Brexit

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Brexit - a brief summary of where we are

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INTRODUCTION

Two years after the Referendum, the direction that Brexit will eventually take is still not clear. With the Prime Minister demanding that her party back her latest proposals 'or Brexit won't happen', we have tried to take a step back and present a clear, simple and – most importantly – unbiased guide.

THE BACKGROUND

It seems like an eternity ago but on 23rd June 2016, the UK voted to leave the European Union, with 17.4m people voting Leave and 16.1m voting to Remain. Before the referendum, then Prime Minister David Cameron had sent a leaflet to every household in the UK stating that voting Leave meant leaving the Single Market and the EU Customs Union: more of that later.

By the following day, David Cameron was PM no longer and – after a mild bout of Tory infighting – vicar's daughter and MP for Maidenhead Theresa Mary May became Prime Minister, famously standing on the steps of 10 Downing Street and declaring that, 'Brexit means Brexit'.

WHEN IS THE UK DUE TO LEAVE THE EU?

Theresa May formally gave notice of our intention to leave the EU in March last year, and we will leave on Friday 29th March 2019 – so as you read this, in almost exactly eight months' time. But – and this is about the biggest 'but' there has ever been – we do not yet know on what terms we are leaving the EU. The government has only just published a White Paper on the subject. It is by no means certain that it will get its proposals through parliament, and there are absolutely no guarantees that the EU will agree to the proposals either.

WHAT DOES THE WHITE PAPER SAY?

It says a lot – it runs to 100 pages – but these are the main points:

The UK will maintain a 'common rulebook for all goods' with the EU, including agricultural products. There will, however, be different arrangements for services (such as financial services) where it is 'in our interests to have regulatory flexibility'.

A treaty will be signed committing the UK to 'continued harmonisation' with EU rules which is intended to avoid friction at UK/EU borders, including Northern Ireland.

Parliament will oversee the UK's trade policies. It will be able to 'choose' to diverge from EU rules, but would need to recognise that 'this would have consequences'.

The UK would still need to take notice of rulings from the European Court of Justice with a 'joint institutional framework' established to interpret UK/EU agreements.

According to the government, these arrangements would:

- Give the UK an independent trade policy with the ability to set its own non-EU tariffs and negotiate trade deals
- End the role of the ECJ in UK affairs
- And end the UK contribution to the EU budget, 'with appropriate contributions in specific areas'.

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WHAT DOES THE WHITE PAPER SAY?

According to the government's critics, it does nothing of the sort, leaving the UK still liable to EU rules without having any say in how those rules are made. Brexiteer Jacob Rees Mogg said it would turn the UK into 'a vassal state' and was a very long way from leaving the Customs Union or the Single Market.

The devil, of course, is in the detail – as above, the document is 100 pages long. But despite Theresa May supposedly having cleared it with Angela Merkel before she presented it to her own cabinet, there is no guarantee that all 27 EU countries will accept it. As has been said many times, 'nothing is agreed until everything is agreed'. That raises the spectre – or the opportunity – of a 'no deal' Brexit, with the UK leaving the EU in March 2019 and operating under World Trade Organisation rules.

WHAT WOULD A 'NO DEAL' BREXIT LOOK LIKE?

This is perhaps the area where it is hardest to get an unbiased opinion. Every news source we used in writing this piece has its own stance on Brexit, and makes no secret of the fact. But as we mentioned above, the Foreign Secretary is now openly warning of the UK leaving the EU without a trade deal in place which, he says, 'would benefit no one but Vladimir Putin'.

Perhaps the simplest option is to outline the two extreme cases.
First the bad news…

Leaving the EU without a trade deal would mean that the UK leaves the Single Market and the Customs Union and trades with the EU under World Trade Organisation rules. There would be no 'transition period' with the EU, meaning that on 30th March 2019, the UK would face a 'cliff edge'.

Currently, there are no customs checks on goods moving between the UK and the EU: under WTO rules there would need to be both customs checks and tariffs, with the tariffs imposed – according to a recent parliamentary report – 'across a wide range of sectors'. Farmers, for example, would face a 30-40% tariff on exports to the EU: car parts would face a lower tariff of perhaps 5%.

The Treasury has forecast that this would push the UK into recession and 'lead to a sharp rise in unemployment' of as much as 820,000 over two years, with the pound falling by a further 15% and inflation rising by 2.7%.

Inevitably, customs checks would lead to 'widespread chaos' at ports and airports, with the Economist predicting that everyday items like butter and yoghurt would instead become 'occasional luxuries'.

