UK IN A CHANGING EUROPE

WHAT WOULD NO DEAL MEAN?

FOREWORD

I hardly imagined, when we were drafting our first report on the potential impact of no deal back in 2017, that we would go on to write not one, but two follow ups. This third publication in what, I suppose, now counts as a series looks at a slightly different case of 'no deal' than those that preceded it. We now have a Withdrawal Agreement, which means 'no deal' means 'no trade deal'.

Yet a no deal outcome would still have profound implications for the UK. As we analyse in what follows, from trade to connectivity to foreign policy to cooperation in policing, a failure to strike an agreement with the EU will impact on us in numerous ways.

As ever, this report is the result of a lot of hard work by a lot of people. I'd like to start by thanking all those who contributed to writing what follows, namely David Bailey, Tim Bale, Catherine Barnard, Matthew Bevington, Meredith Crowley, Sarah Hall, Katy Hayward, Martin Heneghan, Carmen Hubbard, Lisa James, Hussein Kassim, Ben Kienzle, Nicola McEwen, Jonathan Portes, Ivan Rajic, Meg Russell, Jill Rutter, Thomas Sampson, Maddy Thimont-Jack, Alan Wager and Dan Wincott.

Particular thanks are due to Jonathan Portes and Jill Rutter who went over the text numerous times. It's largely down to them that the report that follows is as clearly structured and coherent as it is. Phoebe Couzens coordinated the various authors, Alison Howson helped to edit and clarify the text, while Navjyot Lehl again worked her magic when it came to the design.

As ever, I hope you find what follows interesting and informative, and do please get in touch with any feedback.

Anand Menon

23 September 2020

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INTRODUCTION

The UK government's deal with the EU last October ensured that the UK would leave the EU's institutions in an orderly fashion. The Withdrawal Agreement settled issues of citizens' rights, determined the UK's financial settlement and put in place long-term arrangements to avoid the re-emergence of a hard border between Northern Ireland and the Republic of Ireland, by introducing a regulatory and customs border in the Irish Sea. That is all now in an international treaty, ratified by both sides, and enshrined in UK law in January 2020 to enable the UK to end 47 years of EU membership on 31 January 2021. In the words of the Prime Minister, it "got Brexit done".

What it did not do is settle the shape of the future relationship between the UK and the EU. Rather, the UK entered a transition period when no one, except for ministers, MEPs and UK staff in Brussels, has noticed much difference. That ends on 31 December 2020 – the UK, despite the pandemic, having declined the option to ask for an extension in the summer.

Negotiations have continued and appear to have reached stalemate. A deal may be done. It would likely be a 'thin' one, covering mainly goods, with little for the UK's service businesses and with manufacturers facing new checks and delays at the border. The EU has so far maintained that even this would require concessions from the UK on fishing rights and on so-called level playing field provisions – most notably on state aid. After eight negotiating rounds between chief negotiators and one high-level meeting, these issues remain unresolved.

Consequently, no deal is back on the table. The Prime Minister has set a deadline of 15 October 2020, when the European Council meets, to determine whether to press the no-deal button. That may change, but the EU has warned it needs time to ratify any deal, which suggests a(nother) Halloween deadline.

This report aims to spell out the potential impacts of leaving the EU without a deal. It would mean a no deal on trade, no agreement on aviation or other transport links, no agreement on fishing nor on security and judicial cooperation. It might also mean that the UK is not given the go-ahead on data adequacy or on equivalence for financial services – both decisions that are down to the EU to make alone, and that it has linked to the overall negotiations over the future relationship. In some respects, the outcomes in a no-deal scenario are, in fact, very close to the deal the Prime Minister is seeking.

Any deal will be relatively 'thin' given the UK's red lines. Both sides accept that it will cover little more than tariff- and quota-free access for most goods. Consequently, regardless of whether there is a deal or not, there will be significant new barriers to trade involving customs checks, regulatory barriers, an end to mutual recognition across a wide variety of products and services, and so on. As the UK Chief Negotiator told a House of Lords EU committee in May 2020: "To use the shorthand, the Canada [deal] and Australia [no deal] outcomes are similar but not identical, and at some point we have to be clear about what business has to be ready for."

Some no-deal impacts can and will be mitigated by effective preparation – a demanding task that has been made harder by the diversion of people within government to deal with the response to Covid-19 and by the strain that the pandemic has placed on businesses across the country. Brexit has fallen way down their list of priorities. The EU may implement some mitigating measures – but the UK cannot depend on it, particularly if the talks break down acrimoniously.

As we look at what a no-deal outcome means in practical terms, we also look at what it might mean for the economy and for politics – both at Westminster and in terms of relations with the devolved governments. Brexit has already placed the Union under unprecedented strain, which looks set only to increase.

Meanwhile, the government's decision to bring forward a bill – the Internal Market Bill – that expressly enables the UK to override the provisions of the Withdrawal Agreement may increase the likelihood of a no-deal outcome. At the time of writing, it is unclear whether the government's objective is merely to signal its determination to a domestic audience; to improve its negotiating position; or simply to increase its legal flexibility in the event of the Joint Committee, established by the Withdrawal Agreement, interpreting the Northern Ireland Protocol in a way it finds unacceptable.

What is certain, however, is that this decision will make a no-deal outcome considerably more problematic, in at least three respects. First, it will make it far less likely that the EU will put in place the unilateral mitigations that had been planned in the event of a no- deal last year. Even the bare minimum – such as the temporary provisions to allow air transport to continue – may be called into question. Second, it will make the situation in Northern Ireland even more fraught. The Protocol was originally devised precisely to ensure that, even if there was no UK-EU deal, there would be no physical border on the island of Ireland and the Good Friday Agreement would be upheld. If the UK explicitly rejects the Protocol that it has signed, it is hard to see an outcome that does not lead to significant political turbulence. Third, and more broadly, it is hard to see that the UK's refusal to honour an agreement that it had already signed and ratified would not have broader ramifications for the UK's global reputation.

It looks certain that transition will end as governments in the UK and the EU are still battling the Covid-19 pandemic. The UK's decision in June not to seek an extension has guaranteed that fact. In terms of the economy, some in government, as spelled out by James Forsyth, think the continued challenge of the pandemic makes no deal easier because the 'disruption caused by coronavirus means the costs of leaving without a trade deal are lower than they have ever been.' If trade, travel, immigration, and tourism stay depressed, extra friction at the border might not impose much in terms of additional costs in the short term.

But a no-deal Brexit risks disruption to parts of the economy that have been resilient to Covid-19, not least food supply chains. A leaked government document outlining a 'Preliminary set of Reasonable Worst Case Scenario Planning Assumptions to support civil contingencies planning for the end of the Transition Period,' dated July 2020, raises the prospect of local authority bankruptcies, shortages and price hikes, threats to food and fuel supplies and the use of the Royal Navy to stop vigilante British fishers clashing with European fishing boats.

The impact of no deal is not entirely in the UK's hands – much depends on the EU's decisions. Anticipating a no-deal Brexit back in 2019, the EU published a number of preparedness notices across all major areas, identifying the legal issues raised by the UK becoming a third country. The Commission has now published a document on getting ready for changes at the end of the transition period. It has also published revised preparedness notices on the measures that member states, businesses and citizens need to take to get ready for the UK's exit.

In 2019 it also published a number of contingency measures that made concessions to the UK for a limited period of time. These have not been proposed again, although they may be at some later date. In some areas, the UK might attempt to make bilateral arrangements with individual member states in areas outside EU competence, but this unlikely to be quick or easy.

In any case, the EU will not seek to mitigate the impact of a no-deal Brexit on UK businesses – its priority will be to limit damage to EU companies. If, as seems increasingly likely, negotiations break down in an acrimonious fashion, there is a risk that each side might seek to maximise economic damage to the other in retaliation.

The Prime Minister has said that no deal is a "good outcome" and that the UK can thrive. This report highlights what no deal with the EU would mean in practice.

TRADE

TRADE WITH THE EU: GOODS

From the end of transition in December 2020, the UK will become independent of the EU in trade policy and a member of the World Trade Organisation (WTO) in its own right, able to conclude its own trade deals with other countries around the world. Where it has no trade deal in place with a country, following WTO rules means that the UK will be required to trade on 'most favoured nation' (MFN) terms while observing the key principle of non-discrimination. This means, for instance, that it will have to levy the same tariffs on imports - for example, the 10% tariff on cars - for all such countries.

We now know what the UK tariff regime will look like because in May 2020 the government published its new 'UK Global Tariff' schedule; this will be introduced on 1 January 2021. In most cases, the schedule introduces small reductions in tariff rates compared to the EU's Common External Tariff. The impacts in most sectors will be correspondingly small, but some sectors may see increases in imports, trade diversion and/or price falls. This schedule of tariffs represents the starting point in the negotiations for all new trade agreements, including those with the EU. One consequence of these tariff differentials is to add (in the event of no deal) to the number of goods needing to be controlled for and checked as they move into Northern Ireland from Britain.

TARIFFS

It follows therefore that in the event that the UK and EU do not agree a trade deal, both sides will charge tariffs on imports: the EU will charge its existing external tariffs - the 'Common External Tariff' to imports from the UK - whereas the UK will charge its new 'Global Tariff' - which will apply to all countries with which we have no trade deal - to imports from the EU.

Existing EU tariffs, as well as the planned UK ones, are currently low or zero for most products, so they should not end up altering prices substantially. There are, however, some important exceptions. Tariffs on agricultural goods tend to be much higher than manufactured goods and, as we will discuss below, these products also face significant non-tariff barriers. Furthermore, for some manufactured products, EU tariffs are high enough to potentially cause disruption. This is the case, for example, in the automotive sector, where car imports face an EU tariff of 10%. UK-based car assemblers export around 55% of their output to the EU. If importers in the EU increase their prices to compensate for the 10% tariff, UK-assembled cars risk becoming uncompetitive compared to cars that were produced in the EU or imported from countries with which the EU has trade deals. In the longer run, manufacturers would have to consider where to locate production and how to change their business model in response to tariffs: this could mean making more cars in the UK for the UK market, while relocating the production of EU-destined cars into the single market. UK consumers could face diminished choice and higher prices.

NON-TARIFF BARRIERS

There are numerous non-tariff barriers (NTBs) to international trade, which can impose even higher costs to businesses, and hence consumers, than tariffs. These include quotas (restrictions on the quantities of goods that are allowed to be imported), as well as various administrative, safety, technical and other checks carried out when goods are traded across borders. Some administrative barriers relate to tariffs (such as completing customs declaration forms) that apply even if the actual tariffs are zero. Regulatory issues when it comes to trade in goods, which are often considered as a non-tariff barrier, are discussed separately below.

