

Possible Future Scenarios of UK-EU Relations



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The United Kingdom's vote to leave the European Union – or “Brexit” – has fundamentally changed the relationship between the UK and the EU. The UK's deal with the EU last October ensured that the UK would leave EU institutions. The passing of the Withdrawal Agreement effectively settled the outstanding questions of EU citizens' rights and the UK's financial settlement, and implemented an arrangement to avoid the re-emergence of a “hard border” between Northern Ireland and the Republic of Ireland. This arrangement included a regulatory and customs border in the Irish Sea. These details are now set in an international treaty, which was ratified by the EU and the UK, and then enshrined in UK law in January 2020. If all goes to plan, the UK will end 47 years of membership on Jan. 31, 2021 and start to build a new position in the world, which Prime Minister Boris Johnson calls “Global Britain”. But where will this leave the UK and the EU? What future relationship will emerge between these two actors? And what might that mean for the rest of the world? These are the questions that I will explore in this essay.

Negotiating a New Beginning

The 2019 general election was widely seen as the “Brexit election”. On one side stood the Conservative Party leader, Johnson, who promised voters that he would “get Brexit done”. On the other side stood the Labour Party and its radical left-wing leader, Jeremy Corbyn, which offered the electorate a second referendum and promised that it would campaign to remain within the EU. In the end, and after three years of wrangling over how to implement Brexit, Johnson won the general election and was handed the largest majority for any Conservative Party leader for more than 30 years, since Margaret Thatcher won her third and final victory in 1987. He did so by fundamentally changing the electorate of his party, winning over large numbers of working-class and non-university educated voters in northern England who had voted for Brexit.

Along the way, Johnson demolished Labour's “Red Wall” – a cluster of seats in northern England that have voted Labour for decades. The striking election result essentially “got Brexit done” by allowing Johnson and his pro-Brexit team, albeit during the unexpected coronavirus pandemic, to pass the Withdrawal Agreement, which they did in January 2020. But what this did not do is determine the future shape of the new relationship between the EU and the UK, which remains unclear.

After passing the Withdrawal Agreement, the UK entered a “transition period” when few voters noticed much difference in their

relationship with the EU. This period, however, is now scheduled to end on Dec. 31, 2020, as the UK had earlier declined the option of requesting an extension in the summer. This period has been used to negotiate a new trade deal between the two sides, which will form the basis of their new, longer-term relationship.

Such a deal will likely be “thin” in nature, covering mainly goods while leaving lots of unresolved questions for services and manufacturers, who from 2021 onwards will have to navigate new checks and delays at the border. A thin deal between the two sides is the most likely outcome because the UK has imposed “red lines” that left the country unable to consider a “thick” deal that would have seen the UK stay closely aligned to the single market and customs union (which Brexiteers call BRINO – or “Brexit In Name Only”). The EU is also keen to avoid the considerable economic damage that would flow from a no-deal Brexit and coincide with the coronavirus fallout, and so it too has incentives to strike a thin free trade agreement in order to meet the deadline and minimise disruption.

Both sides agree that a thin deal will cover tariff- and quota-free access for most goods. It would avoid tariffs, unlock additional benefits, allow for EU and UK customs cooperation, ensure that the Northern Ireland protocol is implemented and provide a strong foundation on which the two sides could build a deeper relationship in the future. Such an agreement will still require businesses on both sides of the Channel to adapt to new customs procedures, regulatory requirements and restrictions on cross-border services. But exiting the transition period with an FTA in place is certainly preferable to the far more negative economic effects that will flow from a no-deal Brexit. It would also help Johnson politically, who would be able to say that he has struck a middle-ground between the more radical “no deal” and reneging on his promise to deliver a meaningful break from the EU.

An FTA would prevent tariffs being levied on goods that are traded between the EU and UK, increase the chance of the EU treating UK financial services and data regimes as equivalent to its own and increase the scope for EU and UK customs authorities to cooperate. It would still result in new non-tariff, regulatory barriers to trade. But the fact that it could remove all tariffs and quotas is significant. For British exporters of products facing high tariffs, like the British car industry, duty-and-quota-free trade will be absolutely essential if they are to remain competitive. An agreement will not come close to replicating the near-frictionless trade the UK enjoyed as an EU member but it could lower the regulatory hurdles that will emerge. It could also reduce the rate of physical inspection at the border. A trade deal could also create a framework for the continued recognition of professional

qualifications in the EU and UK, and make it easier for people to fulfil short-term services contracts in both territories.

