

BREXIT UNIT

Putting some flesh on a 'bare bones' Brexit

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Halloween may not be the most auspicious time to be talking about what happens if the Brexit negotiations break up without a deal. But there are still plenty of scare stories to dispel – including planes no longer flying, cancer patients being denied life-saving treatment, and criminals running amok.

A more credible 'no deal' scenario would involve the UK leaving the Single Market and the Customs Union in March 2019, but still allow for continued cooperation in many other areas of common interest. To be clear, the practical obstacles to implementing even this 'bare bones' Brexit in time would be substantial. But while this outcome would surely be second best, it need not be the nightmare that many seem to fear.

How scared should we be?

David Davis is due to brief the Cabinet soon on the implications of a 'no deal' Brexit – perhaps on Halloween itself.

Discussions about the prospect of 'no deal' frequently generate more heat than light. Often this is because the participants aren't even talking about the same thing.

At one extreme, some people interpret 'no deal' to mean that the UK would leave the EU in 2019 without *any* agreements on the future relationship. In addition to dropping out of the Single Market and Customs Union, this implies the end of cooperation in a wide range of other areas, including aviation, trade in medical isotopes, and security. Planes wouldn't fly, cancer patients would be denied vital drugs, and international criminals would run amok.

This is the basis of the 'chaotic' Brexit dreaded by many. However, no-one is seriously arguing that this outcome would be desirable, nor is it remotely likely. In reality, it is a straw man which takes 'Project Fear' to a whole new level.

An alternative vision of 'no deal' would involve quitting the Single Market and Customs Union in 2019, but still allow for ongoing cooperation in areas which do not require EU membership. This has been called 'no deal plus', or, perhaps more appropriately for Halloween, a 'bare bones' Brexit.

Leaving the Single Market and the Customs Union would put the UK in much the same position as the US or China, which both trade extensively with the EU under WTO rules. The EU would presumably impose tariffs on goods it imports from the UK. But, as we have noted before, these are likely to average out at around 5%, which would not be a game-changer.

Key Points

- Much of the discussion of a 'no deal' Brexit has focussed on a chaotic outcome where talks break up without *any* agreements on the future relationship. However, this outcome would be so bad for all parties that it is highly unlikely.
- A more credible scenario would involve the UK leaving the Single Market and the Customs Union in March 2019, but still allow for continued cooperation in many other areas. This could be called a 'bare bones' Brexit.
- There are four reasons why this is a serious runner.
- First, the UK and the EU would not be starting from scratch. In almost all cases it would be a question of agreeing that existing arrangements are satisfactory.
- Second, the EU already cooperates closely with many third countries that are not even in Europe – including in sensitive areas such as aviation and nuclear technology.

UK exports to the EU would also face enhanced customs checks. These non-tariff barriers could be more costly, especially if they disrupt vital supply chains. Fortunately, both sides would have a strong economic interest in keeping trade running smoothly. The UK would need to invest more in its own customs infrastructure, but this would be money well spent.

For its part, the UK could choose between imposing new tariffs on imports from the EU, or removing existing tariffs on imports from the rest of the world, or some mix of the two. Removing tariffs would be preferable and put the interests of consumers first. The Resolution Foundation has helpfully crunched the numbers and estimated that the average UK household would be £260 a year worse off if the UK imposed tariffs on all imports from the EU, but £130 *better off* if the UK abolished tariffs across the board.

A clean break in 2019 would also allow the UK to crack on with its own trade deals with the rest of the world, start to roll back EU regulations, and save straightaway on contributions to the EU budget.

There could be some tricks among the treats, especially in areas, including financial services and aviation, which are not covered by WTO rules. But the UK and the EU could simply agree to continue the current arrangements. This isn't as fanciful as it might sound, for four reasons.

First, the UK and EU would not be starting from scratch. Pessimists often point out that it takes the EU many years to conclude an agreement with a third country even on relatively straightforward issues, such as landing rights or mutual recognition of regulations including those covering financial services. However, in most cases here it would simply be a question of agreeing that the existing arrangements are satisfactory and that they should be continued, with whatever technical tweaks are necessary following Brexit.

Second, the EU already cooperates closely with many countries that are not even in Europe. Just look at the overseas participants in programmes run by Euratom, or the wide variety of airlines from all over the world that somehow manage to fly to Paris or Frankfurt. Crucially, these arrangements are not dependent on EU membership.

Third, both sides will surely want to make this work. Article 8 of the EU Treaty actually requires the Union to 'develop a special relationship with neighbouring countries' and encourages it to 'conclude specific agreements with the countries concerned ... which may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly'. But whatever the legal position, it is hard to see why the UK and the EU would not want to minimise disruption.

Take the availability of medical isotopes. Realistically the UK will have to rely on supplies from Belgium, France and the Netherlands for the foreseeable future. In principle, Euratom could block this trade once the UK leaves the EU. But does anyone believe for a single moment that this would actually happen? Similarly, would EU politicians be willing to forego the rights of their airlines to fly to the UK, just to punish us for the audacity of Brexit?

Fourth, there are some crucial areas where a formal deal may not actually be necessary. In particular, the UK could simply implement its proposals on citizens' rights unilaterally. This would put the onus on the EU to reciprocate, but why on earth wouldn't they? Again, what would the alternative say about our European partners?

To be clear, the practical obstacles to implementing even a 'bare bones' Brexit in time for 2019 would be substantial. There is still a very strong case for some form of (time-limited) transitional arrangements. What's more, a comprehensive free trade deal with the EU at the end of this transition period would surely be preferable to relying on WTO rules alone. A two-year extension after March 2019, as suggested by the PM in her Florence speech, would give the UK and the EU nearly three and half years from now to work out the details. Measured against this alternative, a 'bare bones' Brexit would be relatively risky.

But we need not fear sleep-walking into a nightmare if the talks are still bogged down at Christmas. Announcing then that the UK is leaving both the Single Market and Customs Union in 2019 would at least give businesses the certainty they crave. It would also avoid the scenario where a 'transition' period mysteriously becomes 'permanent'. Talks with the EU could then refocus on continued cooperation in the remaining areas of common interest. Above all, the UK could finally prepare to make the most of the opportunities presented by Brexit.

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- Third, both sides will surely want to make this work. Would EU politicians really be willing to forego the rights of their airlines to fly to the UK, or block the vital trade in medical isotopes, just to punish us for the audacity of Brexit?
- Fourth, there is much that can be done unilaterally. In particular, the UK could simply go ahead and implement its proposals on citizens' rights. This would put the onus on the EU to reciprocate, but why wouldn't they? Again, what would the alternative say about our European partners?
- Any form of 'no deal' Brexit would surely still be a second best, given the short timescales involved. But it needn't be the Halloween nightmare that many seem to fear.