firms would lose their right to passport into the EU.

There is also a risk that some types of card payments made within the UK could increase in price. The Treasury has ensured that although the UK would no longer be part of the EU’s surcharging regulations after a no deal Brexit, credit card providers in the UK would be prevented from charging customers extra fees for using a different type of card, in line with EU regulations. However, card providers could charge higher fees when cards issued in an EU member state are used in the UK.

The medium- and longer-term impacts of a no deal Brexit on the financial services sector are both harder to predict and potentially more severe. The UK has played an important role in shaping EU regulations for financial services. In the event that the UK decided to negotiate regulatory equivalence with the EU, its new status as a ‘rule taker’ would become evident. In order to maintain such arrangements, the UK would have to ensure that its regulatory landscape matched that of the EU over which it would no longer have any say.

The size and shape of the UK’s financial services sector will also be shaped by other policy domains beyond financial regulation, notably immigration policy and the visa requirements particularly for shorter term business travel. Restrictions on immigration and the possibility of delays for business travel associated with increased regulation at UK borders would likely erode the competitive advantage that the UK has developed in relation to financial services globally. Under a no deal Brexit, it is unlikely that the UK’s financial services sector would return to its pre 2007/08 levels in terms of employment, output and tax revenue.
Food

The UK’s low-margin, low-cost logistics system for food developed in response to pressures for lower price goods from supermarkets and consumers. As a result, most food producers and manufacturers have tight profit margins, so even minor additional costs could have a significant impact. Food producers risk their contracts with large supermarkets if they fail to deliver their products on time.

Producers and manufacturers who make food for winter will be particularly sensitive to disruption in the months prior to Christmas. Halloween – the day the Article 50 period is due to end – is the third most profitable day of the year in the hospitality sector. A no deal Brexit that suppressed activity on this day would have serious implications for the profitability of hospitality companies and their suppliers.

Because the UK’s logistics system is so efficient, storage capacity is generally limited. Where storage is required (for instance in anticipation of high-demand periods such as Christmas), companies often book capacity two years in advance. Unless additional capacity can be built quickly, the option of stockpiling simply won’t exist for many businesses.

The supply of food will be dependent on the flow of traffic through ports. Most UK fresh food imports come from within the EU – 19% of fruit and vegetables arrive from Spain alone – and these would be most affected. The FDF anticipates it will be approximately two weeks before this translates into shortages on shelves. There are three areas where shortages are likely: fresh food, particularly fruit and vegetables; food exported to the EU for packaging and processing before being reimported (chicken); and other areas where key ingredients such as milk powder and wheat are imported.

For food producers, an immediate concern will be the introduction of tariffs on exports to the EU. A large proportion of UK lamb is exported, and its main market is France (the seasonal availability of lamb in the UK – the autumn – does not match UK demand). The sudden introduction of tariffs will likely create a surplus in the UK, which, unless it could be quickly redirected to other markets, might require rapid disposal.

Finally, the uptake of Economic Operator Registration and Identification (EORI) numbers, which will be required to trade with the EU, has been only 30% of what was expected. The government has now signalled that it will issue these automatically to VAT-registered businesses, but the lack of uptake suggests limited awareness and/or preparedness among small businesses. There is a particular concern about firms that export sporadically; for instance, businesses who only export around Christmas. Preparedness is also running into a credibility problem. Having faced the threat of no deal twice already, industry bodies are struggling to convince their members to take the prospect seriously.
Internal security

There is a final area where no deal threatens severe disruption and which, nevertheless, has not received much in the way of sustained attention. The EU’s Area of Freedom, Security and Justice (AFSJ) is the world’s most integrated internal security cooperation area. Since the early 1990s, the UK has participated selectively (via opt-ins) in some aspects of AFSJ, including: the European Arrest Warrant (AEW), aimed at harmonising extradition procedures; the Schengen Information System, a database for the purpose of border management and law enforcement; and Europol, the EU’s law enforcement agency.

A no deal Brexit implies an immediate end to UK access to data and EU instruments and an abrupt interruption in all forms of co-operation with the EU (though bilateral cooperation with member states will be largely unaffected).

As far as data-driven law-enforcement is concerned, the UK currently has access to the Schengen Information System, the Prum Decision, Eurodac, the European Criminal Record System (ECRIS), and the Visa Information System among others. A no deal exit implies losing access to all instruments and databases at 11pm on 31 October 2019. In addition, the UK will no longer be able to use any personal data it received in the past from the EU.

This will have a significant impact on policing in a world where data is key to solving crime. It would imply reduced awareness of transnational organised crime targeting UK markets. The UK could continue to co-operate internationally through its Interpol membership, by signing new bilateral agreements with EU member states and developing a bespoke agreement with Europol (that would go beyond existing strategic and operational agreements with third countries). None of these options, however, provide the same level of cooperation and functionality (in particular because some databases, such as ECRIS, do not allow access by third countries). In addition, a bespoke agreement would almost certainly not be available in the short term (it took seven years to negotiate the Europol-Norway agreement).

The UK also participates in Europol and Eurojust, the EU Convention on Mutual Legal Assistance in Criminal Matters, the European Investigation Order, Joint Investigation Teams, and other instruments that support operations such as the EAW. No deal would lead to the immediate suspension of EU assistance to operations, including ongoing operations, with the fallback alternatives provided by international law being far more restrictive. The default option for Mutual Legal Assistance would be the Council of Europe 1959 Convention on Mutual legal Assistance in Criminal Matters, which is a more limited instrument in terms of its scope and the number of EU countries involved (Greece, Italy and Luxembourg did not sign all of the Convention’s protocols).