In terms of EU and UK cooperation more generally, a trade agreement would also likely include provisions that formalize cooperation between their respective customs agencies. It would create a positive working environment, rather than the strained relationship that would accompany a no-deal Brexit, and show goodwill on both sides. Customs cooperation would create opportunities for both parties to work together to ensure that approaches are co-ordinated, information is shared, and that EU-UK borders do not grind to a halt in early 2021. The UK has already announced unilateral measures to make customs simpler, including making it possible for importers to defer submitting customs declarations for up to six months. But it would be more effective if these measures were co-ordinated with EU customs authorities.

Perhaps most importantly, an FTA would provide a platform on which the two sides could build a new relationship. Any agreement that the EU and UK negotiate in time for the end of the year will not be the final word on the relationship. Inevitably it will evolve over time, and the existence of an FTA, however basic, provides a foundation on which to build.

It is possible that a future UK government will have a different approach to the EU and seek to improve the relationship where possible. Beyond trade, it would be unsurprising if a future government wanted the UK to be covered by European Health Insurance Cards, like other non-EU European nations. But such agreements are easier if there is already a relationship structure in place. Some Brexit campaigners do not want a deal between the EU and UK, and instead prioritize a trade agreement with the United States, because they believe it will guard against future UK reintegration with the EU. But they do not represent the majority view in the UK. Most people, when asked, favor a compromise with the EU.

Concluding an EU-UK agreement on the future trading relationship before the end of the year will require such compromises. Ideally, the EU and UK would reach a more comprehensive agreement, covering research, social security cooperation and justice and home affairs (as well as foreign and security policy, which the UK has refused to discuss at all). But even if that proves impossible, and even though the end of the transition period will bring big changes and disruption no matter what, a deal would still be preferable. In the end it looks likely that this will be a “piecemeal agreement” that allows the UK to depart but leaves some issues unresolved and on the table. Therefore, irrespective of whether there is a deal or not, from 2021 onwards there will be significant new barriers to trade involving customs checks, regulation and an end to “mutual recognition” across a wide variety of products and services.

The No-Deal Outlier

Should that deal fail to emerge then we will instead be looking at a no-deal Brexit. Failure to reach an agreement would inevitably mean more economic friction between the EU and the UK and require extensive preparations. It would also remove that foundation on which to build a longer-term future relationship and sour relationships

between the UK and the EU perhaps for a generation, or more. It would mean a less effective security relationship and less cooperation on a whole range of issues. Subsequent agreements to try and lessen the worst effects of a no-deal Brexit could minimise disruption in some areas, but they would not replicate the breadth and depth of an FTA. Under a no-deal scenario there would be no agreement on trade, aviation, transport links, fishing, security and cooperation in the legal sector. It could also potentially mean that the UK is also not given so-called “equivalence” for financial services.

Some in government suggest that the ongoing challenge of coronavirus makes a no-deal Brexit easier because economic disruption caused by the pandemic will conceal the costs of a no-deal Brexit. If trade, tourism and immigration remain at lower levels during late 2020 and early 2021, due to the pandemic, then any extra friction at the border might not impose significant extra costs in the short term. Furthermore, any significant economic fallout would appear alongside the near £2 trillion debt that has emerged around the coronavirus pandemic. This is what some within the Conservative Party have argued – that the pandemic offers “cover” to push ahead with a no-deal Brexit and get a “clean break” from the EU.

Yet this sits uneasily alongside the fact that a no-deal Brexit will cause considerable disruption to other aspects of the UK economy that have so far been resilient to coronavirus, including food supply chains. Furthermore, preparing for a potential no-deal scenario has been made harder by the distraction of the coronavirus pandemic, which has diverted personnel and resources within the government to the task of tackling the pandemic. It is also significant that in the final weeks of 2020 both Dominic Cummings and Lee Cain left Johnson’s government due to infighting within Number 10 Downing Street. Both were key “Vote Leave” figures who demanded that the UK strike a tough position during the negotiations. Potentially, this opens the way for a “softer” Johnson in the remaining years of his premiership, but only time will tell.

