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PARTICIPANTS:

DAVID DOLLAR

Host

Senior Fellow, Foreign Policy and Global Economy and Development programs

AMANDA SLOAT

Robert Bosch Senior Fellow, Center on the United States and Europe

(MUSIC)

DOLLAR: Hi, I'm David Dollar host of the Brookings trade podcast, Dollar and Sense. Today our topic is Brexit and our guest is Amanda Sloat, senior fellow at Brookings in the Center on the United States and Europe. Welcome Amanda.

SLOAT: Thank you.

DOLLAR: So, what we want to mostly talk about is substance. But let's begin with a little bit on process. What are some of the key deadlines in the next couple of months that people should keep in mind?

SLOAT: So, we're already passing the one major deadline that had been in place which was March 29. Everybody had been expecting that to be the day that the UK was going to leave the European Union. That clearly did not happen. And so now we're in a slightly uncertain period. The British Parliament has failed to ratify Theresa May's deal twice. One thing that they did agree on in mid-March was a request to the European Union for an extended Brexit deadline. Theresa May went to the European Union in mid-March, asked for an extended deadline until the end of June, and the EU said they would give her a *flex* extension. So, they have said that they will give her until April 12th to pass her deal. And so, that is the new most immediate deadline we are working towards, in which Parliament is seeing if they can meet. If the deal does pass, she has until May 22nd to adopt the necessary implementing legislation. If she can't get her deal through, she needs to go back to the EU by April 12 to say if the UK is either going to crash out with no deal or if she wants to request a longer extension.

DOLLAR: And I gather that May 22nd date is tied in with European elections.

SLOAT: Correct. So, the European Parliament is scheduled to have elections. Those will be held between May 23rd and 26th, different member states hold them on different dates. But the EU has been very clear that they want the UK either fully out before those European Parliament elections or if the UK wants to have a longer extension

the UK needs to commit to holding European Parliament elections itself.

DOLLAR: So, it's really hard to imagine the UK having those parliamentary elections, so I think of that May 22, May 23, that's really a pretty firm deadline.

SLOAT: It is. It is. Unless we end up with another series of gridlocking events which is possible, the UK still can't come to some sort of agreement on a way forward. At that point though we would potentially be looking at an extension of over a year. This, of course, strikes fear in the heart of the hard Brexiteers who are worried that that could allow Brexit to slip away. For people that don't support Brexit this gives them some optimism that perhaps you can have general elections, you could have a second referendum, something could happen in that intervening period that would make Brexit less likely.

DOLLAR: OK, so let's turn to substance. What are the Brexiteers trying to achieve? Why did they want to pull out of the European Union?

SLOAT: So, there was a number of things that were guiding the debate over Brexit. The UK has always been a slightly uncomfortable participant in the European Union. It joined late. Once it did join Margaret Thatcher famously negotiated a rebate on the UK's budget contribution, and the UK has negotiated opt-outs from two of the flagship policies of the European Union: the Euro and the Schengen Single Travel Area. There's also long been a debate within the Conservative Party about the degree of closeness that people wanted to have with the European Union.

So, for many of the Brexiteers, this was all about taking back sovereignty, taking back control of the UK's ability to make its own economic decisions. So, in particular, they wanted to have the freedom to negotiate their own free trade agreements. They didn't want to be bound by EU regulations. They didn't want Brussels telling them they needed straight bananas and they had to work a certain number of hours. They wanted to end the authority of the European Court of Justice over the UK; for a country that's used to having its own empire, ceding a certain amount of sovereignty to foreign institutions, foreign

courts has been anathema. And there's also been a lot of frustration with the idea of single movement. The idea that people living in Central and Eastern Europe, in other parts of the European Union, could move to the UK and take jobs—and certainly some of these fears were fueled during the migration debates in 2015 right before the Brexit referendum was held. So, a lot of this really was driven by sovereignty, a desire for control, a desire for control over rules, and a desire for control over borders.

DOLLAR: So, those objectives seem very clear, and it's been almost three years since we had the original Brexit vote, right? So, why is it so difficult to achieve these objectives?