There are no NTBs in trade within the EU's single market. Failure to reach an agreement would result in the full panoply of checks and formalities applying immediately, the costs of which can be significant. Make UK estimates that the number of customs declarations that UK firms will have to complete will increase from 55 to 275 million, and HMRC has estimated the cost of this to be around £15 billion a year. The costs of other NTBs are more difficult to estimate, not least because some are indirect; for example, the indirect cost of waiting at the border while safety checks are carried out on imported products. Whatever the final costs are, they will negatively impact post-Brexit UK-EU trade.

NTBs can also cause delays at the border, which in themselves can be disruptive. This is particularly problematic for a number of sectors – automotive, retail, chemicals and so on – that operate just-in-time (JIT) supply chains. Honda estimates that a 15-minute delay at the border would add around £850,000 to their costs per year (as compared to pre-tax profits of £9 million in 2016-17). Aston Martin are concerned that their vehicles may be held up at the border, delaying payment and potentially creating cash-flow problems. In the pharmaceutical sector, there are products that have to be delivered within 24 hours of manufacture or they become unusable.

REGULATIONS

In international trade, regulatory controls ensure that products entering a country's market conform to their technical, safety, hygiene and other standards. The UK is not seeking to stay aligned with EU regulations or for the EU to recognise UK regulations, but it is seeking an agreement on '[mutual recognition of conformity assessment]' to allow UK regulators to certify that UK goods meet EU standards and so avoid the need for duplicate checks. No deal - or no agreement on this in any deal - would mean that businesses would potentially have to certify their goods on both sides of the UK-EU border even if UK and EU regulations remain identical. In many sectors (such as aerospace, chemicals and pharmaceuticals), this is their biggest concern.

TRADE WITH THE EU: AGRICULTURE AND FOOD

Agriculture accounts for less than one percent of UK GDP. However, the sector provides over three-quarters (77%) of all indigenous food (this is food that can be produced within the geographical and climatic conditions of the UK). It also supports downstream and upstream industries that contributed £120 billion to the economy (or 6.3% of the national Gross Value Added) and employed around 4 million people in 2018. Agriculture's importance goes beyond economics: it supports much of the social and cultural fabric of the UK countryside, shaping the landscape and its ecosystems. And, of course, all UK households will be directly affected by changes to the prices or availability of food and food products.

Currently, the EU is the UK's main trading partner in agri-food, accounting for over 70% of imports and 60% of exports. In 2019, the value of UK food, feed and drink exports stood at about £24 billion, with the Irish Republic (17%), France (10%) and the Netherlands (7%) as the UK's main EU exporting destinations. Most of the UK's agri-food imports are provided by four EU member states: the Netherlands (14% of total value), Germany (11%), Ireland (10%) and France (10%). Hence, the failure to secure a trade deal with EU by the end of December 2020 will have significant impacts on both the EU and UK.

In the case of a no deal with the EU, UK agricultural exports to the EU will be subject to the EU's Common External Tariff (CET). The EU Tariff regime is a highly protectionist regime that brings together a set of laws and taxes that differ among products, and which applies to all imports from countries outside the EU. In turn, all imports into the UK that are not covered by a new free trade agreement and do not benefit under WTO rules from the Generalised Scheme of Preferences for developing country imports will be subject to the new UK Global Tariff and designed, amongst other things, to protect the domestic agricultural production.

The new UK tariff regime offers similar or equivalent level of protection as under the EU's tariff regime for most agricultural products (e.g. beef, lamb, milk, cheese, butter, eggs, pork and chicken). The UK new tariff regime also retains tariffs for some agricultural products not produced in the UK, such as bananas, pineapple and citrus fruits. Although some may argue that tariffs for these products were maintained so as to protect imports from developing countries from competition, others claim that they 'will generate some negotiating capital in trade talks with international partners including those in the EU and the USA'.

Apart from tariffs, a number of NTBs will impact exports from the UK to the EU in the event of no deal. These include rules of origin requirements, organic certification and the rules covering geographical indications (governing how producers can protect and use a name or symbol that indicates a specific geographical origin for their products which can then command a price premium). Further NTBs (such as sanitary and phytosanitary rules, custom checks and rules of origin) will add to farmers' costs and hence, potentially, consumer prices.

Recent research shows that these changes to tariffs and trade rules would have a significant impact on producer prices, production volume, output and trade balances, with a complex mix of winners and losers in the agriculture sector. Those changes to producer prices will then often be passed on to consumers.

However, the impacts will depend on the level of these tariffs, the status of the sub-sector concerned (e.g. beef, sheep, dairy, pigs, poultry, wheat barley, fruits and vegetables) and whether the UK is a net importer or net exporter of the particular products, as well as any impact of no deal on the exchange rate.

So the impact on consumers will be complex – some prices will rise, others will fall. Overall, however, it is hard to see how the relatively modest reductions in tariffs towards non-EU producers can outweigh their imposition on EU imports, even leaving aside NTBs and exchange-rate changes. Independent research estimates that applying the Common External Tariff to all UK imports would raise UK food prices by up to 4%; the estimates of the Department for Environment, Food and Rural Affairs are similar. Since the UK tariff regime is lower than (or for some products the same as) the EU tariff, this may be an upper limit but, nevertheless, it seems highly probable that no deal will push up food prices, with consequent impacts on households, particularly low-income households.

The impacts on individual farms will also be far from uniform, varying by sector, farm size, enterprise mix and location (e.g. upland vs. lowland) which in turn affects the quality of land and, more importantly, the degree of the farm's dependence on the direct support provided currently under the EU's Common Agricultural Policy (CAP) and what difference the plans to replace it make.

In England, the government proposes to phase in a radical change linking payments to the provision of public goods, such as water quality, natural flood management or soil quality. This will happen, regardless of the negotiations with the EU. However, this policy does not apply to Scotland which, through its own Agriculture (Retained EU Law and Data) (Scotland) Bill of 2019, retains the power to continue these payments, and other CAP-type support, beyond 2020. The Ireland/Northern Ireland Protocol complicates the situation still further, as Northern Ireland has to comply with a range of EU rules and regulations. The lack of a common agricultural framework for the UK as a whole, particularly differences between countries regarding farm support, could create tensions. The Northern Irish dairy sector is also concerned about the negative economic impact of the imposition of EU tariffs on the UK exports to and imports from Ireland. The UK (mainly Northern Ireland) exports a high percentage of raw milk to be processed in the Irish Republic, of which a proportion is then imported back into the UK. Hence, a no deal will cause severe trade disruption between the two.

TRADE WITH THE EU: ENERGY

Even in a no-deal scenario, trading of energy between the UK and the EU will continue on a tariff-free basis, in accordance with the MFN tariffs of both parties. This will be the case for oil, gas and electricity. However, the way that energy is traded will change significantly, especially electricity.

During the transition period, the UK has remained as part of the EU's internal energy market. The UK electricity market was coupled with those of most EU countries, forming a single market for trading electricity. Coupling allows the efficient allocation of electricity demand and production across the single market.

As the UK government put it in a 2017 white paper, coordinated energy trading arrangements, including coupling, 'ensure lower prices and improved security of supply … reducing the need for domestic back-up power'. No deal would mean less secure supply and the need for greater back-up generation to manage fluctuations in renewable production, which will become increasingly important as the UK seeks to decarbonise. Because UK energy generators would have to produce additional supply that may not then be used, prices would inevitably be affected.

The difference between a deal and no deal in the energy sector is likely to be small. In Article 17 of the UK's proposed energy treaty, it seeks to keep the UK market coupled and proposes even deeper coupling in future. However, its refusal to sign up to the EU law means that its market would most likely be decoupled from the internal energy market, as is the case with Switzerland. Even with a deal, research commissioned for the National Grid forecast that the combined impact of the loss of market coupling and balancing services and capacity markets amounted to £240-260 million per year. Academic analysis suggests costs from increased inefficiencies could be as much as £290 million per year by 2030.

The UK has also requested observer status in two EU energy agencies: the Agency for the Cooperation of Energy Regulators (ACER), and the European Network of Transmission System Operators for Electricity (ENTSOE-E). The UK also wants to set up an Energy Cooperation Group, led by a UK minister and member of the Commission, to manage the energy part of any treaty. No deal would rule out these forms of regulatory cooperation.

The impact on the island of Ireland is a different matter entirely. The UK is a transit country for energy imports and exports to and from Ireland. The Single Electricity Market on the island of Ireland is explicitly addressed in the Northern Ireland/Ireland Protocol. In theory, it should be protected in the event of a no-deal outcome. Under Article 9 of the Protocol, relevant EU acts will apply to Northern Ireland 'insofar as they apply to the generation, transmission, distribution, and supply of electricity, trading in wholesale electricity or cross-border exchanges in electricity'. Nonetheless, this would be put under considerable pressure if the UK Emissions Trading System was not linked to the EU Emissions Trading System, if the UK was no longer participating in relevant EU bodies and agencies such as Eurelectric and Eurogas, and if there was no UK-Irish bilateral engagement in this area.

FISHERIES: ACCESS TO WATERS AND MARKETS

With both sides at loggerheads over fishing rights, this could be the issue that scuppers a deal. Despite its very limited economic significance for both the UK and EU, fishing is a totemic and highly political issue on both sides of the Channel.

Since a deal will inevitably require concessions to EU fishers, no deal – under which the UK would have full control of its waters – might well be regarded as the best outcome for those who want maximum freedom for the UK fleet, which would benefit from significantly increased quotas. International law will require the UK and EU to cooperate – but within a much looser framework.

However, those in the UK fishing industry who depend on access to EU markets to sell their fish (which is particularly true of smaller shellfish fishers, who are not constrained by quotas anyway) will find it much harder to trade, as they will face both tariffs and potential border delays. UK consumers, who want the types of fish caught in EU waters (the UK consumer is not keen on the herring and mackerel caught in UK waters) will inevitably face higher prices.

The bigger no-deal risk (and one that exists, albeit in lesser form, even with a deal) is that of disruption in Channel ports, if those fishers who feel they are losing their livelihoods take action to pressure their governments to return to the negotiating table. This could compound other border disruption and become a *de facto* blockade. The UK will also have to step up enforcement activity, if EU fishers attempt to continue to fish in UK waters without an agreement.

