NO DEAL: THE FACTS

08.08.2018

The possibility of the UK leaving the EU without a deal has been a risk since 23rd June 2016. But policymakers must be in no doubt of how serious the consequences of no deal would be for the UK economy and jobs in every region and nation. The facts are clear: leaving the EU in a disorderly fashion would result in disruption for businesses and families, and no deal would leave the UK poorer and less competitive in the long-term. Negotiators must do all they can to agree transitional arrangements as soon as possible.

Businesses and families across the UK will face disruption if Brexit negotiations breakdown and the UK falls out of the EU in March 2019

International law will oblige the EU to require checks on lorries and ships coming from the UK. The Port of Dover has estimated that a delay of just 2 extra minutes to check and process a lorry would cause queues of over 17 miles.

- Just-in-time manufacturers cannot withstand significant delays, holding just enough stock for a limited time – from 4 hours to 9 days at best. Unipart have put the cost of closing their production line at £1 million per hour[1].
- Medicines and perishable food will be caught up in port-side chaos. Some radioactive cancer drugs need to be with patients within as small a timeframe as 16 hours to be effective, and half of all new medicines – undergoing a similar transportation process to perishable goods – must be transported in special refrigerated lorries[2].
- Non-trading firms will not be shielded from this impact: cafes, pubs, pet shops, hairdressers and hotels ordering from catalogues and wholesalers will see delivery times lengthening, as will consumers shopping online. This is in addition to 180,000 firms[3] that will be required to undertake complicated new processes like customs declarations and rules of origin for the first time.

"The only solution to not having some sort of a deal will be to stockpile parts. That will cost us about £25-30 million to hold a number of months' worth of material to avoid stopping our lines. That's money that should be being put into new product development, R&D, to allow us to keep doing business in the future, instead of managing a consequence or an uncertainty or frankly a lack of agreement," – Bombardier, manufacturer employing 3,500 people in the UK

Disruption will not just be limited to the UK-EU relationship but will affect the 16% of UK trade which is conducted through EU trade deals.

- This will include Turkey which is the source of £1.4 billion worth of clothing and over £800 million worth of electrical goods bought in the UK[4], South Africa where the UK has invested in 333 FDI projects, and South Korea where firms from tech to ceramics have doubled or tripled their trade since the EU-South Korea free trade agreement was signed in 2015.

"A 'no-deal' Brexit is the worst possible scenario. Agreeing on transitional arrangements as soon as possible should continue to be the highest priority," – Kiedanren, the Japanese Business Federation, and the Japan Business Council of Europe

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[1] John Neil, CEO Unipart, Mail on Sunday, May 2018
[2] Pharmaceutical Commerce, Half of 2017 FDA drug approvals are cold-chain products, January 17, 2018
[3] Institute for Government, Implementing Brexit: Customs
[4] ONS, Trade Statistics

Services firms will experience similar disruption to goods companies.

- Exports to the EU by the UK's lawyers, accountants, architects, advertising agencies and other professional services are worth £66 billion, and would face severe regulatory and trading barriers[5], as would the UK's leading £240 billion data economy if no deal on data is agreed, stifling digital growth.
- If no deal is agreed, 38 million insurance customers and 10 million customers in the UK will no longer be able to rely on their policies[6].
- With 60% of construction products and services coming from the EU - from £875 million worth of electrical wire and £775 million of timber[7] - delays to house building and infrastructure improvement projects would also be anticipated.

No deal will mean a lost decade, stifling the UK's potential and leaving us less competitive, productive and prosperous for years to come

Selling into separate UK and EU markets will become less efficient as firms will be forced to get two sets of licenses, permissions and approvals instead of one.

- Having to go through complex testing and approvals processes to sell into the UK and the EU as separate markets will affect an enormous range of products, from food additives to children's toys. For each new kind of car, the cost will be at least £350,000[8], and estimate suggest that the time to clear medicines for sale across the UK and EU could increase by up to 3 months[9].
- If firms are spending more on compliance and creating unproductive jobs in customs, governance and legal roles, this will divert investment from R&D, sales and growth. Customs declarations alone are estimated to potentially cost industry £20 billion every year[10].
- Overall, the IMF estimates that by 2030 the UK economy would be 4% smaller if the UK leaves the EU with no deal, compared with a no-Brexit scenario[11].