SLOAT: It's been difficult because the vote result was very narrow. It was around 51 to 48 percent in favor of Brexit, so that was a narrow result to begin with. Second, a year later Theresa May, who became prime minister after David Cameron stepped down as prime minister after he lost the referendum, decided to have a snap election. The idea of the snap election was she thought she was going to bolster her majority in Parliament. This was going to strengthen her negotiating position, and instead she had a disastrous result. The Conservative Party lost its governing majority, so they had less of a mandate to negotiate their form of Brexit. She became reliant on the Democratic Unionist Party, which is the hardline Unionist Party in Northern Ireland. And Labour also gained seats, but not enough to put its own majority forward. So, you have somewhat conflicting objectives in terms of the referendum results, and also in terms of the general election results.

Additionally, the EU has insisted on sorting out the divorce before sorting out the future. But the problem is a lot of these debates about sorting out what the divorce decree looks like have become wrapped up in these ongoing debates, similar to the ones that actually precipitated the referendum in the first place, about how closely linked the UK wants to be with the EU in the future.

The final thing I would say is all of this has really come together in essentially a

proxy argument over Northern Ireland and its border. And Theresa May's negotiating stance has been what some analysts have referred to as a "trilemma," in that Theresa May has had three aims: One, to leave the EU single market and customs union, which is in accordance with these Brexiteers' desire to have more economic independence. Second, she wants to prevent a hard border with Ireland, which is something that the EU shares. And third, she wants to have a country-wide approach to Brexit, so she doesn't want Northern Ireland to be treated any differently from the rest of the UK, which is something that the DUP propping up her government is very keen on. The problem is these three things are incompatible. You can have two of them, but you can't have all three.

DOLLAR: Right. So, I just want to emphasize the importance of that. If you're in a customs union, you have to have a common external tariff, and so you can't really have an independent trade policy at least around tariffs, which is what a lot of trade policy is concerned. So, if stuff is coming in, then if it's going to be transiting around the rest of the zone duty free, then you have to have a common external trade policy.

SLOAT: Absolutely, absolutely. And that comes to the situation of Northern Ireland and why Northern Ireland has made things so complicated. So, at the moment, Northern Ireland of course is part of the UK. The UK and Ireland are both part of the EU's Customs Union and Single Market. After Brexit, the UK will leave the Customs Union and the Single Market. And so, as you said, in order to maintain checks on the goods that are coming into that common tariff area you need to have checks on the border. But given the legacy of violence in Northern Ireland, given the history of conflict, the legacy of army checkpoints, police checkpoints, the idea of imposing any sort of physical infrastructure is not only going to be inconvenient to people that are used to living on a very open border, but it's also going to be very psychologically damaging to people there. And so, all of this debate is now what do you do about the situation in Northern Ireland?

What the European Union had said is we want to negotiate some sort of new

economic arrangement with you, the UK, in the future. Once we finalize the divorce, we can start negotiating what that looks like in the future. But just in case we are not able to reach agreement on the future, we want to protect Northern Ireland, and we want to protect our Customs Union and our Single Market. And so, the backstop essentially says that until these future arrangements are sorted, the entire UK will remain in a customs union with the European Union and there will be additional Single Market regulations on goods and agriculture products that apply to Northern Ireland all in an attempt to minimize the need for intrusive checks on the Irish border.

DOLLAR: So, if the UK were able to pursue an independent trade policy, are there good ideas about where it would look first? You know there's been talk about a free trade agreement with the United States, perhaps with China, you know, is there a real negotiating agenda there?

SLOAT: So, this is one of the things that people in the UK are starting to talk about. One thing that's quite striking is the UK has not had any trade negotiators because for the last 40 years the European Union has done all of the trade negotiations. So, for starters the UK needs to start hiring some negotiators to actually start making these deals.

Second, as you'll know, trade deals take many years to negotiate. So, none of this is going to happen quickly. In terms of where they would look, there have been lots of conversations that the UK has been having with the United States. President Trump, of course, has been quite enthusiastic about the idea of having a free trade agreement with the UK, contrary to President Obama who went to London in advance of the referendum and said the UK would be in the back of the queue. Trump has made very clear that Britain would be a priority moving forward.

The challenge, of course, for the UK with the United States is Trump would be a very hard negotiator and would want them to swallow things that they don't necessarily want to such as chlorinated chicken, other American agricultural products, there's also

concern about pharmaceutical pricing debates. But the U.S. certainly would be the first place.