TRADE WITH THE EU: SERVICES

Free trade agreements (FTAs), with the notable exception of the EU single market (which is far more than a simple FTA), do not ease trade in cross-border services to nearly the same extent as they do for goods. Deal or no deal, there will be significant new barriers to trade in services between the UK and the EU. Heavily regulated services, particularly legal and financial services, are more exposed to potential changes in single market access. Large firms in these sectors have been able to develop no-deal mitigation plans and have already begun to enact them. It is less clear if smaller firms, which may not be as exposed to the single market, have the capacity to implement such plans, particularly when dealing with the consequences of the Covid-19 pandemic.

FINANCIAL SERVICES

Financial services constituted 6.9% of the UK's GDP in 2019. Just over a quarter of the sector's activity is estimated to stem from EU-related business. UK financial services currently benefit from the ability to passport into the EU's single market. Passporting allows financial services firms, authorised to undertake activity by the regulatory body of one EU member state, to conduct the same business throughout the European Economic Area (EEA) without requiring further authorisation. It is estimated that by using passporting arrangements, 67% of UK financial services (excluding insurance) supplied to the EU are delivered from a UK base. Passporting has been central to the success in UK financial services exports.

Once outside the single market, those passporting privileges will disappear. The future trading relationship between the UK and the EU hinges on whether the EU grants the UK an equivalence decision. Equivalence would enable financial firms based in the UK to conduct certain types of business within the single market without being subject to EU regulation in addition to UK regulation, provided that the EU determines that the regulation in the UK is deemed 'equivalent' to that in the EU.

Formally, this process is separate from the trade negotiations; it is a decision for the EU to make alone. The EU has already granted equivalence to some countries' financial services providers with whom there is not a more comprehensive trade deal. For example, equivalence has been granted to the US in areas such as insurance and derivatives clearing.

However, in practice, for the UK, any concessions granted on equivalence are likely to depend on the progress of the wider trade negotiations. For example, a signal that the EU is reluctant to finalise equivalence assessments before the conclusion of trade-deal negotiations, was given when the EU's then Commissioner for financial services, Valdis Dombrovskis, stated in August that the EU was not able to conclude all equivalence assessments, citing changes in EU regulation preventing such decisions being finalised.

Equivalence does not provide the same level of market access as passporting. Core banking services, such as lending and deposit taking, cannot secure access to the EU single market through equivalence. Equivalence also provides much less certainty for companies, as the EU can revoke its decision to grant equivalence with only 30 days' notice. In an attempt to overcome this, the UK draft agreement text seeks 'transparency and appropriate consultation in the process of adoption, suspension and withdrawal of equivalence decisions' in order to provide UK financial services firms with greater certainty. There are also concerns, voiced by the Bank of England to the Treasury Select Committee in September 2020, that obtaining equivalence agreements would come at the cost of not being able to control financial services regulation domestically within the UK.

Faced with this uncertainty, both in terms of what equivalence entails and whether it will be agreed, financial services firms have already begun to enact no-deal Brexit plans by relocating parts of their business to EU cities, notably Paris, Frankfurt, Dublin and Amsterdam, to maintain single market access. This makes sense from a corporate strategy point of view, but it raises questions about the medium- to longer-term economic implications of Brexit for the UK, given the country's economic reliance on financial services.

Although these relocations are often from London's financial district, it is by no means always the case. They are also affecting regional cities, where the economic impact of potential job losses could be more acute and where previous research shows recovery from economic shocks in the service sector takes longer.

For example, financial and related professional services are estimated to account for 9.4% of the Scottish economy. Around 62,000 people are employed in financial services and related activities in Edinburgh and Glasgow. Edinburgh is third – after the City of London and Tower Hamlets – in terms of the highest proportion of the workforce employed in financial services.

A number of Scottish-based financial firms have begun to enact their no-deal plans. For example, Scottish Widows transferred its European portfolio to a new legal entity in Luxembourg in March 2019. Standard Life Aberdeen has opened portfolio management and distribution services in Dublin to service EU clients. Similarly, Royal Bank of Scotland began operating a banking entity in Amsterdam in March 2019 from where it will serve non-UK EEA customers.

OTHER SERVICES

Beyond financial services, there are three key policy areas where the UK is seeking provisions to help maintain UK services business in the EU. These go beyond provisions in other EU trade agreements. There is thus no guarantee that these would feature in a final agreement, while in the event of no deal there would obviously be no such agreements.

The first is the mutual recognition of professional qualifications. Until the end of the transition period, UK professional qualifications held by individuals working in a limited range of sectors including lawyers, architects and medical professionals are recognised across the EU and vice versa. A German national who trains to practice as an architect in the UK can currently work anywhere in the EU. If mutual recognition ends in December 2020, individual states will decide their own positions on professional qualifications. This would add cost and uncertainty to UK-based businesses who wanted to undertake work within the single market, as they would need to ensure compliance on a country-by-country basis. In response, some larger firms in regulated professions, such as in legal services, have already requalified their staff with EU qualifications in order to maintain single market access.

The second UK request on services relates to visa-free travel for short-term business visits between the UK and the EU. This is a particularly important issue for services such as management consultancy and many small firms that work in project-based industries such as IT and engineering. Without an agreement on this, business may have to navigate the range of visa requirements and associated fees required by each individual member state.

The third key issue for services is that without an agreement there will be increased regulatory clearances and associated costs for UK services firms seeking to establish operations in the EU. Known as rights of establishment, such rights are restricted for third countries and involve regulations on the nationality or residency of directors and/or limits on the amount of equity held in the third country. This situation is made harder for firms to navigate because the rules vary from country to country, and so any business outside the EU has to prepare different plans depending on the country in which it wanted to operate. In any event, as third-country nationals, UK citizens will only be allowed to spend 90 days in any 180-day period within the Schengen area.

The UK is seeking to address this through an agreement to reduce the barriers put in place for UK firms seeking to establish in the EU and vice versa. However, although larger firms, and those that are more heavily regulated (particularly in legal and financial services), have already begun to plan for a no-deal scenario by setting up subsidiaries in the EU, the ability of smaller firms to invest in such preparations is more limited.

UK TRADE POLICY AND THIRD COUNTRIES

The UK has two separate challenges when it comes to trade deals with third countries. First, it has to negotiate 'continuity' or rollover agreements with countries that have preferential trading deals with the EU, and whose benefits would be lost at the end of transition, deal or no deal with the EU. So far, the UK has been largely successful, although the scope of these replacement agreements varies. For example, the UK-Switzerland agreement covers trade in goods and government procurement. The UK-South Korea agreement is more extensive, covering trade in goods and services, intellectual property and government procurement.

A UK-Japan deal has just been agreed, modelled on the EU-Japan Economic Partnership Agreement, covering trade in goods, services, government procurement, intellectual property, and state aid, although in some respects it goes slightly further. In the long term, the agreement is forecast to raise UK GDP by less than one-tenth of one percent, or about £1.5 billion a year, almost identical to the projected benefits to the UK of the EU-Japan agreement: in other words, the UK is essentially running to stand still. On a more positive note, agreement with Japan could be a starting point for the UK's desired entry into the much larger Comprehensive and Progressive Trans-Pacific Partnership, a multi-country agreement that also includes Canada, Australia and New Zealand.

Even so, the ability of UK manufacturers to benefit from these deals may be affected by whether there is a deal with the EU. If there is no deal, manufacturers may not be able to count EU inputs as 'local content' (as they currently do) to qualify for preferential tariffs; this may be problematic for those with extensive cross-border supply chains. Meanwhile, agreement has yet to be finalised with Canada, which did not agree to a simple rollover arrangement.

The second challenge is the UK's plans to liberalise trade with other countries. It has embarked on negotiations with countries including the US, Australia and New Zealand, none of whom currently have comprehensive free trade agreements with the EU. One difficulty in running multiple sets of negotiations simultaneously is that most trading partners are reluctant to accept any commitments from the UK before the outcome of the UK-EU negotiations is known.

Negotiations over a UK-US free trade agreement were launched in May 2020. The US is the UK's most important trading partner after the EU, receiving almost 16% of UK goods exports in 2019. However, UK government analysis of possible future trade deals found that even a UK-US free trade agreement would have only a relatively small economic impact. In any case, given the upcoming US presidential election, the prospects for an early agreement are small. The Trump administration has prioritised negotiating or re-negotiating trade agreements with many countries. In contrast, Joe Biden, the leading contender in the presidential race, has been relatively quiet on trade, suggesting that new trade agreements will take a backseat to domestic policy initiatives should he win the election.

NORTHERN IRELAND

NO DEAL AND NORTHERN IRELAND

In one sense, the Withdrawal Agreement was intended to ensure that there can be no such thing as a no deal for Northern Ireland. Trade between Northern Ireland and the EU was the one part of the future UK-EU relationship that was to be settled by the time of the UK's exit. This was because avoiding a physical border on the island of Ireland necessarily meant setting terms that would continue to apply after transition.

In order to do this, the Protocol on Ireland/Northern Ireland in the Withdrawal Agreement keeps the region *de facto* in the EU's single market for goods, so that Northern Ireland continues to apply EU rules as they relate to customs and to trade, production and the regulation of goods.

On 1 January 2021, people in Northern Ireland know that trade across the Irish border and with other EU countries will continue for them on the same terms as it does now. No customs procedures, infrastructure or regulatory checks will be needed on goods being exported to the EU, including across the Irish border. Such guarantees are viewed enviously by many businesses in Great Britain.

However, this comes with problems. As the Northern Ireland-Republic of Ireland land border becomes, in effect, internal to the EU, then the Northern Ireland-Great Britain border in the Irish Sea is where the new UK-EU trade frictions will be felt. Even if there is a deal, these frictions will be significant. For goods entering NI from Great Britain, there will be import declarations and safety and security certificates. For animal and plant products, Export Health Certificates and SPS *(Sanitary and phyto-sanitary)* checks will be required.

Negotiations are still ongoing as to what exactly these will look and feel like in practice. These cannot be concluded until we know what the UK-EU deal will (or won't) be.

Put simply, if there is no deal, barriers to GB-EU trade will be put in place all around the island of Great Britain and thus within the United Kingdom. The wording used in the Protocol itself is that the Joint Committee overseeing the Withdrawal Agreement will decide what goods might be 'at risk' of movement from GB into the EU via Northern Ireland; these goods will meet the same strictures as goods moving directly from GB into the EU.

