A No Deal Timeline

The CBI is committed to supporting businesses preparing for a potential no deal Brexit. One of the most frequently asked questions from members is 'what does no deal look like in reality?' While that will depend on the choices taken by Governments, agencies, central banks, businesses and citizens, some assumptions can be made from the preparation for no deal in March and public notices from Governments.

This briefing is a best approximation of what no deal might look like for the first month, designed to support members in their contingency planning, describing one possible scenario. It works on the assumption of no deal taking place on 31st October 2019.

Day 1 of No Deal – The most serious immediate impacts will be social, political and financial

Although financial markets may price in some of the risks of no deal before it happens. It is likely that markets will be volatile from the point at which no deal is inevitable.

- The value of sterling will fall, which is likely to push up the FSTE100 while domestically-focussed stocks such as the FTSE 350 are likely to drop.
- The euro will depreciate against the US dollar, though to a lesser extent than sterling. US and major Eurozone stock markets will also take a hit.
- The yield on 10-year UK government bonds will likely fall as investors flock to assets that they perceive as safer.
- However, importantly, the Bank of England has assessed the UK financial system as resilient to a severe shock such as Brexit.

The Bank of England will likely quickly step in to lay out its plans to support domestic demand and maintain the stability of the UK financial system.

- Oxford Economics estimates the Bank of England will cut the bank rate to 0.25%
- The Bank of England is also likely to cut the countercyclical capital buffer, in order to support credit flows.

The first visible impact of no deal is likely to be at EU airports, where national border forces will begin to treat UK visitors as third-country citizens without free movement rights. There will inevitably be some confusion for travellers about what this means.

- This is likely to lead to delays for holiday and business travellers at ports of entry across the UK, including those seeking Winter sun in the first weekend.
- Over the weeks to follow, this impact will be more challenging for business travellers than holidaymakers, though border force agencies in different countries will take different approaches.

Some very important things will stay the same, even in the event of no deal – at least for a time:

- EU citizens will be able to remain living and working in the UK with no changes. They will need to apply for settled status but have two years to do so.
- EU citizens will also be able to continue to visit the UK without any changes in the first 3 months of no deal.
- A hard border in Ireland, while legally required, is unlikely to be immediately imposed – though there will be great confusion and uncertainty.
- The roll-over of a number of Free Trade Agreements will mean additional tariffs on trade with a number of third countries will not kick in.

There is a risk of some immediate social unrest, such as took place after the EU referendum.

- Protests may be organised in Remain-voting cities over the following weekend, and tensions in Northern Ireland will inevitably rise.
- Hate crime was 44% higher directly after the EU referendum in June 2016 than the previous year. Employers will need to consider ways of supporting the wellbeing not just of their EU citizen staff but BAME staff as well if this repeats itself.

Political chaos will appear intense in the media, but little may happen beyond headlines as no deal begins on a Friday and parliament does not sit then or over the weekend.

- Government will have a singular focus on this issue, implementing emergency management systems as would operate during a natural disaster.
- The People's Vote campaign will be emphasising every negative consequence in order to add support for their cause.
- The SNP is likely to restate their demand for Scottish independence.
- Northern Irish assembly parties will be under significant pressure to seek emergency talks.

Week 1 of No Deal – Barriers to trade start to gum up the flow of goods between the UK and EU

Immediately after no deal, the practical impact of no deal at the border will be limited for a number of reasons.

- Firms will attempt to avoid transporting goods during the first day of no deal, and the second and third will be on the weekend when volume of traffic is lower.
- Temporary deals on transport mean planes will continue to fly, lorries will continue to cross borders, and ferries will continue to dock at ports.
- In the UK, all EU goods will still be permitted for sale, as well as all EU services, for a time, and UK agencies and authorities have promised a permissive approach to EU goods imports.
- Many manufacturing firms have stockpiled goods in the UK that they would normally import, while a smaller number have stockpiled goods in the EU they would normally export, reducing traffic flows.
- Some of the larger importers of perishable goods, such as retailers, have spoken with Government about diverting their traffic away from pinch points.

However, these mitigations will ease but not remove the disruption at and around ports.