But there are two sides to every coin. Supporters of a 'no deal' Brexit point out that Britain already trades successfully with countries like the US, Japan and Australia under WTO rules and say that 'no deal' is emphatically better than 'a bad deal.'

According to the Economists for Free Trade Association, leaving the EU with 'no deal' would actually boost the UK's Gross Domestic Product (GDP) by 4% once the cost of dealing with the EU and the benefits from free trade are taken into account. Over the longer term – up to 15 years – this boost could rise to 7% once all the benefits of leaving the EU, such as a clamp down on immigration and free trade agreements with countries like the US, are added in to the mix.

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WHAT WOULD A 'NO DEAL' BREXIT LOOK LIKE?

The simple answer is that we just do not know. Perhaps the best assessment comes from the International Monetary Fund (IMF) who warn that both the UK and the EU would suffer from a 'no deal' Brexit, with the EU's GDP falling by up to 1.5% if the UK leaves without a trade deal. The IMF's analysis suggests that countries like Austria and Finland would be relatively unaffected – but that Ireland's GDP would take a 4% hit.

That 1.5% fall in GDP translates to a loss of approximately £190bn and 1m jobs according to the IMF – which also sees a 'hit' for the UK, leading it to downgrade its forecast for long term UK growth earlier this year.

Many believe that a deal will be reached with the EU. But despite new Brexit Secretary Dominic Raab's suggestion that it 'could be as early as October', March 2019 looks more likely. And quite possibly, late in the evening of March 28th…

WILL THERESA MAY BE REPLACED AS TORY LEADER?

Before the next election? Possibly. Before the UK leaves the EU? It looks unlikely. Backbench Tory MPs need to hand 48 letters to the Chairman of the 1922 Committee saying they have 'no confidence' in the PM to trigger a leadership election. Even if they do that, May could win the ballot and remain as PM. Despite the dark mutterings, it seem probable that May will find a way to win a series of Commons votes on her proposals and find a way to cling on to power until we have left the EU.

WILL THERE BE ANOTHER REFERENDUM?

There have been plenty of calls for one, and the EU does have a history of getting countries to keep voting until they come to the 'right' decision. But again, it looks doubtful. 16.1m people probably would want another referendum, 17.4m would not. Politicians would be unlikely to want to go down that route: a second referendum raises some fundamental questions about democracy. And if a second referendum, why not a third or a fourth?

WHAT DOES BUSINESS WANT?

Inevitably, there are a range of opinions. Mark Carney, Governor of the Bank of England, echoed the views of many – including the CBI – when he expressed a strong preference for the UK to remain in the EU. Businessmen – and bankers – who voted Remain, almost certainly now favour the softest of soft Brexits.

Others – Tim Martin, boss of Weatherspoon's, would be a good example – have been consistently outspoken in their support for Leave, arguing that we simply do not need to make deals with unelected EU officials.

But what business wants more than anything is certainty. No business could take a major decision that would impact existing trading relationships but also open up potentially huge new markets – and then still not have done anything about it two years later.

As Tony Soprano famously said, 'A wrong decision is better than indecision.' And you suspect that business would now settle for any firm decision from the government over the current uncertainty.

SAVINGS AND INVESTMENTS

As it is with business, so it is with stock markets and – by extension – your savings and investments. The UK stock market has risen since the Brexit vote was taken and – as we write – is at 7,724 which is not too far below its all-time high of 7,877. At a time when the US and China are embarking on a trade war, that is an encouraging performance. But all stock markets in both the UK and Europe would like to know where they stand with Brexit.

The problem – as we noted above – is that 'nothing is agreed until everything is agreed.' The Government's proposals have to get through parliament and – ultimately – agreement needs to be reached with both the EU's negotiators and 27 other EU members. There are a lot of miles to go and a lot of last minute deals to be done before we discover what our country will look like on 30th March next year.

The only certainty at the moment is that we will be here to answer your questions over the next eight months. Whatever direction the Brexit negotiations take, rest assured that we will always be happy to deal with your queries: we are never more than a phone call or an email away.

*This article was written on the morning of Tuesday 24th July and any subsequent developments will not have been covered on this basis.

creative benefits

Head Office
Stephenson House
2 Cherry Orchard Road
Croydon
Surrey
CR0 6BA

t 020 3053 4844
f 020 3053 4845
e info@creativebenefits.co.uk

www.creativebenefits.co.uk