

LIKELY ECONOMIC AND OTHER IMPACTS OF A HARD BREXIT

No major country has ever left the European Union or similar trading bloc. A recent report by the independent (King's College London based) research group, *The UK in a Changing Europe*, stated that "no deal will not get Brexit done" and instead would be the start of a "period of prolonged uncertainty for citizens, workers and businesses". Unfortunately, in terms of securing a proper UK/EU trade deal (to replace the current trading arrangements) the UK is running out of time. At present, during the current so-called transition period, we are trading with the EU on the same level 'single market customs union' basis that we did when we were still in the EU. Sadly that privileged position will come to an abrupt end at the end of this year (when the transition period expires), unless a really good, mutually beneficial new trading relationship is negotiated. That is looking increasingly unlikely – and the UK government is currently refusing to extend the negotiation period. A 'no deal' exit is therefore very likely to occur - and that will cause huge economic damage to the UK, including large numbers of additional job losses (over and above the economic impact of coronavirus) and substantial additional poverty. The only really practical way of ensuring that the negotiation period is extended is by extending the transition period – and in order to do that, the government would, in practical terms, need to agree to such an extension by the end of next month, June, 2020

https://d3n8a8pro7vhmx.cloudfront.net/b4b/pages/50/attachments/original/1590830294/Assessing_the_economic_impact_of_coronavirus_and_Brexit.pdf?1590830294

<https://www.instituteforgovernment.org.uk/explainers/brexit-transition-period>

<https://ukandeu.ac.uk/about-us/>

<https://ukandeu.ac.uk/wp-content/uploads/2019/08/UKIN-No-Deal-Brexit-Issues-impacts-and-implications.pdf>

What would a 'no deal' Brexit in December 2020 mean?

Government, Parliamentary and Academic researchers have made it extremely clear that GDP is likely to be 5% to 10% lower over the course of the next 10-15 years than it would have been, if

we had stayed in the EU. Clearly that would hurt jobs, wages and available funding for public services.¹ Treasury data also states that the limited free trade deal planned with the EU would strip 6.7% from the UK's gross domestic product (GDP) over a similar time scale – meaning £130bn of lost growth. GDP growth from UK trade deals with non-EU countries is expected to be limited, compared to existing UK–EU trade. New trade deals take time to negotiate and the UK lacks sufficient experienced trade negotiators.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf

file:///C:/Users/David/Downloads/CBP-8451.pdf

The UK could find itself trading with the EU on purely World Trade Organisation (WTO) terms, with import tariffs on goods ranging from 3–25% and additional non-tariff barriers adding a further 14%. Without an agreement with the EU, some sectors (such as UK steel) could face export tariffs as high as 40% on 'day 1' (ie., 1 Jan, 2021) under WTO terms.²

<https://www.tuc.org.uk/research-analysis/reports/consequences-no-deal>

<https://ukandeu.ac.uk/wp-content/uploads/2018/12/What-would-trading-on-WTO-terms-mean-Long-Guide.pdf>

An increase in net public borrowing of between £96bn and £141bn by 2035/2036 is possible, according to the Government's long-term analysis. Government borrowing has also risen by an extra £200bn since March to deal with Covid-19.

There will be no 'Brexit Bounce'. While the UK is no longer contributing to the EU's annual budget, this will initially be offset by the cost of the financial settlement. The Government must also meet its commitments for farm support and funding for industry and science as the UK loses the benefits from multiple EU programs. According to a leading UK financial website (*This is Money* [owned by the same media company that owns the Daily Mail], 21 May, 2020), "The growing threat of a no trade deal with the EU is also now hitting investors' confidence in the pound. Behind the curtain of coronavirus, relations between the UK and the EU have become increasingly fractious and this is creating uncertainty for the future of the British economy."

<https://www.thisismoney.co.uk/money/markets/article-8340005/Interest-rates-negative-Brexit-sinking-pound.html>

<https://news.sky.com/story/pound-takes-hit-as-pm-raises-stakes-on-brexit-transition-period-11888684>

Foreign Direct Investment (FDI) is likely to fall by around 24% and overall business investment by 3.5% over the long term. HM Treasury forecasts a fall of between 18–26% of FDI under a WTO trading arrangement. The UK has been the largest recipient of FDI inflows into the EU since the establishment of the Single Market, but the OECD estimates a 30% decline in inward FDI to the UK over the next decade.³ In 2019, 36% of investors from across Europe stated that they were likely to move assets out of the UK due to Brexit.

https://cdn.obr.uk/EFO_October-2018.pdf

The UK's trade with its biggest partner would be severely damaged. The EU accounts for 49% of UK trade with a further 10% from countries with an existing Free Trade Agreement (FTA) with the EU. The Government will seek agreements with the US, China, India and others, but securing those deals will be far more difficult than replicating existing agreements. The Government is aiming for an agreement with the EU similar to Canada's trade relationship. The EU–Canada Comprehensive Economic and Trade Agreement (CETA) took over eight years to negotiate, with full implementation taking longer still. The US is the UK's second largest trading partner – accounting for about 15% of UK trade. We can certainly expect very tough negotiations with an “America first” partner.