- The introduction of new border checks, likely to be most strictly enforced by European authorities, will cause backlogs at both European and UK ports, though different approaches may be taken at different EU ports.
- Shipments and lorries that have not met the right paperwork, process or payment requirements will not be allowed to board ferries to France.
- Lorries at Holyhead will be diverted to Anglesey Agricultural Show's park and ride facility, lorries at Dover will be diverted to Manston Airfield, and lorries at Calais will be diverted to their additional parking capacity, to wait for increasingly lengthy amounts of time before being processed.
- Ferry schedules will be disrupted, affecting both travellers and goods, as hold ups stretch the amount of time ferries are held in harbour.
- Agri-food exports in particular will be delayed in arriving at their European destination, as all UK food exports to the EU will have to go via Border Inspection Posts.
- As volumes increase, the UK's customs-related IT systems will be tested by a five-fold increase in declarations, particularly with thousands of lines of new tariff codes having to be implemented.
- These impacts will not just be felt at ports that mostly handle EU trade, but at others as well as 'critical trade' such as medicines and key ingredients will be diverted through airports and other ports, risking disruption to schedules in less obvious locations.

Some businesses cannot stockpile or bring orders forwards, so will have no choice but to trade.

- Perishable goods cannot be held in stockpiles for more than a number of days, and as such retailers, farmers and food and drink firms will still need to transport goods between the UK and the EU.
- Some firms that handle large volumes of fast-moving goods will be unable to stockpile beyond the first few days. For example, many large automotive firms cannot stockpile beyond a few days. This is a notable risk as UK car factories alone add an additional 1,100 trucks a week to the traffic crossing the border.
- If suppliers fail in some way, for example if their products are discovered to have a fault, even firms that have stockpiled may still need to import.
- Goods exports will face the largest barriers to trade but will need to continue throughout no deal, as firms fulfil their orders from customers abroad.

Towards the end of Week 1 of No Deal, shortages of imported products with short shelf lives may begin to appear – largely in an unpredictable way.

- Retailers have frequently raised concerns that the combination of queues at borders and rising fuel prices will lead to panic buying.

During this time, the EU will likely provide further reassurance to UK residents in EU countries – as the UK will likely repeat its own reassurances.

- EU nations are taking different approaches to UK residents in EU nations, but some calming instructions are likely to be issued.
- Frontier workers may be provided with specific assurances about their ability to work cross-border.
- Despite routes for UK citizens to remain in EU nations after no deal, this is likely to be an unsettling time for UK citizens that are based in the EU, and their families.

Week 2 of No Deal – The hidden impacts of no deal begin to become more visible

UK services businesses based in and providing products to the EU will be managing the consequences of suddenly being legally unable to operate as before in the EU, or indeed at all. This will depend on the level of their contingency planning, which is higher in services than goods sectors but still lower in smaller firms that may be taken by surprised.

- UK companies importing personal data from the EU will be receiving warnings from lawyers and data protection officers that they are forbidden from doing so without reopening contracts to include standard contractual clauses, preventing them from delivering on EU contracts in sectors ranging from healthcare to tourism, manufacturing to financial services.
- Many UK lawyers and auditors will no longer have their qualifications automatically recognised in the EU and will be having to apply for accreditation in EU Member States or withdrawing from serving clients based in the EU.
- UK services businesses in a range of sectors from advertising to recruitment will be processing demands from European customers seeking assurance that UK firms are operating under new legal frameworks – which will be different in every EU Member State for some industries.

The international consequences of no deal will become more prevalent.

- Countries such as Turkey and Canada, which the UK has tariff-free trade with through the EU, will have begun to re-impose tariffs and new checks on UK goods entering their countries. This will only take place where the UK and the third-country have been unable to rollover their current arrangements.
- Companies that have not the paid the right tariff level, through ignorance or having shipped goods before no deal, may be struggling to free impounded shipments.

Week 3 of No Deal – The impacts will be crystallising within boardrooms

Delays will begin to have financial consequences for firms.