Whether the definition of 'at risk' is broad (as the EU would have it) or narrow (as the UK would wish) depends greatly on the terms agreed for UK-EU trade. If there is no deal, then the baseline is that WTO terms for trade will apply on all goods crossing the Irish Sea. This means that the EU's tariff will be applied to goods entering NI unless there can be no doubt that they are for consumption within Northern Ireland. How that test will be applied is still to be determined. The government is apparently planning to set out its definition of 'at risk' in the Finance Bill.

The differences, while mostly minor, between the new UK Global Tariff and the EU Common External Tariff are economically significant on some goods. If there were a UK-EU deal, then there may be zero tariffs on UK goods entering the EU, but NI (via GB) could still be a backdoor to the EU for importers to avoid the CET *(Common External Tariff)* on goods from RoW countries.

In the event of a no deal (in which those CET tariffs apply to imports from GB into the EU but not from NI to the EU) the risk of the Irish Sea being a 'backdoor' to the EU dramatically increases, because GB as well as ROW exporters could now be tempted to enter the EU via NI. Put simply, in a no deal, there will be a greater level of suspicion on goods entering NI from GB. In practice this will translate into greater onus on suppliers to prove that enough of a product originated in the UK and on importers to prove that the good remained in the UK (i.e NI) to be eligible for a rebate on tariffs to be paid.

This also works in the other direction. Without agreement on bilateral cumulation (where EU components would effectively 'count' as 'British' and vice versa), cross-border supply chains become a liability. If a good produced in Northern Ireland is the product of a supply chain that crosses the Irish border, there is a chance that it will face duties on entry to Great Britain. How this will work in practice is something else that is yet to be decided.

Another effect of no deal will be to increase the EU's determination that there will be rigorous checks and controls on goods entering NI from GB. These will be particularly strict when it comes to agri-food. The EU requires physical inspection of 100% of consignments of live animals, 30% of minced meat, poultry meat, dairy products and eggs, 15% of other meat products entering the EU from non-EU countries. The subsequent costs and delays will be difficult to accommodate within the UK internal market. In particular, there is a risk to consumers in Northern Ireland that GB businesses decide that it simply is not worth their while to continue to sell goods into the region. NI consumers will have less choice and will face higher prices.

But it is not all about trade in goods. Northern Ireland will still experience a wide range of other no deal consequences along with the rest of the UK. Some of these are exacerbated by its close integration with the Republic of Ireland. The Protocol does not cover services. No UK-EU agreement on financial services would threaten Northern Ireland's ability to offer backroom service provision for the thriving financial sector in Dublin. Without mutual recognition of professional qualifications, there will be difficulties in cross-border health provision, let alone for the all-island recruitment and operation of businesses. The failure to draw up an adequacy agreement on data protection will disrupt the close cooperation between police and security services on the island of Ireland, as well as disrupt day-to-day business transactions.

Fundamentally, no deal increases the risk that the Protocol (and by extension Northern Ireland) is seen as a risk to the EU's single market and customs union *and* to the UK's internal market. For the EU, if the UK is simply a third country with no agreement to govern trade in place, then Northern Ireland's ports of entry are sites of significant incoming risk and they will need the appropriately strict border management systems.

It is presumably precisely for this reason that the UK government is seeking to give itself powers, via the new Internal Market Bill, to ignore the Protocol; that is, to 'modify or disapply' requirements of the EU for paperwork on goods moving between NI and GB. As noted above, it is unclear whether this is a serious threat or a negotiation ploy. By stating that they intend to legislate in a way that is 'inconsistent and incompatible with international law and other domestic law' the UK government has proven the worst fears of the EU -fears that led them to take a hard line in the first place. When such hard lines are drawn, Northern Ireland (positioned as it is on that UK-EU boundary) is bound to find itself in an uncomfortable place.

CONNECTIVITY

CONNECTIVITY WITH THE EU: DATA

As with equivalence, this is technically separate from the broader negotiation on the future relationship, but may be linked in practice. The UK has already enacted EU data protection legislation, the General Data Protection Regulation (GDPR), which sets strict standards on the handling and security of personal data that can lead to the identification of a living person (names, payroll details, personal document scans, IP addresses, etc.).

Data flows matter enormously to the economy. Businesses, particularly those specialising in digital technology, that operate across the UK-EU border rely on the sharing of data between jurisdictions to deliver services and meet regulatory requirements. Data flows also relate to internal supply chain and business services through cloud-based email and file storage systems. They are particularly salient for data-intensive services businesses. They are also important in international policing, the criminal justice system and medical safety.

Even without an EU adequacy decision, the UK has already made it clear that because the EU provides a level of data privacy protection commensurate with that in the UK, data flows from the UK to EEA countries will be able to continue without additional regulatory checks.

Without an adequacy agreement, however, transfers of data from the EEA to the UK would be possible at the end of the transition period but would require additional legal safeguards. The most common of these are Standard Contractual Clauses (SCCs) but these add additional costs to businesses as firms on both sides of the data flow need to provide written agreement.

There are also concerns about the flow of data from the EU to the UK in relation to policing and judicial cooperation. For example, without an adequacy decision, the UK's Border Force would no longer receive automatic alerts when an individual wanted by law enforcement tries to enter the UK from the EU. It will also be harder for UK authorities to access information needed in the criminal justice system.

Despite the fact that the UK has transferred the GDPR into UK law, there are potential barriers to securing a data adequacy agreement from the EU.

First, the UK shares security data with non-EU countries that do not have adequacy agreements with the EU, notably Australia. It seems unlikely that the EU would grant adequacy to the UK if there was the possibility that personal data may be passed on to other third countries with which no such adequacy agreement is in place.

Second, when the Withdrawal Act 2018 transposed EU law into UK law, the EU's Charter of Fundamental Rights was not retained. The right to data protection is no longer a fundamental right in the UK, which differs markedly from the EU's commitment to the protection of its citizens' personal data within the GDPR. This creates the possibility of post-Brexit divergence in data regulation, which would be counter to the principles underpinning adequacy.

Third, there have been recent successful challenges to the validity of safeguards put in place for data transfers to third countries. Most notably, on 16 July 2020, the EU Court of Justice (ECJ) invalidated the EU-US Privacy Shield, which had been the main legal mechanism for data transfers from the EU to the US. Whilst SCCs remain valid, the ECJ added a significant due diligence burden to organisations that transfer data using this mechanism. It also empowered individual data authorities in the EU to revoke their use, if they believe SCCs are not complied with and personal data is not adequately protected.

This demonstrates that the EU is not prepared to compromise data protection for economic expediency, meaning that reliance on SCCs by UK businesses may not be an effective work around. It also reveals the tensions between the EU's approach to data regulation - which privileges the protection of citizens' personal data - and the US approach which places more emphasis on the ability to undertake surveillance. Where the UK positions itself between these two positions will determine the governance and future size of data flows between the UK, the EU and the rest of the world.

CONNECTIVITY WITH THE EU: ROAD HAULAGE

One of the potentially most severe impacts of no deal – with knock-on effects across a wide range of sectors – will be on road haulage. Business models will need to be rethought at short notice to accommodate three significant changes: first, the need for UK hauliers to secure a permit to operate in the EU; second, additional regulations on route planning between the UK and the EU; and third, the reintroduction of border controls. Even if a deal is agreed, hauliers will have to be ready to comply with significant new requirements for paperwork at the borders (both at the EU border with GB and at the GB-NI border, under the terms of the Protocol – see below) and be ready for significant new delays if there are time-consuming checks at the border.

Road is the dominant mode of transport for UK freight. Given the cross-border routes of many haulage companies, the UK is seeking a 'liberalised market' for road transport between the UK and the EU. This would allow UK and EU operators to provide services in each other's territories without quotas, using the mutual recognition of authorisation for operators in either the UK or the EU, so that a driver authorised in the UK could work in the EU and vice-versa.

The UK wants an arrangement similar to the bilateral road transport agreement that the EU has with Switzerland that covers both road and rail transport. This allows licenses to be recognised both by the EU and Switzerland and also includes provision for the harmonisation of technical standards in haulage between the two parties. Although this sounds technical, it is important from a safety point of view because it includes, for example, the processes for certifying that vehicles are roadworthy. The government also wants UK operators to have some flexibility on pick-ups within the EU, citing geographical proximity (and thus dependence on road transport). The EU is resisting because by allowing UK operators freedom to operate within the EU without the UK committing to single market rules, such as the monitoring of driver working hours and rest periods, it will mean unfair competition with EU businesses – no agreement can be guaranteed even with a deal.

Without an agreement, the mutual recognition of driving licences would end: drivers using UK licences would not be eligible to work in the EU and haulage firms would need to apply for international driving permits to undertake cross-border assignments involving EU and EEA countries. A permit system will be needed in the event of no agreement from January 2021 because during the transition period EU Community Licences for International Road Haulage remain valid.

European Conference of Ministers of Transport (ECMT) permits, which would be required, are limited in number. The Freight Transport Association stated in July 2020 that only 2,088 haulage businesses would receive a permit compared to the 8,348 which were used in 2019. This would impact the haulage industry in different ways. Large operators may be able to scale back their operations in line with the number of permits received, but a single operator haulier who does not receive a permit quota would possibly end up going out of business unless alternative domestic routes could be found.

In its initial no-deal preparations in 2019, the Department for Transport stated that, in issuing permits, greater priority would be given to those firms that made the most-cross channel crossings in order to try to reduce disruption. It is not clear what, if any, prioritisation would be implemented from January 2021 in the event of no trade deal.

The effects could be mitigated - in the short run at least - if the EU implemented similar measures to those in planned in preparation for no-deal Brexit in 2019. Then it planned to grant temporary access for UK coach and haulage firms to the EU for nine months, on the assumption that the UK made the same commitment. No similar plan for January 2021 has yet been announced.

Perhaps the most significant impact on the haulage industry will be on how it operates within the UK's own single market at the end of the transition period. Whether there is a deal or not, under the terms of the Northern Ireland protocol, goods moving from GB to NI across the Irish Sea will be treated as goods entering the EU from a third country and some, notably foods and animal products, will require additional border checks and controls as a result. It needs to be pointed out that completing paperwork within the UK's single market has never been done before and will require training for both border officials and for the businesses that are sending goods across the border.

In sum, a no trade deal Brexit for the haulage sector impacts who can drive, where they can drive to and what route they can take with cost implications for the sector. Particular uncertainties are focused in ports, and smaller operators are likely to have less capacity to adapt. Deal or no deal there will be considerable disruption.

CONNECTIVITY WITH THE EU: AVIATION

In aviation, no deal presents particular difficulties because the sector is not covered by the WTO. Air transport is governed by its own international regime. All aspects of the industry are subject to international rules and air services are governed by bilateral agreements, except within the EU, which has carved out its own liberalised, multilateral system.