As well as the high 'no deal' trade tariff costs, the Government's modelled 'no deal' scenario also includes non-tariff-related costs (in UK/EU trade) of 10% for goods and 11% for services. Non-tariff barriers (NTBs) include customs checks, regulatory barriers, rules of origin, administration costs etc. EU members enjoy a 'level playing field' for imports and domestically produced goods and services, but the UK will face higher NTBs in trade with the EU under any Brexit scenario.

<https://news.un.org/en/story/2020/02/1058131>

Significant delays at UK borders are likely, with supply shortages in key sectors for both businesses and households. Trade flow through the Eurotunnel could initially fall by 40–60%. Supply of medicines/medical supplies would suffer, as 75% of them are imported through Eurotunnel. Currently, less than 1% of lorries require customs checks. In their own 'reasonable worst-case scenario' the Government estimates 1 ½ -2 ½ days' delay at the border, initially. Additional custom checks could cost business up to £4bn a year.⁴

A No-deal exit will significantly hurt the economy of all UK regions with northeast England most severely damaged. The Confederation of British Industry (CBI) says “Regardless of the form that Brexit takes, all the studies find that leaving the EU would make the UK worse-off in the long term, with the risk of further short-term disruption. The impact of “no deal” is found to be particularly negative, with GDP per head expected to be 3.5%-9% below baseline in the long-run, reinforcing the importance of avoiding this outcome”. The CBI estimates that, courtesy of any no deal exit, the northeast’s economy could be producing 10.5% less in 2024 than now. Areas heavily reliant on exports and manufacturing are likely to be most at risk. Scotland is predicted to produce £14bn less than now in 2034, Wales will lose £7bn of economic output, Northern Ireland £5bn and the northwest of England £20bn.

<https://www.cbi.org.uk/no-deal-preparations-hub/modelling-the-future-estimating-the-impact-of-brexit/>

<https://www.cbi.org.uk/articles/impact-of-a-no-deal-brexit-across-the-uk/>

<https://www.theguardian.com/politics/2017/mar/27/parts-of-uk-that-voted-for-brexit-may-be-hardest-hit-study-finds>

<https://www.nwemail.co.uk/news/17965917.cumbria-one-worst-suffer-job-losses-no-deal-brexit/>

<https://www.sunderlandecho.com/news/politics/sunderland-set-be-one-worst-areas-job-losses-after-no-deal-brexit-leaked-government-report-reveals-814608>

<https://www.bournemouthecho.co.uk/news/17971541.leaked-report-names-bournemouth-poole-at-risk-no-deal-brexit/>

<https://blogs.lse.ac.uk/politicsandpolicy/who-will-suffer-most-from-brexit/>

This very detailed account (see link below this paragraph) of how ‘no deal’ will affect business was prepared by the CBI in 2019 to prepare UK businesses for what would happen (in trade and financial terms) if the UK left the EU without a deal (i.e. a Withdrawal Agreement) on 31 January, 2020. A withdrawal agreement (including the provision of the current transition period) was reached – but, of course, did not cover many key factors including the UK’s trading relationship with the EU. UK/EU negotiations are currently (May, 2020) not going well (and the UK government is currently refusing to extend the negotiating (i.e. Transition) period. Most of the ‘no deal’ exit impacts, predicted in the event of a ‘no deal’ Brexit on 31 January, 2020, will now occur in 2021, if the UK exits the current UK/EU trading arrangements without a replacement deal.

<https://www.cbi.org.uk/media/3370/no-deal-timeline.pdf>

The Government's sector-by-sector analysis indicates weaker economic activity in multiple sectors (Manufactured Goods, Agri-food, Financial and Other Services, Networks/Energy). The most exposed sectors would be chemicals/pharmaceuticals and automotive with potential long-term lower output of 20–25% in both sectors, (compared to pre-Brexit output in Nov. 2018). Manufacturing companies facing delays to 'just-in-time' production include aerospace firm Airbus, and major car and automotive component supplier GKN. The chemicals sector exports 60% of UK output to the EU, with 75% of UK chemicals imports coming from the EU. 'No deal' (or equivalent) would threaten the UK Life Sciences sector as a major pharmaceutical manufacturing base with disruption to delivery of medicines and access to new drugs.