Second, the UK would be likely to look to the Commonwealth countries, where they already have existing economic ties and they could potentially look for closer economic relations with those countries. The challenge I think they're going to face with some of these countries is that they're presumably going to want greater access for their workers to be able to move to the UK. And so, if part of the decision to leave the European Union was to stop free movement of people and to gain control over borders, the UK is going to have to make decisions about how much movement they're going to want to allow. Obviously, in a more controlled way than the EU, but at the same time how many of these foreign workers are they going to want to give access to the UK market as part of some sort of trade negotiation.

DOLLAR: What you just explained there, Amanda, helps make the whole thing more concrete for me. You know, if the UK were to have a free trade agreement with the United States, a key issue for the U.S. is agriculture. For example, the U.S. would probably want the UK to accept genetically modified organisms, GMO food. And yet, the European Union has very strict regulation against that. And that illustrates why if you have an independent trade policy toward the world, you can't really be in a Customs Union with the European Union, because you don't want that GMO food coming into the UK and then transiting freely into the European Union against their regulations. So if you have an independent trade policy, you pretty much have to have a border, basically a customs border.

SLOAT: Absolutely. So, the UK government has to make a fundamental decision about whether or not it wants to stay closely aligned with the European Union, which is a major trading partner, and the more closely aligned it is the easier it is to manage the situation in Northern Ireland. Or do they want to allow deviation, which gives them the

potential to say, we're okay with genetically modified foods, and we're okay having that as part of our free trade agreement with the U.S. If you do that, you're now going to have a greater situation at the Northern Ireland border because the EU is going to want to ensure that none of your GMO products are transiting the border and entering into their single market.

DOLLAR: I checked some data before I came to our discussion and about half of the UK trade is with the European Union, and that's about six times as much as the UK trade with the U.S., nine times as much as the UK trade with China. And this reflects one of the realities of trade, which is that geography is destiny. You tend to trade most extensively with your immediate neighbors. Now the European Union is growing rather slowly, the U.S. somewhat better, China really, really quickly. So, it's understandable the UK may want to have better access to the faster growing markets. But given that it's got 50 percent of its trade with the EU, it's really giving up a lot if it's putting a real customs border between itself and its biggest client.

SLOAT: Absolutely, absolutely. And so that really is at the crux of the debate that's happening now in the UK, and it's going to be the decision that they're going to have to make going forward.

DOLLAR: We hear a lot about the "Norway model." Can you say a little bit about the Norway model and is that attractive to the United Kingdom?

SLOAT: Again, it depends who in the United Kingdom you're talking to. So, Norway is not a member of the European Union, but it is as close as possible. So, Norway is part of the European Economic Area, and it's part of the EU Single Market. So that means it has almost the same level of tariff and barrier-free trade with EU countries as the UK currently has, plus it has the ability to strike its own trade deals with non-EU countries. So, Norway is not in the Customs Union, which is why it can negotiate its own free trade deals. That would be a problem for Northern Ireland for all of the reasons we just talked about.

And so, people will often talk about Norway Plus, with the idea of the plus being that you need additional administration and technical checks. But Norway is in the single market, and so that gives them tariff-free trade with the EU.

The pros of this is that Norway has managed to negotiate exceptions. So, they're not part of the EU's common agricultural policy, they're not part of the Common Fisheries Policy. So, they do have some tariffs on trade in those goods, but it gives them more national control over major industries. Norwegian services have the same rights as EU members. And they can also negotiate free trade agreements as I said but they tend to be more shallow agreements because of their alignment with the European Union.

Now the major cons from the British perspective is that Norway is part of the single market and so it accepts what are known as the EU's Four Freedoms: the free movement of goods, of services, of people, and capital. This goes against what I identified as one of the main drivers for Brexit, which is wanting to gain control over borders and wanting to prevent EU nationals from other countries moving to the UK to work. And so, that is going to be one of the reasons why hard Brexiteers are not supportive of the idea of Norway because it does not fulfill this guarantee that they can control their borders. Norway also pays into the EU budget. They also answer to one of the EU's courts. And they're a rule taker rather than a rule maker. They are accepting the rules and the regulations that the EU is deciding that determine the operation of the single market, but because Norway is not a member it does not have a seat at the decision-making table.