Since the UK joined the European Economic Community in 1973, it has been part of the European Common Aviation Area, where it has pooled the exercise of technical regulatory authority, enjoyed access to the single market in air services, and been a party to EU international air services agreements with non-EU countries.

Without a deal, the UK would no longer be a member of the European Common Aviation Area nor have an agreement with the EU covering safety and market access. As a result, UK airlines would no longer be able to fly to the EU nor could EU airlines serve the UK. However, both the EU and the UK did make no-deal contingency plans during the withdrawal negotiations.

The EU proposed to extend the validity of aviation safety certificates issued by the European Air Safety Agency (EASA) to UK businesses for aeronautical products, parts and appliances for nine months and indicated that further extensions could be granted where necessary. The UK Civil Aviation Authority advised that it would recognise EASA certificates, approvals and licences in the UK for up to two years.

These arrangements were designed to preserve basic connectivity in air services. Airlines would be able to fly between the two, but their access would be significantly reduced. UK airlines would be able to operate services to and from the UK to EU member states, but they would not be able to fly *between* EU countries as they do now. And there would be no cabotage; that is, they would not be allowed to operate services on domestic routes within the same EU country. Although EU airlines would be able to fly to the UK from any EU member state, similarly they would not be permitted to operate domestic services in the UK. The UK proposed to allow airlines to retain a UK licence irrespective of whether they were controlled by UK or EU/EEA nationals. The EU offered a sixth-month grace period, allowing airlines that wished to retain the rights of an EU airline, but were not already majority owned and controlled by EU nationals, time to adjust to EU requirements.

In the absence of a deal, it is likely, but not a given, that similar arrangements would be put into operation. If not, disruption would likely be severe. But even if they are, no-deal measures would be unilateral, decided and adopted on each side in anticipation of what the other will grant. In addition, the arrangements would likely impose limits on traffic and they would be short term, which introduces an unwelcome unpredictability for an industry that routinely plans at least a year ahead. These bare-bones arrangements fall far short of the benefits enjoyed currently by airlines and passengers in the EU single market and below the ambitions for the sector outlined by the EU and the UK in their negotiating positions.

Although no deal would affect air transport between the UK and the EU, international flights by UK airlines to non-EU countries would not be significantly disrupted. The UK has been preparing for the end of the transition period, when its airlines would no longer be covered by the EU's international agreements, by putting in place replacement agreements, most importantly with the US. Although these UK agreements are more limited than EU agreements, they will allow UK airlines to continue to serve non-EU countries.

CONNECTIVITY WITH THE EU: EUROTUNNEL

Outside the island of Ireland, the UK's only rail connection with the EU is through Eurotunnel. A recent report on the transportation manufacturing sector (aerospace, automotive and rail) in the West Midlands showed that a majority, particularly of small- and medium-sized firms, relies predominantly on this rail link for their imports and exports. Indeed, 17% of exporters and 14% of importers exclusively use the Eurotunnel for trade.

Disputes related to Eurotunnel are currently handled by the ECJ. The EU now recognises that continuation of the ECJ's jurisdiction is unacceptable to the UK. However, the 1986 Treaty of Canterbury stipulates that there can only be one legal jurisdiction over the Eurotunnel, and neither side seems willing to accept the jurisdiction of a foreign court. Under a no-deal outcome, the legal situation will become obscure: for instance, in the event of an accident in the tunnel and a potential subsequent dispute over insurance payouts, which legal authority will rule on the case? As legal uncertainty can be a major impediment for business decisions, this could become a problem for some sectors that rely heavily on the Eurotunnel for trade and that cannot easily replace it with an alternative route.

There could be any number of other potential regulatory divergences, from train driver licences to technical matters (such as voltage, signalling, ventilation). The European Parliament has been asked by the Commission to mandate France to make a bilateral agreement with the UK on the Eurotunnel. They have seemingly dropped their insistence on the ECJ keeping its jurisdiction, and, for example, the International Court of Arbitration in the Hague has been suggested as a potential arbiter in conflict resolution. At the time of writing, it is not clear how this will be handled.

CITIZENS

WHAT NO DEAL MEANS FOR CITIZENS

EU citizens already living in the UK and UK citizens already living in the EU have most of their rights guaranteed under the Withdrawal Agreement provided they have completed the relevant paperwork. In the UK this means EU citizens and their family members must have applied for EU Settled Status. However, UK citizens living in the EU will find it much harder to move between EU countries to live or work.

Neither side has proposed significant immigration-related measures during the negotiations. At the end of the transition period, the UK will cease to be part of the EU's free movement area and will introduce the new points-based system for migration from the EU (as well as the EEA and Switzerland). This will result in large changes to the UK immigration system, particularly for those seeking to move here from elsewhere in the EU. UK citizens moving to the EU will have to fulfil the requirements of individual member states, since migration from outside the EU is largely a member state competence. These changes will be required regardless of the success or otherwise of the negotiations.

Even though both sides would like to facilitate short-term business travel, without an agreement, UK citizens will have to comply with the immigration requirements for nationals of third countries, which could entail visas for brief business visits.

Once new rules are introduced, probably in 2022, UK citizens will need to register in advance before they travel to EU countries using its ETIAS (European Travel information and Authorisation System) scheme - now applied to travel to the US, Canada or Australia. For many people the first indication that the UK has left the EU will be the different channel at airports, which separate EEA and non-EEA citizens.

Other additional requirements will likely be international driving permits and green cards to drive or take a car to EU countries. European Health Insurance Cards will no longer be valid, so travel insurance will be required to guard against the costs of treatment - older travellers or people with pre-existing conditions may find it harder and certainly more costly to travel. Over time the UK may agree bilateral arrangements with individual EU countries for reciprocal health treatment. The UK will be outside EU regimes capping mobile phone roaming charges and for compensation for flight delays, although the UK may decide to maintain the rules on compensation.

Taking a pet abroad would become more difficult, if the EU refuses to list the UK in the case of no deal. DEFRA has already started advising pet owners on what they need to do to prepare in advance of proposed travel.

Students already studying in the EU under the Erasmus programme will be able to continue their studies, but no deal would mean that the UK would no longer participate in the programme in the future. The UK is currently discussing with the EU whether it wants to continue to participate as a third country, but this would be very unlikely in the short run in the event of no deal.

PREPAREDNESS

BORDERS

In 2019 the government began to prepare for significant disruption to trade in both goods and services in the event of no deal on the Withdrawal Agreement – the worst impact of which would be felt at the border, leading to possible shortages of fresh food and certain medicines, as well as higher prices for consumers. A recent leak from the government about its plans for the end of the transition period this winter has confirmed that the reasonable worst-case scenario for no deal is similar. The Withdrawal Agreement may have changed the terms somewhat, but many of the rest of the challenges remain and no deal will, as the section above makes clear, make it more difficult for traders moving goods GB-NI.

But the difference between deal and no deal this time is much smaller. Much of the government's preparations will now be necessary whether or not a deal is reached with the EU. While the government has had more time to build on no deal plans put in place last year, the border – and implementing the Northern Ireland protocol – remain its biggest challenge.

As the government prepares to leave the single market and customs union, it has had to set out a sustainable plan to manage new processes and additional friction, both at the GB-EU and GB-NI borders. How the latter will work is in part set out in the withdrawal agreement (goods will able to travel freely across the island of Ireland but border processes will be required on goods entering Northern Ireland from Great Britain), although much still needs to be determined by the UK-EU joint committee and UK government.

In February, Michael Gove, Chancellor of the Duchy of Lancaster, announced that the UK would be implementing full checks at the border at the end of the year (unlike the plans ahead of no deal in 2019, which envisaged a much lighter touch approach). However, given the impacts of Covid-19 on both government and business, the government has reversed course. More time is needed to build infrastructure, recruit staff and ensure new IT systems are up and running. The government now plans to phase in checks and paperwork between January and July 2021 – whether or not a deal is agreed.

These easements do not go as far as they did ahead of no deal last year, but they do reduce the burdens on the (HMRC estimated) 180,000 businesses who, having previously only traded with the EU and therefore never had to meet customs requirements, will have to complete customs declarations for the first time.

The government published its 'Border Operating Model' in July 2020, setting out how the GB-EU border will work. As part of this, the government announced an entirely new system (the Goods Vehicle Management System (GVMS). GVMS will allow traders to file relevant paperwork to get the right approvals before crossing the border and avoid long delays. This is particularly important for ferry ports that rely on the rapid and seamless movement of haulage between the UK and EU without the need for additional clearances. Although most GB-EU trade will not be able to use GVMS until July 2021, the system is due to be used for GB-NI trade from January 2021. As it is still in development, it will not be tested before November 2020. Clearly there is a risk it will not be ready in time. Although the government has fallbacks from no-deal plans last year, if GVMS is not ready for the limited number GB-EU traders expected to use it in January, it is not clear what this would mean for GB-NI trade.

The government has also recently announced plans to revive Operation Brock from 2019's no-deal planning to manage traffic flows in Kent and mitigate the inevitable disruption at the short straits. Even though this was part of government's preparations last year – the plans were never fully implemented. The new new digital 'Smart Freight Service', intended to check if hauliers have the right paperwork before they can proceed has also not been tested. Undoubtedly, there will be significant pressure to ensure that the plans will be able to fulfil their function and avoid unnecessary delays at Dover and Folkestone. Border infrastructure may be extended beyond ports like Dover to include places like Leicestershire, because of its proximity to East Midlands airport, the second largest freight airport in the UK after Heathrow.

Mitigating disruption at the GB-NI border will be more challenging. Under the withdrawal agreement, the government is obliged to ensure that goods moving from GB to NI will comply with EU law on customs and regulation – there are no options to introduce easements and there are still outstanding issues to be resolved. Easing the flow, even without agreement with the EU, is part of the government's rationale for the measures it is proposing in its Internal Market Bill which would allow the UK to unilaterally ease the burden on business, but at the risk of putting the UK in violation of its international law obligations in the Withdrawal treaty. The UK government, Northern Ireland Executive and assorted government agencies will need to be ready to fulfil their responsibilities under the withdrawal agreement from 11pm on 31 December 2020 – whether or not a deal has been agreed. The government did recently announce a new 'Trader Support Service' to help reduce the burden of new customs rules – which will include carrying out some paperwork on their behalf – but businesses in Northern Ireland are still calling for more detail about how the GB-NI border will work.