<https://www.birmingham.ac.uk/research/perspective/no-deal-brexit-uk-manufacturing.aspx>

<https://www.politics.co.uk/blogs/2020/01/23/brexit-2020-everything-you-need-to-know-about-johnson-s-trad>

<https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/international-markets/deloitte-uk-brexit-industry-insights-manufacturing-final.pdf>

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

The Services Sector and London's status as a premier financial service market would be at risk. In 2017, the services sector made up the majority of the UK economy accounting for 80% of UK GVA (Gross Value Added), worth £1.1 trillion. Services employed around 28 million people with 52% of the sector's exports destined for the EU. The financial services sub-sector, worth 38% of the total services sector, contributed 7% to the UK's GVA, was worth \$131 bn and employed 1.1 million people. The UK is noted for its strength in business services, with the global headquarters of four of the global top ten law firms and six of the top ten accountancy firms located in Britain. The UK and EU financial services sectors are highly connected with UK-located banks underwriting about 50% of the debt and equity issued by EU businesses. London is regarded as one of the most important financial centres in the world. The UK financial services trade with the EU was worth £35bn in 2017. Approximately £1.4 trillion worth of assets are managed from the UK for European clients. GLA analysis found that loss of 'passporting' (UK financial institutions ability to conduct

business in EU/EEA countries without needing country-by-country authorisation), EU market access and a loss of highly-skilled workers could lose the UK £5bn per year in investment in the finance and insurance sector alone.

The Government's own analysis estimates the 'no deal' cost would be 5–18% of the value of service sector trade, compared to pre-Brexit. In a June 2019 survey by international accounting giant, Ernst & Young (EY), 41% of large financial firms surveyed planned to move operations and/or staff out of the UK to the EU. In the event of no deal, international and wholesale financial services worth £18–20bn per year are likely to be relocated, together with the loss of 31,000–35,000 jobs and an associated reduction in UK tax revenues of £3–5bn.

But not all City-based companies will lose out in a potential 'no deal' exit at the end of 2020. Indeed some (the so-called 'disaster capitalists') could make a lot of money from it.

<https://www.bbc.co.uk/news/business-49898289>

Potentially up to 482,000 jobs could be lost by 2030, resulting in potential loss of £4bn in income tax and NI receipts.⁶ In the event of 'no deal', the government's own analysis suggests that real wages could fall up to 10%, with low income families hit hardest. The OECD estimates that household incomes could fall between £3,200–£5,000 by 2030. Women, black and disabled households would be particularly vulnerable, given weaker public spending and services. Greater restrictions on migration is likely to reduce labour supply, especially in key sectors such as agriculture, the NHS, care home provision and retail. Workers' rights are likely to be weakened, after Boris Johnson removed legally binding commitments to retain existing EU work regulations from the Withdrawal Agreement.

<https://theconversation.com/how-brexit-will-hit-different-uk-regions-and-industries-91287>

<http://www.oecd.org/economy/outlook/economic-forecast-summary-united-kingdom-oecd-economic-outlook.pdf>

Our ability to strike favourable trade deals with many key countries outside the EU (ie in the world at large) will be directly compromised by a 'no deal' or equivalent exit from current UK/EU trading arrangements.

Often overlooked is the fact that the EU has a large number of very good free trade agreements with countries around the world. Those FTAs are currently operating between the EU and 29 nations, including Japan, South Korea, South Africa, Singapore, Mexico, Chile, Israel, Turkey and Egypt.

FTAs are also now in provisional operation (and ahead of their official launch dates), between the EU and 28 other countries (including Canada, most Central American nations and eight African ones).

What's more, negotiations for EU FTAs have now been completed with Vietnam, four South American countries and 21 more African ones - and negotiations are in progress with several more including Australia, New Zealand and Indonesia.

The 57 deals currently in operation have benefited all EU countries – and will continue to benefit the UK until the end of the Brexit transition period at the end of this year. Of course, the UK government aims to negotiate its own FTAs with many of these countries – but Britain is 6.6 times smaller than the EU both in GDP terms –and in population terms. So the economic leverage Britain has is nowhere near as big as that of the European alliance we have just walked out of. As a consequence, in many cases, we are unlikely to get as favourable a deal with many of those countries. Indeed, a 'no deal' exit from current UK/EU trading arrangements (including all those EU/third country FTAs, referred to above) is likely to make it even harder to obtain favourable trade deals with those countries.