So, again, the Norway model would answer some of the things that supporters of Brexit want, particularly in terms of limiting free movement. But there also would be a lot of downsides because there still would be restrictions but without having a seat at the table.

DOLLAR: And there's still that customs border.

SLOAT: And you would also need to have an additional customs border. So, the UK could decide that they want to be in the Customs Union, which means that they don't have

to deal with these four freedoms. But then that suggests that they can't negotiate their own free trade agreements. They could just be in the single market the way Norway is but then that doesn't give them control over movement. So, what many are currently looking at is having more of a free trade agreement. People often refer to the "Canadian model" where there's almost completely tariff free trade. There're still some regulatory barriers to trade, you know, freedom to negotiate other trade agreements. But, again, you still would have these tariff issues, which means that you're going to have customs implications at the Northern Ireland border. So, again, it all comes back to this question of degree of regulatory alignment and then the spillover effects that that's going to end up having on the border with Northern Ireland, as well as which problem you want to solve and which new problems you're willing to take on as a result of that decision.

DOLLAR: So, let's talk a little bit about a no-deal Brexit. Parliament has voted that they do not want a no-deal Brexit, but one could happen almost by default. So, what would a no-deal Brexit look like?

SLOAT: You're right that Parliament has been very clear that they don't want to no-deal Brexit. That of course is simply a symbolic statement because the only way to avoid no-deal is to agree on a deal or to say we don't actually want Brexit to go forward. So, all of this talk of taking a no-deal Brexit off the table is really just talk. A no-deal Brexit, which people often refer to as well as a hard Brexit, would provide clarity in the sense that everything would end immediately, but it would be very chaotic because there would have to be scrambling to make piecemeal arrangements to put everything into place. So right now, the UK and the EU have agreed on a withdrawal agreement. This is what Parliament has not yet ratified, but there is an agreement in place, and that seeks to facilitate a smooth end to current arrangements. It envisions a 21-month transition period that would run until the end of December 2020. During that time, the UK would remain a member of the European Union with all of the rights and responsibilities, but it would not have a vote

in the decision-making institutions. The idea is that during that time goods that are placed on the market could reach their destinations. Ongoing police and judicial cooperation could be wrapped up. Citizens and businesses could begin adjusting to the new reality. And the hope is that during that transition period the two sides would reach some sort of agreement on the future economic relationship. None of that would be in place if there was a hard Brexit.

That second part of the withdrawal agreement protects the rights of the 3 million EU citizens living in the UK, and the 1 million British citizens living in the European Union. If you're a retiree from Britain living in Spain, can you still get your Social Security check? Can you still get free healthcare on the Spanish system paid for by the British government? All of that would have to be negotiated from scratch. In addition, there would be border checks in Northern Ireland. In principle, both the UK and Ireland have said that they don't want to impose those but by definition of the UK leaving you would need to have those checks. On the economic side, the UK would become a third country with less access to the EU single market and the UK would begin trading with the EU under WTO rules. And so all of the tariffs and all of the regulations governing that trade would happen on the WTO basis because all of the negotiated agreements that the UK currently has as part of the EU customs union and single market would end. And so, that's why there's a lot of talk about potential food shortages, medicine shortages, disruption in the supply chain, queues of trucks waiting to cross new customs borders from France coming into England, as well of course as the situation in Northern Ireland.

DOLLAR: Right, so there have been a number of articles or almost estimates of what might happen under a no-deal Brexit. I would just point out that any kind of estimate is incredibly uncertain because this is a unique event. So, it's really hard to know what would happen. Paul Krugman had a good column about this a few months ago that some of the more dire predictions probably would not pan out because the UK government could

do various ad hoc things allowing in pharmaceuticals, food, et cetera. But still it seems highly risky, and the fact that you can't really predict what would happen under this scenario, that's a good reason to not go down that road.

SLOAT: Absolutely. The government has come out in the last couple of weeks with some contingency planning. One of the things that is said is that it would not impose tariffs on, I think, over 80 percent of goods coming in initially from the EU because it doesn't want to have sticker shock on its citizens. There would be an increase in a number of goods—cheese and cotton underpants were two of the ones that stood out in their plans that that could suddenly be subject to much higher tariffs. But that's something that would need to be sorted out over time, and the EU of course needs to make its own decision about what tariffs it's planning to impose on goods coming in.