"Testing changes and reregistration will mean about 13,000 packs will have to be updated. The timeline to implement at the laboratories, at a minimum, is 18 months – so, we are already having to initiate cost," – GSK, healthcare firm employing 14,000 people in the UK

No deal will mean the UK loses one of its key features: the ability to advertise as a gateway to Europe, a trait which 79% of investors in 2016 cited as key to the UK's attractiveness[12].

- The UK's educational institutions will be less attractive if qualifications in law, accounting and even architecture are no longer automatically recognised. International students contribute £5.4 billion to local economies[13], bringing vital income to towns like Bangor and Falmouth.
- Making movement of people and goods more difficult will make the UK's world leading events like Farnborough Air Show and London Fashion Week, and even music events, more expensive and less attractive.
- Great Britain's role as a link to Ireland will be jeopardised. Firms in cosmetics, television and machinery already calculating the cost of adjusting distribution networks – moving goods and jobs from the UK.

"If there are going to be tariff barriers, then why would we continue to manufacture sheds for the European market in the UK, in Northern Ireland, when there's other manufacturing space in mainland Europe?" – Yardmaster, SME manufacturing sheds in Northern Ireland

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[5] ONS, International Trade in Services
[6] Bank of England, Financial Stability Report, November 2017
[7] BEIS, Building materials and components statistics: February 2018
[8] Automotive Council UK, Potential impacts of the UK's withdrawal from the EU on the UK Automotive Industry
[9] Office of Health Economics, Public Health and Economic Implications of the UK exiting the EU and the Single Market
[10] Chief Executive of HMRC, Evidence to the Treasury Select Committee
[11] IMF, Euro Area Policies: 2018 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Member Countries
[12] EY attractiveness survey, UK 2016: Positive rebalancing?
[13] Universities UK, The economic impact of international students

The UK's role on the global stage will also be diminished in the event of no deal.

- There are three regulatory superpowers: the US, the EU and China. The EU leads the world in regulation of data, digital, chemicals, cosmetics and more. Inside the EU's regulatory structures, the UK has been able to shape these rules to its advantage.
- No deal means leaving the UK without a voice and accepting EU rules in many sectors in order to sell abroad.

Until no deal in March 2019 is off the table, firms have no choice but to make decisions based on the worst-case scenario

The referendum result has already impacted investment in the UK. That has consequences for jobs, growth and living standards

- A Brexit "no deal" scenario is now considered as the baseline assumption for investment decisions. While for some company decisions this is manageable, for others – particularly large multinational firms - it is excluding the UK as a place to invest altogether.
- Surveys consistently show that around 40% of firms have delayed or cancelled investment directly as a result of the vote to leave the EU[14].
- The UK's market share of FDI projects in 2017 fell for the second successive year in a row, as it attracted 6% more FDI projects compared to a European market growing at 10%[15].

Contingency planning for no deal has been stepping up significantly as firms move from "no regrets" to "regretful" actions.

- Firms report money being spent on stockpiling, warehousing, and customs staff.
- Medium-sized firms are increasingly investing time and money in help with Brexit analysis.
- All money and senior time expended on contingency planning takes away from funds and attention that could have been spent on growth and innovation.

"We are preparing for a cliff-edge scenario in March 2019 based on the information we have. Additional distribution options are being considered to house more parts, but it just won't be possible to store everything. You just couldn't build enough warehouses," – BMW, automotive firm with 24,000 employees in the UK

The UK and EU must sign and pass the Withdrawal Agreement and secure transitional arrangements to remove the threat of no deal

Transitional arrangements are essential. UK, EU and third country businesses, governments, agencies, public bodies and infrastructure will not be ready for no deal in March 2019. Avoiding a cliff edge in 8 months' time must be the top priority for negotiators on both sides.

To achieve transitional arrangements and avoid a cliff edge, the Withdrawal Agreement must be signed. That means the UK answering the EU's legitimate questions about how regulation and VAT would work in a backstop.

The EU must also make a major step forwards and compromise on a UK-wide solution for the backstop. Businesses are clear they wish to see no physical borders for Northern Irish trade – either East West or North-South.

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14 CBI Survey, How businesses are preparing for Brexit
15 EY, UK Attractiveness Survey 2018: In transition