[https://en.wikipedia.org/wiki/European_Union_free_trade_agreements#Agreements_finalised_\(negotiations_concluded,_but_not_signed\)](https://en.wikipedia.org/wiki/European_Union_free_trade_agreements#Agreements_finalised_(negotiations_concluded,_but_not_signed))

¹ HM Government, *EU Exit: Long term economic analysis*, November 2018

² TUC, *Consequences of 'no deal'*, September 2019

³ Office for Budget Responsibility, *OBR and the OBR's forecasts*, October 2018

⁴ TUC, *ibid.*

⁵ HM Government, *ibid.*

⁶ TUC, *ibid.*

Additional outcomes of a 'no deal' exit (from current UK/EU trading and other arrangements) are likely to include:

- Disruption to law enforcement data and information sharing between UK and EU

<https://commonslibrary.parliament.uk/home-affairs/crime/brexit-next-steps-the-european-arrest-warrant/>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759760/28_November_EU_Exit_-_Assessment_of_the_security_partnership_2_.pdf

- **Significant price increases in energy and electricity costs for UK households and businesses**

<https://www.moneysupermarket.com/gas-and-electricity/how-will-brexit-affect-energy-prices/>

- **Disruption in exchange of personal data and some cross-border financial services.**

<https://dpnetwork.org.uk/brexit-gdpr-data-protection-uk/>

<https://www.pwc.co.uk/financial-services/assets/pdf/what-a-no-deal-brexit-holds-for-financial-services.pdf>

- **Potential problems for some EU nationals resident in the UK – and some UK nationals resident in the EU**

<https://www.bbc.co.uk/news/uk-49973387>

- **Tensions (and potential violence) at sea over fishing rights**

<https://www.independent.co.uk/news/uk/politics/brexit-no-deal-fishing-quotas-eu-boris-johnson-violence-scallop-wars-a9050431.html>

- **Serious damage to Britain's (and the EU's) efforts to combat climate change - and damage to UK progress on environmental issues in general**

<https://friendsoftheearth.uk/brexit/no-deal-brexit-environmental-impact>

<https://www.harrowhillingdonforeurope.uk/brexit-a-dozen-key-things>

<https://www.independent.co.uk/environment/brexit-uk-eu-climate-change-crisis-net-zero-sheffield-a9110071.html>

<https://www.theguardian.com/environment/2019/jul/26/climate-more-pressing-than-brexit-say-71-of-britons-poll>

<https://www.climatechangenews.com/2019/08/07/no-deal-brexit-disaster-climate/>

<https://resource.co/article/all-areas-environment-high-risk-damage-due-no-deal-brexit-says-greener-uk-13134>

- **Substantial damage to the NHS (as a result of medical imports delays, higher costs, medical research problems, reduced UK/EU cooperation, and reduced ability to recruit medical and other staff from the**

<https://www.nhsconfed.org/regions-and-eu/nhs-european-office/brexit-and-the-nhs/the-key-risks-of-no-deal-brexit>

<https://www.lshtm.ac.uk/newsevents/news/2019/brexit-will-cause-significant-harm-nhs-no-deal-brexit-presents-far-worst>

<https://www.bma.org.uk/media/1345/bma-no-deal-brexit-briefing-aug-19.pdf>

Good cartoon: <https://www.theguardian.com/commentisfree/picture/2020/apr/18/after-coronavirus-a-no-deal-brexit-cartoon>

- **Reduction in disaster preparedness (including any resurgence of coronavirus in 2021)**

<https://www.themj.co.uk/EXCLUSIVE-No-deal-Brexit-planning-would-overwhelm-emergency-response/217622>

<https://www.theguardian.com/politics/2020/may/21/no-deal-brexit-would-overwhelm-local-emergency-teams>

<https://www.mirror.co.uk/news/politics/no-deal-brexit-planning-undermined-21890126>

- **Substantial damage to the care sector (also as a result of reduced ability to recruit staff from the EU).**

<https://www.kingsfund.org.uk/publications/no-deal-brexit>

<https://www.bbc.co.uk/news/health-49838018>

- **Severe problems for UK horticulture and agriculture – because of reduced ability to recruit seasonal workers from the EU).**

<https://ahdb.org.uk/brexit-a-no-deal-horticulture-summary>

https://projectblue.blob.core.windows.net/media/Default/Imported%20Publication%20Docs/HortBisize190206_WEB.pdf

<https://www.countrysideonline.co.uk/hobbies-and-leisure/food-and-cooking/what-will-a-no-deal-brexit-mean-for-the-future-of-british-farming/>

- **Huge increase in redundancies, unemployment, underemployment, wage reductions, wage stagnation, company closures etc over and above the already dire likely economic effects of coronavirus.**