A bespoke agreement could be created for Mutual Legal Assistance, as well as for the European Investigation order, which could expand the areas of assistance and reduce the bureaucratic processes associated with the Council of Europe Convention. However, it would take time to develop such an agreement, which might require legal alignment with the Schengen acquis. Furthermore, the UK would no longer be able to set up Joint Investigation Teams through EU structures (and have them funded by the EU), although there is clear scope for co-operation in this area given that the Council of Europe’s 1959 Convention enables countries to set up this type of instrument among its signatory members.
Finally, as far as the European Arrest Warrant is concerned, the UK would need to rely on the 1957 Council of Europe Convention on Extradition. It would still be able to request that suspected criminals be sent back to its territory, although it would need to follow a much lengthier (an average of two years as opposed to 43 days with the European Arrest Warrant), bureaucratic, politicised and costly process. Moreover, most EU countries do not extradite their own nationals outside of the European Arrest Warrant framework.

The UK also participates in most EU Justice and Home Affairs agencies. Their work is complemented by a large number of other EU agencies that indirectly shape the field of internal security – such as the EU Agency for Cybersecurity and the EU Intellectual property Office. Justice and Home Affairs agencies serve as co-operation platforms that help member states co-ordinate their counter terrorism and counter criminality efforts through the sharing of expertise and resources. A no deal scenario would automatically exclude the UK from their work, although most agencies foresee the possibility of agreements with third countries. These agreements vary considerably according to the agency and the EU’s relationship with the third country. The United States’ agreement with Eurojust, for example, allows it to have a posted liaison prosecutor, who is invited to take part in strategic and operational meetings. None, however, provide direct third country access to their internal databases, which would prevent the UK from using the Europol Analysis System or the Eurojust Case Management System. UK law enforcement and the judicial system would lose control over the capacity to conduct their own database searches and would need to rely on others to obtain the crucial information they need.

The consequences of no deal for internal security are serious and likely to affect both the UK’s capacity to effectively protect its residents and its political standing as a security leader. And this would take place in a dangerous context of rapidly growing levels of insecurity, with serious and organised crime currently endangering more lives than any other national security threat.

Conclusion

The period since the election of Boris Johnson as Prime Minister has seen the prospects of a no deal Brexit increase markedly. He will not negotiate with the European Union unless his demand for the removal of the Irish backstop is met. He has guaranteed exit from the EU on 31 October ‘do or die’. He has therefore emphasised that, while he’d prefer to leave with a deal, he is perfectly willing to do so without one to achieve these objectives.

Consequently, there has been a renewed debate about what such a Brexit might look like. Inevitably, this debate has been subsumed within the raging arguments over Brexit itself with the result that, as in many of those arguments, far more heat has been generated than light.

This report has attempted to cut through the chatter. Drawing on the work of a number of academic experts in their respective fields, we try to elucidate what we do – and do not – know about the potential nature and impact of a no deal Brexit.
In some ways, our findings are inconclusive. We do not know with any great certainty what will happen in the short term – whether tariffs and checks be applied from day one, what precisely will happen on the Irish border, and so on.

But in far more important ways, we stress that we do know what no deal ultimately means. Whether it be on day one or day 10, or day 50, it means that the UK will no longer be able to trade as it does now with the European Union. That as a ‘third country,’ the UK will see checks and tariffs applies to its products on the EU border. That it will lose access to data and anti-policing that have been crucial in the fight against crime and terrorism. And the economic consequences will be negative not only on the country as a whole but also on specific sectors. At an individual level, we also draw attention to the problems it would cause both to EU citizens in the UK and UK citizens in other member states.

In the medium term, much will hinge on whether, and when, the two sides return to the negotiating table. Yet even should they do so, the fact that negotiations can no longer take place under Article 50 means they will be far harder, longer, and potentially more politicised (on the EU side) than during the period since March 2017.

Looking further forward, we identify real problems ahead for the car industry, for aerospace firms, for the health sector and financial services. And we emphasise the enormous problems that a no deal outcome will cause for Northern Ireland, not simply in terms of the economic damage it will inflict, but also in the political, social and security challenges it will give rise to.

And it is worth bearing in mind that the politics of no deal more generally have not received the attention it should. And yet no deal will shape what happens thereafter as much, if not more, than any economic implications. Clearly, the economics will be important. But the political narrative that dominates the immediate post-no deal period will be crucial (and will in turn hinge on how no deal comes about). How politics in the UK and the EU develop, and the nature of relations between the UK and EU are exceedingly hard to predict, which is why we have not addressed them directly in this report. It is worth emphasising, though, that they will shape the nature of the economic relationship, and hence the impact of a no deal Brexit.

As far as we can tell, however, and given the difficulties that will be confronted if and when the two sides return to the negotiating table after Brexit, the impact of a no deal Brexit will be significant, damaging and long-lasting, albeit not as immediate and visible as some earlier reports have suggested. Perhaps most importantly, there is no sense in which no deal will give governments, businesses or households ‘certainty’, either in the UK or in the EU. No deal will not be the end of Brexit as the central political issue in the UK, or even the beginning of the end. When the dust clears, however, it may be – in the words of Winston Churchill – the end of the beginning.
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