More broadly, the government's capacity to prepare for Brexit while responding to Covid-19 pandemic – and a possible second wave in the autumn – remains a concern. Staff in key departments were moved from Brexit preparations to Covid-19 response – including members of transition taskforce in the Cabinet Office (both those involved in the negotiations with the EU as well as coordinating preparations for the end of the transition period); a response to a freedom of information request from the Institute for Government showed that those moves involved 352 officials in HMRC and 160 in BEIS. Many of these officials are only (in September 2020) just returning to work on preparing for the end of transition.

Ensuring the Northern Ireland Protocol, and the GB-EU border will be operational before the end of the year is a huge task – representatives from the customs and logistics industry recently wrote to Michael Gove setting out serious reservations about the government's progress. Government officials face an enormous task both in ensuring the systems and necessary plans are in place, as well as convincing industry this is the case.

But the biggest challenge will be ensuring that businesses and individuals understand what changes are coming down the track and take steps to prepare. This is crucial both for the GB-EU and GB-NI border – but also for those looking to travel to the EU from the end of the year and for firms trading in services. There is only so much the government can do on its own. Unlike last year, parliament will not stop a no deal. Even if the UK and EU do reach a deal, significant change is coming. But the government's current communications campaign – 'Check, Change, Go' – with its stress on the new opportunities from Brexit (a word it does not use) abjectly fails to communicate this.

LEGISLATION

The threat of no deal on the Withdrawal Agreement in 2019 led to some of the most dramatic moments of the 2017-19 Parliament, as MPs seized control of the Commons agenda and passed anti-no-deal legislation against the government's wishes. Amidst these dramatic events, there were warnings that managing no deal successfully would require Parliament to pass a significant amount of legislation - and that it might not be able to do so quickly enough to prevent a legal mess.

The situation now is rather different in two key aspects. First, the kind of no deal outcome currently under discussion differs significantly from that discussed last year and should have far less impact on the legislative agenda. Last year's no deal would have meant no Withdrawal Agreement, requiring last-minute legislation to manage the immediate impacts of 'crashing out', not least at the Northern Irish border. It would also have meant no transition period, radically shortening the timeframe for the UK to pass all the legislation needed to set up independent regulatory and subsidy regimes for sectors like agriculture and fisheries. In fact, as we look to the end of the transition period, this legislation will be needed with or without an agreement on the future relationship; a no deal exit would probably have relatively little impact on the size of the legislative load, although some additional secondary legislation would almost certainly be needed.

Another important factor, of course, is that the 2019 general election fundamentally changed the arithmetic in the House of Commons, creating a sizable pro-Brexit Conservative majority. This means that exiting without an agreement on the future relationship, especially if it came as the result of a government decision to walk away from the negotiations, would meet limited parliamentary resistance. In any case, under January's European Union (Withdrawal Agreement) Act, the government has no legal obligation to consult Parliament on its decision.

But none of this means that the statute book is yet fully ready, and there have been some last-minute surprises. With only a few months to go until the end of the transition period, much legislation still needs to be passed - with the most controversial element being the United Kingdom Internal Market Bill, published on 9 September.

Some key statutes were agreed under Theresa May's government, including the European Union (Withdrawal) Act 2018, which brought EU law onto the UK statute book, and the Taxation (Cross-Border Trade) Act 2018, creating the legal framework for a new customs regime. But much of May's legislation got stuck in the parliamentary gridlock that defined her premiership, and with government time and attention justifiably diverted by the pandemic throughout most of the transition period to date, a sizable legislative task still remains.

Amongst the bills still awaiting agreement, the Agriculture, Immigration and Trade Bills have passed the House of Commons in 2020 and are now progressing through the House of Lords, whereas the Fisheries Bill began life in the Lords and is now being debated in the Commons. But bills in some other policy areas are lagging behind. A major new Environment Bill, for example, is only at its Commons committee stage and must pass its remaining stages in both chambers before the end of the year in order to avoid an environmental governance gap in January 2021. The passage of these bills alone will not be enough; a raft of secondary legislation will also be needed to fill in the details of their new regulatory regimes. This means that, in legislative terms, the autumn will be very busy – and this workload must be managed alongside the ongoing and unpredictable demands of the pandemic.

These bills, at least, will probably proceed relatively smoothly. The Internal Market Bill may be a different story. In September 2020, Northern Ireland Secretary Brandon Lewis confirmed to the House of Commons that the bill 'does break international law', in seeking to redefine the terms of the Northern Ireland Protocol in the Withdrawal Agreement. This announcement brought widespread consternation, including from many Conservatives.

In the months since Boris Johnson's landslide election victory of December 2019, Conservative backbenchers have proven increasingly independent-minded. Early conflicts over Huawei were followed by tensions over the government's decision to nominate a chair for the Liaison Committee, a rebellion on the ending of the hybrid Parliament, and even an outright defeat on the handling of parliamentary bullying cases. Johnson has also faced fierce criticism and tough questioning from senior Conservatives over his handling of Covid-19.

There has been little sign so far of these tensions spilling over to Brexit, and the size of the government's majority has enabled it to weather small rebellions comfortably. For example, a key transition-period revolt occurred on Conservative backbencher's Jonathan Djanogly's amendment to the Trade

Bill, which would have given parliament a vote on the negotiating objective and final text of trade deals. This attracted rebellious votes from 12 Conservative MPs. Such a number would have spelled serious trouble for the previous minority government, but with most of Johnson's 80-strong majority voting loyally, the amendment was defeated by a comfortable 63 votes. Nonetheless, the scale of difficulties on the Internal Market Bill may prove to be greater – with critics including the Conservative chairs of the Justice Committee, Foreign Affairs Committee and Liaison Committee. This could presage a rebellion on a grander scale. Even if MPs accept the bill, a showdown with the Lords seems likely.

Whatever happens, the government is likely to face further parliamentary difficulties after a no deal exit. As previous sections of this report warn, this outcome would cause significant disruption across multiple sectors. Untangling and scrutinising the complex and multiple impacts is the sort of area where select committees excel and the Business, Energy and Industrial Strategy; Environment, Food and Rural Affairs and Northern Ireland Affairs committees would probably take a particular interest.

HOW READY ARE THE DEVOLVED GOVERNMENTS?

Both the Welsh and Scottish Governments engaged in extensive no-deal planning before the Withdrawal Agreement was reached. By September 2019, the Welsh Government had published a No Deal Action Plan setting out its mitigating actions to minimize the disruptive effects of a no deal Brexit, with the Scottish Government releasing details of its no-deal preparations in October 2019.

Much of the systems and processes affected by a no-deal Brexit relating to imports and exports, cross-border supply chains, the licensing and distribution of medicines, and citizens' rights are beyond the competence of the devolved governments. Despite difficulties in the overall relationship between the devolved and UK governments on Brexit, there was cooperation and collaboration in preparing for Brexit, including contingency planning for no deal, with the devolved governments brought into discussions UK Cabinet sub-committees on Brexit preparedness.

A year later, things look very different. There is less intergovernmental engagement between the UK government and the devolved governments than had been the case before the Withdrawal Agreement. The UK government has determined that, of the 200 'readiness' projects, 73 affect devolved competences and yet engagement even on these has been limited at best.

No deal preparations were stepped down after the Withdrawal Agreement was reached and, in the interim, governments across the UK have been consumed by Covid-19. The Welsh Government – a relatively small-scale operation – has overwhelmingly diverted its resources to the pandemic. Although better resourced than its Welsh counterparts, the Scottish Government has also chosen to redeploy significant civil service resource to confronting the pandemic, and called for a two-year extension to help the economy recover from Covid-19 before having to face the economic challenges of Brexit. The 'enormous economic dislocation which the Covid-19 pandemic has caused' compelled the Welsh and Scottish First Ministers to write a joint letter to the PM in June urging an extension to the transition period to avoid a 'No deal' outcome adding further a further economic and social shock. Activity has stepped up since then, with Brexit readiness swept up in broader pandemic recovery.

Covid-19 has also stretched many businesses and other organisations in Wales and Scotland, as elsewhere, leaving them little bandwidth to focus on Brexit. The Welsh Government's EU Transition Fund has been exhausted. Many businesses are unwilling or unable to stockpile or other necessary preparations for exiting the transition period without a deal on the future relationship. Key sectors like manufacturing and agri-food, that are deeply integrated within European markets and especially vulnerable to a no-deal Brexit are already reeling from lockdown and the broader effects of the pandemic. In Wales, 1,700 jobs have been lost at the Ford engine plant at Bridgend and a further 2,000 as part of the Swindon Honda factory supply chain. Job losses announced in Scottish manufacturing include around 700 at the Rolls Royce plant in Renfrewshire.

Agri-food, a cornerstone for the rural economy - and Welsh language communities - is also a major concern. The sector is more exposed in Wales and, to a lesser extent, in Scotland than in England. Around a third of Welsh lamb and just over a quarter of Scottish Lamb is exported to the EU. Seafood, a key rural industry in Wales, exports 90% of production. Eighty percent of the UK's catch is landed in Scotland. Shellfish output is especially vulnerable to tariffs and delays in exports to its main European markets. The Scottish seafood processing sector workforce relies heavily on EU nationals, exposing it to the labour market effects of the ending of free movement.

Of course, some earlier no deal plans still stand, although the focus is now on Brexit readiness. In September 2019, the UK government confirmed that CITES status (designation to transport protected animals and plants) would be extended to Holyhead - a key point of entry for the 'land bridge' between Ireland and mainland Europe. The Welsh Government has contingency plans to add 175 HGV parking spaces at the Parc Cybi Roadking services to the 660 in the port itself. Ultimately, HGVs would be stacked along the A55. If the deal is relatively thin, some of the adaptations for no deal might be needed anyway. For example, a revision order to reclaim land and expand Holyhead harbour was made in January 2020.

FOREIGN AND SECURITY POLICY

WHAT WOULD NO DEAL MEAN FOR SECURITY AND FOREIGN POLICY COOPERATION?

The EU has in recent years deepened its cooperation on internal and external security. The UK is seeking to maintain a high level of police and judicial cooperation that would not be possible in the event of no deal. The UK has rejected formalising the relationship on defence and external foreign affairs cooperation in a new treaty and therefore 'no deal' is irrelevant – but an acrimonious breakdown in negotiations may throw a shadow over potential cooperation between the UK and the EU in the short-run at least.

POLICE AND JUDICIAL COOPERATION

The implications of no deal for the UK's internal security are particularly stark. The UK originally negotiated a complete opt out from EU justice and home affairs matters but decided to opt back in to some measures. These included being part of the EU's law enforcement agencies, the European Arrest Warrant and EU security databases. Leaving without a deal would mean losing many forms of cooperation in these areas.