<https://www.hrw.org/news/2019/10/16/uk-no-deal-brexit-risks-hunger-poorest>

<https://bmjopen.bmj.com/content/10/3/e032376>

<https://www.runnymedetrust.org/blog/no-deal-brexit-a-disaster-for-uks-8m-bme-people>

- **Potential civil unrest**

<https://www.nbcnews.com/news/world/brexit-risk-experts-fear-violent-consequences-no-deal-e-u-n1048616>

- **Greater risk of inter-community tensions**

https://www.theguardian.com/world/2019/may/20/racism-on-the-rise-since-brexit-vote-nationwide-study-reveals?CMP=Share_iOSApp_Other

<https://www.theguardian.com/uk-news/2018/jul/19/brexit-will-trigger-rise-in-hate-crimes-warns-police-watchdog>

- **Deterioration in physical and mental health levels**

<https://www.healthpovertyaction.org/news-events/nhs-after-brexit-what-a-no-deal-brexit-could-mean-for-the-nhs/>

<https://www.theguardian.com/politics/2019/aug/30/no-deal-brexit-could-take-wide-ranging-toll-on-health-paper-finds>

- **Potential increases in crime**

<https://www.theguardian.com/politics/2019/sep/13/criminal-gangs-will-cash-in-on-no-deal-brexit-police-warn>

- **An increase in the chance that the United Kingdom could break up. In Scotland, a 'no deal' exit from the EU's trading system will almost certainly boost support for Scottish independence (according to opinion polls, potentially to a point where pro-independence campaigners would win). In Ireland, it is likely to increase support for Irish reunification. It could also risk jeopardising the peace that the province has enjoyed since the end of the troubles.**

<https://www.instituteforgovernment.org.uk/explainers/second-referendum-scottish-independence>

<https://www.theguardian.com/uk-news/2020/feb/04/scottish-independence-survey-shows-brexit-has-put-union-at-risk>

<https://whatscotlandthinks.org/questions/how-would-you-vote-in-the-in-a-scottish-independence-referendum-if-held-now-ask/>

<https://www.irishtimes.com/news/politics/slight-majority-for-unification-in-northern-ireland-poll-1.4015170>

<https://sluggerotoole.com/2020/02/19/the-mystery-of-the-shy-nationalists-online-and-face-to-face-polling-on-irish-unity-continues-to-give-different-results/>

<https://www.prospectmagazine.co.uk/politics/recent-no-deal-threats-show-dangerous-disregard-for-northern-ireland-and-its-fragile-peace>

- **Economic subservience to the United States. A 'no deal' exit from current UK, EU trading arrangements would put the UK at the mercy of the USA - not just economically, but also politically, environmentally and in terms of UK legislative independence.**

<https://www.tjm.org.uk/trade-deals/a-uk-us-trade-deal>

<https://www.independent.co.uk/news/uk/home-news/no-deal-brexit-us-trade-deal-trump-uk-theresa-may-a8810701.html>

- **Politically and economically damaging and dangerous rivalry with our neighbours in continental Europe. Ultimately that will only bring smiles to the faces of Putin and Trump. British non-involvement with Europe (eg: in the 1930s) has tragically helped bring about disaster before.**

<https://mlexmarketinsight.com/insights-center/editors-picks/area-of-expertise/brexit/eu-us-rivalry-could-bring-ill-winds-for-global-britain>

<https://www.theatlantic.com/international/archive/2019/11/britain-and-europe-are-destined-be-rivals-after-brexit/601288/>

<https://www.independent.co.uk/voices/brexit-tory-labour-policy-hitler-appeasement-terrifying-parallels-a8553686.html>

<https://www.harrowhillingdonforeurope.uk/putin-do-you-really-want>

<https://www.harrowhillingdonforeurope.uk/trump-do-you-really-want>

- **Potential long-term decrease in the security of our continent.**

<https://www.independent.co.uk/news/uk/politics/brexit-europe-general-election-war-germany-france-stability-a9233181.html>

- **A potentially large impact on Britain's high streets. Many retailers could face 'no deal' problems over and above those generated by coronavirus. Many local Chambers of Commerce are worried.**

<https://www.retailgazette.co.uk/blog/2020/03/brexit-the-aftermath-for-retail/>

- **A potentially large impact on house prices (and a potential surge in the mortgage-payers' nightmare - negative equity)**

<https://www.thisismoney.co.uk/money/mortgageshome/article-7411339/Homebuyers-face-negative-equity-no-deal-Brexit-hits.html>

<https://www.theguardian.com/money/2019/sep/02/house-prices-could-nosedive-after-no-deal-brexit-says-kpmg>