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Brexit: Last Chance Saloon

There is an English phrase which describes a difficult situation in which there is one final chance to put it right; to be drinking in the last chance saloon. As the official end of the Brexit transition period on December 31st draws nearer, the UK and the EU can only be described as being in the last chance saloon with regard to finalizing their divorce deal. The two sides are still to reach common ground on matters such as trade, fishing rights, licensing / regulation of medicines, law enforcement, data sharing and security. If we consider that UK Prime Minister Boris Johnson has said an agreement on trade must be reached by 15th October (when a EU Council meeting is scheduled) to be ready for the start of 2021, we could go as far as to say that the anecdotal barman is calling last orders.

The UK officially left the EU on 31st January 2020, yet the effects of the departure were minimised due to the grace period, in which the two sides were supposed to iron out their differences and envisage their future together. This is the ninth and final round of formal negotiations that have taken place and there is still a lot of ground to be covered: A hasty departure without settling these matters would be akin to an amputation without anaesthetic — extremely painful to both body, limb and mind

This is primarily due to their interdependent trade relationship. The EU, taken as a whole, is the UK's largest trading partner. In 2019, UK exports to the EU were £300 billion (43% of all UK exports). UK imports from the EU were £372 billion (51% of all UK imports). Without an agreement, customs declarations, regulatory barriers (e.g. those stemming from divergences in health & safety regulations as well as environmental protection) and tariffs (WTO-based) will apply to imports and exports between the two sides.

"...A NEW "INTERNAL MARKET BILL" WHICH WOULD GRANT DOMESTIC POWERS TO THE BRITISH GOVERNMENT TO CIRCUMVENT OBLIGATIONS SET OUT IN THE NORTHERN IRELAND PROTOCOL."

There is a potential spanner in the works when it comes to a joint agreement... Playing on the proverbial jukebox in the background is a political tune that is very unsavoury to EU ears. Boris Johnson is pushing a new "Internal Market Bill" through UK Parliament which would grant domestic powers to the British government to circumvent obligations set out in the Northern Ireland protocol: part of the Withdrawal Agreement that the two sides had already signed.

The key sticking point in Brexit all along has been the treatment of Ireland, with the South remaining in the EU and the North, leaving. In order to respect the Good Friday peace deal, a hard border and checkpoints across Ireland are to be avoided, making the regulation of imports and exports tricky. The result of the agreed workaround is that Northern Irish businesses will be able to trade freely with the EU from 2021, without new paperwork or checks but there will be extra paperwork for goods travelling between Northern Ireland and Great Britain (England, Scotland and Wales). The proposed Internal Market Bill controversially gives ministers power to "disapply" rules relating to the movement of goods in the UK and grants powers to override previously agreed obligations on state aid to businesses. The bill which has already passed through the House of Commons (340 votes to 256) has received a lot of criticism, including from the former UK Prime Minister Theresa May who said it would damage "trust in the United Kingdom", with the country seen to have gone back on its word.

"...THE UK'S WORSENING SITUATION - IN ECONOMIC AND EPIDEMIOLOGICAL TERMS - COULD PUSH DOWNING STREET TO DO WHAT IT TAKES TO AVOID A NO-DEAL BREXIT."

Despite Johnson's backhand move, this week the news flow from Brussels has been optimistic, with EU negotiators indicating that they are anyhow prepared to start writing a joint legal text of a trade agreement with the UK. It could also be that the UK's worsening situation - in economic and epidemiological terms - could push Downing Street to do what it takes to avoid a no-deal Brexit.

Already,
years of uncertainty over the future terms of trade have damaged the UK economy. GDP growth in the three years after the 2016 Brexit referendum slowed to 1.6% as business investment stagnated. Research by the London School of Economics sees the long-term economic hit from a no-deal Brexit at 8% of GDP, similar to the UK government's own forecast of 7.6%, made in 2018. For perspective, the Bank of England's latest forecast of the impact of Covid shows a reduction of 1.7% of GDP to the economy up to 2022. The BoE has been contemplating negative rates to try and buoy the already-ailing domestic economy, with its governor, Andrew Bailey warning that "the hard yards are ahead".

In the short
term, we view the situation as too messy to play a hand. Uncertainty on Brexit, as well as the economy and on additional monetary stimulus remains high. Sterling has been pounded, its fate largely dictated by the tone of negotiations on any given day.

It has been said that the economic case for Brexit within the UK was built on fairy tales of the future. A *happily ever after* does not seem to be in sight. The long-term structural impact of the UK's departure is yet to be seen, but even now, before December 31st, when the unfiltered reality of Brexit comes into play, political dissatisfaction is rising. A YouGov poll has found that 50% of adults now believe Britain was wrong to leave the EU, the highest figure the company has recorded since it began asking the question, while 61% of people think the government is handling Brexit badly. Meanwhile in Scotland, a country that voted to remain in the EU (and which I am proud to be from) – the independence movement is gaining traction with "yes" to independence leading by 53% to 47%.

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