Although it may be possible to negotiate limited cooperation with EU agencies, no deal would mean the UK would have to fall back on Interpol, the international crime agency instead. However, Interpol has much less capacity than Europol – the EU equivalent – and there is no international equivalent of Eurojust (the EU agency for cooperation in prosecutions). Having excluded any role for the ECJ in the UK in future, the UK cannot remain in the European Arrest Warrant whatever is agreed. That said, some limited extradition agreements have been agreed with Norway, Iceland and the US. No deal would mean relying in future on the 1957 European Convention on Extradition, which imposes no time limits on extradition, relies on diplomatic rather than judicial procedures, and allows signatory countries more grounds to refuse to extradite their citizens. In short, it is slower, more cumbersome and less effective.

The UK authorities would also lose access to many EU databases, which provide vital information for tackling crime. Even with a deal, given the UK's rejection of ECJ jurisdiction, it would not have access to the Schengen Information System, which allows information exchange among border, customs and police authorities. Instead, the UK will have to rely on the much weaker Interpol notice system. Similarly, in a no-deal scenario, Interpol would serve as the next best (but much less effective) alternative for accessing DNA, fingerprint and vehicle information instead of the EU's Prüm databases. For access to criminal records the UK would fall back on the 1962 European Convention on Mutual Assistance in Criminal Matters, which is much more cumbersome and less effective that the EU's database. Finally, for passenger records, the UK would lose access to the EU's PNR system, instead relying on the much less detailed Advance Passenger Information (API) that airlines transmit.

Ultimately, no deal would remove at a stroke many of the tools that UK police and law enforcement authorities rely on to tackle crime and keep the UK safe. Some, though by no means all, could be partly mitigated if a deal were reached, but no deal would leave the UK reliant on much less effective international agreements and agencies. It would, of course, also be damaging for EU countries to lose access to UK data, resources and expertise. There are strong mutual incentives to reach an agreement on police and judicial cooperation but given that all issues have been bundled together in negotiations it could fall victim to any wider breakdown in talks. UK-Irish cooperation in criminal justice matters is particularly vulnerable, not least because this goes to the level of day-to-day interaction between police officers north and south. In the absence of an adequacy agreement on sharing data between the EU and the UK, the kind of on-the-ground cooperation that has been carefully fostered in the period since the Anglo-Irish Agreement will be under pressure. Such collaboration has helped to tackle organised crime in the border region, including that which funds paramilitary activity on all sides.

DEFENCE AND FOREIGN POLICY COOPERATION

The UK and EU have not discussed future foreign affairs cooperation in the negotiations on the future relationship at the insistence of the UK.

After the fourth round of negotiations in June 2020, the EU's chief negotiator Michel Barnier admitted "I still don't understand why" the UK refused to discuss future foreign affairs co-operation. In its negotiating objectives, the UK stated that cooperation 'on foreign affairs and related issues is of course likely to be substantial, but does not in itself require a joint institutional framework.' In other words, the UK was open to foreign affairs cooperation, but it did not want to – nor saw the need to – formalise such relations. In any case, the UK's greatest influence over EU foreign policy was lost when it left the EU's decision-making structures in January 2020. No foreign policy treaty could come remotely close to replacing this.

However, this does not mean that the talks will have no impact in this area. On the contrary, the future UK-EU relationship will have important implications for the wider Europe region, transatlantic relations and their influence in multilateral organisations. Were the UK and EU to find themselves at odds over their economic relationship in a no-deal scenario, this could well spill over and damage foreign affairs cooperation.

An underlying aim of Boris Johnson's government is to deinstitutionalise the UK's relationship with the EU. This was evident in the UK's initial (and since adapted) negotiating position to avoid an overarching governance framework for the different strands of the future relationship. Ultimately, the EU is not seen as central to UK interests in foreign affairs, even if a number of bilateral relationships with member states are. This was reflected in the Conservative manifesto last year, which discussed co-operation with just about every other major multilateral organisation except the EU. Instead, the UK wants *ad hoc* rather than systematic relations. It would rather rely on UK and EU interests coinciding, rather than trying to manufacture common positions. On issues such as sanctions against Russia cooperation is expected to continue for this very reason.

Foreign and security policy is also an important area for the UK to publicly demonstrate the apparent freedoms that Brexit will bring. The government, and Boris Johnson in particular, recognised early that the UK's external relationships would be crucial for demonstrating a new post-Brexit approach, hence the emphasis on 'Global Britain'. Whether it be independent membership of the WTO, the renegotiation of trade deals or a more general shift of the UK's focus from Europe to other parts of the world, there are a number of opportunities for the UK take a distinctive approach. The very point of Brexit is to do things differently, and this applies in foreign affairs as much as any other policy area, even if EU membership did little to constrain UK action in foreign policy.

The UK wants to concentrate on what it sees as its core bilateral relationships in the EU: Germany and France. Together, they have formed the E3 group, which has become an important tool for dealing with a number of foreign policy issues, notably Iran but also recently the South China Sea. No deal may not directly affect E3 cooperation, but it would damage these bilateral relations. There have already been diplomatic skirmishes between the UK and France over fisheries, even before a substantive change in economic relations. It would be a mistake to think the UK could carry on its relations with EU member states unaffected if relations with the EU as a whole deteriorated.

If the UK reaches a deal with the EU, the prospects for more *ad hoc* cooperation are perhaps better than if there is no deal. That said, the prospect of talks on a future UK-EU foreign and security treaty would still be low and unlikely to materialise in this Parliament, i.e. before 2024. Perhaps the main value of a deal in foreign policy terms would be the relative stability it would provide, allowing the UK to normalise its relations with the EU after years of wrangling, avoid a mini-crisis in at least the early months of 2021 and focus more of its attention and resources on global issues, including next year's rearranged UN Climate Change Conference (COP26), instead of being preoccupied internally. A deal would also lay important groundwork for relations to develop further in future in foreign policy.

If the UK does not reach a deal with the EU, the immediate, direct impact in foreign policy terms would be minimal. There is a relatively low level of integration in foreign and security policy at the European level anyway. The UK - like EU member states - has maintained fully-fledged national foreign and security capabilities. Thanks to these, which include a competent diplomatic service, well-respected intelligence services and capable armed forces, the UK will be able to continue to conduct its own foreign and security policies in whatever scenario. The flipside of this is that leaving the EU creates few if any freedoms that were not already in the UK's hands. The focus in any no-deal scenario would rightly be in other policy areas, but there would nonetheless be indirect impacts on UK foreign policy.

One of the first big outings for Global Britain is next year's climate change conference, postponed to November 2021 because of the pandemic. This is the critical conference to review the Paris agreement concluded in 2015. The UK is jointly hosting with Italy, which will host the preparatory conference. The UK has always been an influential voice in the EU delegation and a successful conference will depend on very close cooperation between the UK and the EU. That could be prejudiced by an acrimonious breakdown of negotations.

THE ECONOMIC IMPACT OF NO DEAL

SHORT TERM

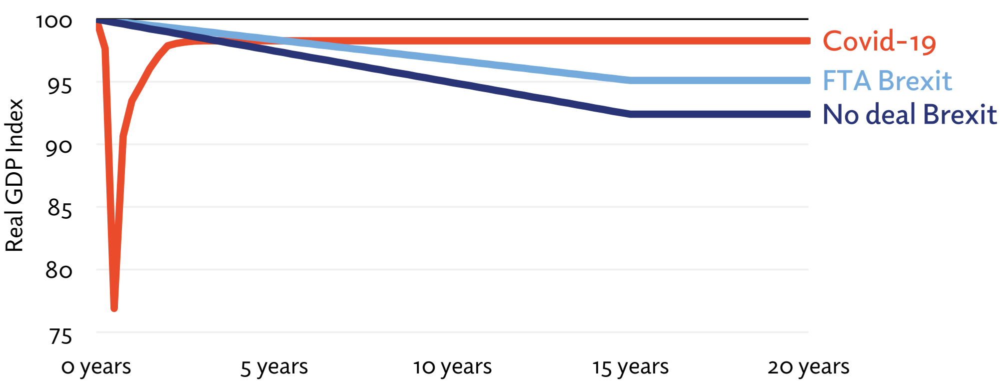
A no-deal Brexit would represent a further major shock to a UK economy and, to a lesser extent, to EU economies still recovering from the largest economic shock in living memory. In some respects, the continuing effects of the pandemic may mitigate or obscure – politically or economically – the impact of no deal. Most obviously, headline growth figures in early 2021 will still reflect the speed of recovery here and elsewhere; it will be very difficult to attribute economic outcomes to Brexit.

This does not mean, however, that no deal will not have major consequences. The claim that the economic impacts of Covid-19 dwarf those of Brexit is almost certainly correct in the short term. Not even the most pessimistic scenarios suggest that a no-deal Brexit would lead to a fall in output comparable to that seen in the second quarter of 2020. However – assuming a reasonably strong recovery, and that government policies succeed in avoiding persistent mass unemployment – in the long run, Brexit is likely to be more significant. Our modelling with LSE of the impact of a no-deal Brexit suggests that the total cost to the UK economy over the longer term will be two to three times as large as that implied by the Bank of England's forecast for the impact of Covid-19.

Covid-19 has led to a steep economic downturn, but Brexit risks causing longer term damage

Forecast impact of economic shocks to UK GDP over 20 years.

UK IN A CHANGING EUROPE



Source: UK in a Changing Europe and London School of Economics modelling.

As we have seen, leaving the EU without a deal will result in the immediate imposition of substantial tariff and non-tariff barriers on UK exports to the EU. For imports, the UK will apply the new UKGT (*UK Global Tariff)* to imports from the EU (and other countries with which it does not have a trade deal), although importers will not have to complete full customs declarations until July 2021. Free movement of people will also end, and the UK will also implement a new points-based immigration system, which will mean that people moving to the UK from the EU (except for Ireland) for work and study (and with no existing rights to move) will need to qualify under the new system. Similarly, Britons moving to the EU to work or study will need to qualify under the rules of the destination member state.

All this will represent a major set of changes, in both economic and administrative terms, to the UK's trading relationship with its largest trading partner, plus some other, albeit less seismic, alterations to those with third countries. Preparing for these changes was always going to put pressure on the capacity of government, in particular HMRC and the Home Office, and of businesses that currently rely on frictionless trade. In the aftermath of the pandemic with multiple other pressing demands, as well as disruption to normal working patterns, the risks of short-term disruption will be compounded, particularly if new administrative systems are not in place, or if businesses and service providers are unclear as to what rules apply.