- SMEs that are not paid by customers until delivery will start to experience difficulties managing cashflow as deliveries are delayed.
- Financial woes will be compounded by sales volatility as some customers try and build up buffer stocks and others hold off on purchases.
- Banks are likely to receive a late surge in applications for emergency financial aid, kicking their no deal support plans into action.
- Firms that promise just-in time deliveries and repairs in service contracts that rely on trade with the EU are likely to face a surge in complaints and demands for compensation from customers.

Across the EU, UK products that had been supplied under valid EU licenses are likely to be running out.

- While it is unlikely EU retailers will remove UK-produced goods from the shelves, it is likely they will question the legality of selling them if the goods require EU licenses.
- When it comes to re-ordering new products, the need for legal reassurances and even relabelling and retesting could lead to gaps in the shelves where UK products used to be, and EU consumers seeking alternatives.
- Similarly, in industrial relationships, EU-based manufacturers will be questioning whether UK-produced components are licensed to be incorporated into their goods.

Week 4 of No Deal – The situation begins to feel permanent

As stockpiles begin to run down and Black Friday hits, a new wave of problems will hit ports and store shelves.

- By this point, procedures at ports and within supply chains will be settling to some degree. Firms trading regularly will get used to the new requirements and tariff levels and apply for mitigation measures.
- Customs enforcement staff will begin to improve their coordination and processes based on the experiences of the last few weeks.
- However, many manufacturers will have exhausted their stockpiles of raw materials and components and need to start ordering again.
- Additionally, many food manufacturing companies will have used up their stockpiles of perishable ingredients, again adding more lorries to the roads as they are forced to resume orders and risking a new surge of shortages of UK-produced goods on shop shelves.

Throughout this period, the political situation will be volatile and unpredictable.

- Both the EU and the UK are likely to blame one another for the breakdown in talks.
- The UK Government cannot solve the Northern Irish border independently and UK-Irish relations will be very tense due to issues over the border.
- Political pressures may drive the Government back to the negotiating table with the EU in an attempt to mitigate the impacts of no deal. But the EU's terms are unlikely to have changed.

In the months after no deal takes place, volatility will continue

Talks about the Irish border will be inevitable in the months following no deal.

- At some point, checks will need to be gradually re-imposed in or around the Irish border.
- In order to avoid this and the ensuing political and economic tensions, politicians in the UK and the EU will need to try and come to some form of settlement.
- What this settlement looks like, and whether this leads in time to a full free trade agreement between the UK and the EU, cannot be known at this time.

Eventually, companies that had been holding back on further operational and strategic decisions following a no deal will begin to make them.

- Companies such as broadcasters that had moved licenses but not significant numbers of staff to the EU, and firms that had held back from moving HQs and data centres, will reach the point of no return and put start putting those plans into action.
- UK companies will likely be forced to consider sub-contracting service contracts to others as limitations on mobility of workers hinder ability of British workers to travel to EU countries, such as the British engineers travelling to repair aircraft or install IT systems.

The UK Government will take steps to mitigate some of the consequences of no deal

- The Chancellor is likely to call an Emergency Budget, in order to stimulate consumer spending and to discourage companies from moving HQs out of the UK. Measures may include temporary VAT changes for particularly affected sectors, and financial support for SMEs. This could take place either just before Oct 31st or just after, or there could be two Budgets.
- The UK will have to find new ways to defining itself in the eyes of the world and international investors on the global stage.
- The UK will also work hard to secure Free Trade Agreements with other nations to partially offset some of the damage to trade from no deal. Likely early contenders for these new FTAs are New Zealand and Australia.

Over the months and years after no deal, temporary mitigation measures will expire.

- Some will trigger the need for further negotiations between the UK and the EU, for example in aviation.
- Some will create additional mini cliff-edges, for example when the UK begins to re-impose tariffs on the majority of imports, and when transitional simplified customs procedures fall away. More information can be found on these in the CBI briefing No Deal Mitigations Over Time.
- However, even if no full free trade agreement is secured, the UK and the EU will also likely come to agree a range of third-country equivalence decisions that are available to any non-EU nation that meets the EU's standards – for example to permit data flows and around financial services equivalence. This should also ease and improve the relationship between the UK and the EU somewhat after no deal.