So, certainly, all of these things could be resolved in the medium term, but there would be a degree of economic uncertainty and chaos in the short term. And while we're talking about the uncertainty, it's been very difficult for British businesses, let alone international businesses operating in the UK, that we are now past what was supposed to be the initial Brexit deadline, and there still is not clarity on whether or when or how this is going to happen.

DOLLAR: So, as we're discussing how difficult this all is, I wonder is there any chance there could be a second referendum? Is there a chance there could be a reversal of believed decision?

SLOAT: So, there's two possibilities. One is that the UK could revoke Article 50. Article 50 is the treaty mechanism by which the UK told the European Union that it wants to leave. Last November, the European Court of Justice said that the UK has the unilateral right to revoke Article 50 and say, "we simply want to stop this process. We want to stay in under our current terms and make the entire thing end." There has been a petition over the last week with a growing number of signatures, so many signatures that the website keeps

crashing, of people saying that they want this to happen. Prime Minister Theresa May has continued to rule that out, she is adhering very strongly to the results of the referendum, saying that this is what the British people want.

The second possibility, as you mentioned, is a second referendum, and that would potentially put the question back to the British people of whether or not they want to move forward with this. At the moment Theresa May is not supportive of a second referendum. Labour leader Jeremy Corbyn is quite lukewarm on the idea of a second referendum. He's a lifelong Eurosceptic, actually quite supportive of Brexit, would prefer a softer Brexit, and he would like a general election because he thinks he could negotiate a better deal. But the bigger problem is there's no majority in Parliament to actually legislate for one. Assuming you could get a majority to go forward with a second referendum, which is one of the things that's been discussed in the last week or so, as Parliament looks at the idea of holding indicative votes on options. It took seven months for Parliament to prepare the first referendum. Parliament needs to agree on the question that would be asked, and there's been a lot of debate on what that question would be. And even if you look at opinion polls within the general public it all depends on the way the question is framed. If people are asked, "Do you want a second referendum on Theresa May's deal?" people tend to be more inclined. If you say to people, "Do you simply want a rerun the original referendum: stay or leave?" people are less enthused about that. And while polls are showing a narrow shift towards the idea of remaining, especially among young people, some of whom were not old enough to vote three years ago when this happened, there is a shift towards support for remaining, but it's very, very narrow, and it's so it is not an overwhelming change in public support in the direction of remaining. So, it's possible, but difficult at the moment to see how we would get there.

DOLLAR: Okay, so last question, Amanda, am I right listening to you, it sounds like the U.K. faces difficult tradeoffs, it's likely to be still debating and negotiating these for quite

some time even if there's some initial agreement in the next couple of months?

SLOAT: This process is going to go on for years in some form. We are barely at the end of the beginning, so even if there is a deal that is ratified by Parliament, the UK and the EU still need to negotiate their future economic relationship. As I mentioned it's currently 21 months that are budgeted for that process. That could end up being extended, because as we have been discussing it's a fundamentally difficult choice that the UK needs to make in terms of whether it wants to align with its closest neighbors or whether it wants to have the freedom to strike out on its own, albeit with many complications for its own domestic situation with Northern Ireland. So, this is going to be plaguing both sides for many years to come, I fear.

DOLLAR: And that's a good reason why I'm happy you explained it so clearly because we're going to see headlines about Brexit it for a long time to come. Thank you very much, Amanda.

SLOAT: Thank you.

(MUSIC)

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollars and Sense every other week. So, if you haven't already, make sure to subscribe on Apple podcasts or wherever else you get your podcasts and stay tuned. Dollar and Sense is a part of the Brookings Podcast Network. It wouldn't be possible without the support of Shawn Dhar, Anna Newby, Fred Dews, Chris McKenna, Gaston Reboredo, Brennan Hoban, Camilo Ramirez, Emily Horne, and many more. If you liked the show, please make sure to rate it and leave us a review. Send any questions or episodes suggestions to bcp@brookings.edu. And until next time I'm David Dollar, and this has been Dollar and Sense.