The result could be delays at ports, reluctance to contract across borders and difficulties in filling jobs. All of these will have short-term economic consequences. They could also have longer-lasting impacts, if they tarnish the reputation of the UK for competent governance and administration. If the world's introduction to Global Britain is a customs border where imports and exports are not processed expeditiously or a dysfunctional immigration system, then this will not bode well for the post-Brexit era. It is therefore vital that the government ensure that these systems are indeed up and running on the 1 January 2021.

It is possible that the continued impact of the pandemic will mitigate these risks. If trade, travel, immigration, and tourism continue to be severely constrained and still subject to health-related restrictions, capacity may be less stretched, and extra friction will not impose much in terms of additional costs. With unemployment rising sharply, the need for immigration to fill skill or labour shortages may be reduced. With remote working now the norm rather than the exception, new barriers to business travel are less likely to have a major impact.

However, it is also possible that a no-deal Brexit will act as a drag on economic recovery. Businesses, both UK and foreign, will be seeking to re-establish themselves in international markets and to rebuild their supply chains, with a particular focus on resilience to future health-related disruptions, and perhaps, in addition, to reducing reliance on China, reflecting wider geopolitical tensions The risk is that, as they do this, EU based businesses will seek to avoid exposing themselves to UK suppliers, and that multinationals will seek to minimise the degree to which trade crosses the new border.

LONG TERM

To the extent that Brexit inhibits the post-pandemic economic recovery, it will also exacerbate the longer-term economic impacts of a no-deal Brexit. These fall under a number of headings. First, there is a broad consensus amongst economists that moving to trade on WTO terms with the EU will reduce the volume of UK trade (both imports and exports); this will make resource allocation in the UK economy less efficient and hence reduce UK output. This is likely to be the most direct and largest effect.

In addition, there is considerable evidence that openness to trade and foreign direct investment is associated with higher productivity growth, leading to a further reduction in future output growth, although the magnitude of these impacts is highly uncertain.

Ending free movement will reduce migration from the EU to the UK, reducing labour supply and growth, although most of this reduction has already occurred. However, the new points-based immigration system is somewhat more liberal for migrants coming from outside the EU, which may offset any negative impacts.

Trade deals with other countries, in particular the US, may boost trade and hence growth, although, as noted above, both the government's own analysis, and that of independent economists, suggests that such impacts are likely to be small compared to that of leaving the EU single market. Geography still matters when it comes to trade.

Without EU-imposed constraints on the domestic regulatory environment, the UK will have considerably more flexibility over environmental, labour and other regulation; and on competition policy and state aid. However, economically significant changes to environmental and labour rules seem unlikely at present; there is little or no political constituency in the UK for reducing such protections. Increased national-level discretion over state aids will make it easier to implement an aggressive industrial strategy, which if successful might help improve productivity, although the UK's historical experience is not encouraging. Overall, while the UK will certainly have more freedom of action, it is unclear whether the economic impacts will be positive or negative; in the short to medium term they are likely to be relatively small.

The overall economic impact of a no-deal Brexit is likely to be dominated by its effects on trade with the EU. Our modelling suggests that this might reduce UK GDP by up to 8% percent over a decade, compared to EU membership. The government's own analysis, published in 2018, reaches similar conclusions. This would not, of course, mean that GDP would actually fall. Rather, the impact would be felt as a persistent and long-lasting reduction in growth. More liberal immigration policies and trade deals with the US and other third countries would mitigate these impacts, but they would remain large and negative.

These modelling exercises do not take account of broader structural changes in the UK and global economies, which could in principle either reduce or increase the impacts. Most obviously, it is possible that the Covid-19 pandemic will result in longer-term shifts in the pattern of economic activity. Some analyses have suggested that the sectors most impacted by Brexit (in particular manufacturing and some tradeable services) have little overlap with the sectors hit hardest by Covid-19 and the associated restrictions (domestically oriented services, in particular those involving face-to-face interaction). While on the one hand this should at least spread the pain (relatively few sectors will face a 'double whammy' of a severe impact from both Brexit and Covid-19) it also means that the contention that Brexit-related disruption is less visible and damaging may be misplaced. It will also make it harder for the UK to 'grow its way out of trouble'.

POLITICS

UK-EU RELATIONS

The political implications of a no-deal outcome threaten to be every bit as significant as its economic fallout. Given the potential scale of the latter, it is easy to imagine this leading to a process of mutual recrimination and finger pointing between the UK and the EU that could easily spiral and make it difficult, if not impossible, for the two sides to work together. For close trading partners such as the Republic of Ireland, the Netherlands, Belgium, France and Germany, the impact of no deal, whilst not as severe as in the UK will, nonetheless, but significant. EU member states are all too aware that the UK had the chance to extend the transition period by up to two years, and thereby avoid the economic impact of Brexit coinciding with that of the pandemic. The blame for disruption resulting from no deal will consequently be placed squarely at London's door.

Under such circumstances, it will be extremely difficult for the UK and EU to engage constructively in trying to mitigate the impact of no deal. More broadly, it is hard to see how, in the event that both sides are engaged in blaming the other for significant disruption, the they will manage to collaborate constructively over the range of issues on which they have significant interests in common. This applies as much to bilateral cooperation with individual member states as to the European Union as a whole.

And all this in the context of a world in which many in the west are reconsidering their relationship with China, while Donald Trump continues to generate doubts about the future of the transatlantic bond. Cross-Channel tensions would hardly help either side craft a sensible and collaborative strategy to address such international uncertainties.

DOMESTIC POLITICS

Political reaction to a no-deal exit from transition would vary. Among the opposition parties, the announcement would be greeted with a mixture of dismay and confusion: should they attack the government for 'crashing out' of transition without a deal, or might that risk falling into a trap laid for them by a Prime Minister who might brand anyone who said differently as 'doomsters and gloomsters' and even unpatriotic?

That accusation could be fairly easily shrugged off by the UK's nationalist parties. A no-deal exit would presumably provide a further boost to the SNP's chances of winning a resounding victory in the upcoming Holyrood elections – a victory that would be touted as a mandate for IndyRef2.

But accusations of talking the country down and taking the side of Brussels would be a serious concern for the Labour Party. Since Keir Starmer took over as leader in April, he has tried not only to reposition the Labour Party as moderate, but also to avoid getting sucked into culture war politics, which might prevent him rebuilding the cross-class coalition that Labour needs to stand any chance of winning the next election. While Starmer seems to have managed to unite voters who were already wary of Johnson around the Labour banner, making life difficult for the Liberal Democrats, plenty of polling and focus group evidence suggests he still has work to do to persuade those who were persuaded last year to vote Tory in order to 'Get Brexit Done'.

The aim for Labour will be to frame the absence of a deal as another instance of the government's hubris and incompetence. A no-deal exit should be easier for Labour to manage than a free trade agreement. After all, even a thin agreement will be spun by the Conservatives – in the same way they spun the Withdrawal Agreement – as a stunning success for the Prime Minister.

A deal would almost certainly be the preferred outcome for most Conservative MPs, except perhaps for the more extreme elements for whom the proposed Internal Market Bill offers an enticing prospect of a collapse in talks and a no-deal exit. But the latter group are in the minority. Most Tory MPs may now be Brexiters, at least by conversion if not by conviction. Yet very few are blind to the downsides of leaving transition without a free trade agreement, even if the relative benefits of the latter are easy to overplay. And even those Conservatives who are prepared to put up with short-lived pain for what they believe is a long-term gain may change their positions should opinion polls begin to turn against the party and their email inboxes become filled with messages from those personally impacted by no deal disruption.

Historically, Tory MPs representing, as they did, often overwhelmingly middle-class constituencies mainly in southern England need not have worried quite so much. Nowadays, however, the party has to think about holding on to many more working-class voters in marginal seats in the Midlands and the North, some of which might be particularly badly affected. In any case, any disruption resulting from a no-deal exit would not simply be confined to those hard-won marginals; it may well be felt in traditional Tory heartlands too.

NO DEAL AND THE UNION

In Scotland, the SNP government is already seeking a new mandate for an independence referendum in the Holyrood elections, which will take place on 6 May 2021, four months after the end of transition. The Scottish Government continues to make the case that Scotland's vote to remain in the EU justifies a second referendum to determine whether Scots would prefer to develop their own relationship with the EU as an independent member state. The growing support for independence in Scotland over recent months adds credibility to the notion that the Union is under threat. The Westminster government has said it will resist those calls – but a showdown with Holyrood looms.

In Northern Ireland, the operation of the economic dimensions of the Protocol requires the consent of the majority of members of the Northern Ireland Assembly in a vote to be held every four to eight years. In the event of no deal, such a vote on whether Northern Ireland will align with Britain or with the EU will be highly charged the greater the consequence of such a vote, the deeper the intensity of debate and division over it.

Wales is in a different position. Although the Welsh political establishment was strongly opposed, the majority of its population voted for Brexit. But it has common cause with the Scottish Government over the approach the UK government is taking to the negotiations and managing the transfer of powers back from Brussels. The UK government's sovereignty-focused Brexit strategy is now poles apart from the position of the Welsh Assembly. Its domestic preparations for Brexit, including legislating for a UK internal market to replace the regulatory framework of the EU internal market, have added further toxicity to intergovernmental relationships. There seems little scope and little appetite on the part of the Johnson administration for a compromise that could generate some sort of consensus.

CONCLUSION

With just over three months to go - and more than four years since the referendum - we still do not know the terms of our future relationship with the EU. What we do know is that, deal or no deal, 1 January 2021 will, in the government's words mark a new beginning for the UK.

As we have outlined, in purely economic the gap between the kind of deal now being negotiated and no deal is relatively thin. The consequences of the latter, however, will be larger and more wide-ranging. Such is the breadth and depth of the current UK-EU relationship - and such are the consequences of an acrimonious divorce - that a no deal outcome will have repercussions not just on our economy, but on our politics, our security, and the UK's own Union.

Whatever the outcome of these negotiations, moreover, it will not mark the end of discussions with the EU. No deal or the thin deal on offer are both likely to be unsustainable endpoints. Over time, both sides will need to get back around the negotiating table. More crucially, the UK and the EU will still be important allies internationally - and need to overcome any recriminations that might accompany no deal and work out how to cooperate effectively in the future as two independent sovereign entities.

The UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is funded by the Economic and Social Research Council and based at King's College London.

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