The government’s own analysis of a no-deal Brexit estimates that it would reduce UK GDP by close to 8% after 15 years, while reaching an FTA with the EU would lead to a 4.9% decline in GDP by 2035. These are obviously significant numbers, especially when set alongside the fact that the UK has been one of the nations hardest hit by Covid-19. Researchers at the London School of Economics estimate that while Covid-19 is likely to cause more job losses than Brexit and greater swings in output, by 2035 the UK economy may bear more scars from Brexit than from Covid-19. The study estimates that whereas Covid-19 might lead to a 2.1% fall in the present value of future UK GDP, an FTA with the EU would lead to a fall of 3.7% and a no-deal Brexit would lead to a fall of 5.7%, thereby suggesting that Brexit could still have a larger shock on the UK economy than coronavirus over the longer term. Given the imminent arrival of a vaccine for Covid-19 and the likely return to “business as usual” in 2021, it is indeed not hard to see how the disruptive effects a no-deal Brexit could be much more profound than the effects of the pandemic.

A no-deal outcome would see the UK shift to World Trade Organisation terms and that will have significant repercussions. That means not just tariffs on goods moving from the UK to the EU and vice versa, but customs checks, new regulatory barriers and more. The UK

government has accepted this by making provisional lorry parks to cope with queues at the border and announcing that it plans to implement full checks at the border. Businesses will face extra bureaucracy to ensure that their goods meet EU standards before they can be sold there. Goods will be checked for conformity with EU standards and tariffs imply higher prices. Other modelling suggests that a no-deal Brexit could reduce UK GDP by 8% over the next 10 years, which is again larger than most estimates of the lasting impact of Covid-19.

The absolute “worst-case scenario” is if negotiations break down and both sides seek to maximise economic damage to the other in retaliation. Johnson has gone on record to say that a “no deal” would be a “good outcome” and that the UK can thrive, but such a breakdown in relations would still represent the sharpest change of direction in the country’s postwar economic history.

The Longer-Term Relationship

Throughout the Brexit saga, prominent politicians in both the UK and EU have stressed that they want the longer-term partnership to be a close and special one – and they want to avoid a no-deal. But many questions remain. For a start, Johnson’s majority gives him considerable room for manoeuvre and control over the direction of this new UK-EU relationship. He can be bolder on these issues because he has a strong foundation in domestic politics. Unlike his predecessor, Theresa May, he has a solid majority in the House of Commons and a parliamentary party that is far more pro-Brexit than in the past.

Furthermore, the Withdrawal Agreement provides a foundation for the UK to have regulatory autonomy, while the arrangement for the Irish border question will, if it holds, allow the UK to make trade deals with other countries across the globe. Johnson and his team are enthusiastic about setting out their vision of Global Britain before the next general election in 2024. With a new president in the White House and still many years until the next UK election, some in the Conservative Party want to see their leader prioritize an FTA with non-EU states, including the US, so that the security of Brexit is guaranteed (i.e. it will be much harder for future UK governments to return the country to EU membership if it has existing FTAs with many other states around the world). Furthermore, there is a clear tradition within the Conservative Party that has long stressed trade links to non-EU states.

The UK and the EU have stated that they want a strong security relationship in the future. But although cooperation on security issues and the exchange of intelligence is likely to continue, and the UK will remain part of NATO alongside EU member states, it seems likely that the UK’s involvement in EU policies will be looser than it is at present. The EU has indicated that it will not allow the UK access to tools in law enforcement and judicial cooperation that are restricted to member states, such as the European Arrest Warrant, the Schengen Information System, and European Criminal Record Information System – but that it is open to the development of alternative arrangements.

The two sides will need to negotiate alternative provisions for access to things like passenger name record data. In defense, member states

have yet to agree a legal framework for third-country participation in the European Defence Fund, covering nearly 50 collaborative projects in defense research and technology, or Permanent Structured Cooperation, which develops and deploys armed forces at the EU level. Any UK participation would require a financial contribution.

Foreign policy is where change is least likely, partly because the Common Security and Defence Policy is itself a loose framework and does not formally constrain EU member states in policy making, and partly because cooperation takes place outside EU structures. Although the UK has insisted on the primacy of NATO, downplaying the role of the EU, it has cooperated closely with France and Germany, and supported EU actions, such as the imposition of sanctions on Russia following its annexation of the Crimea, that further UK policies. UK cooperation with the EU where interests coincide will continue after Brexit, even if both sides begin to develop quite distinct foreign policy provisions. Despite the stated desire on both sides for a close and special relationship, it is not at all clear what the negotiations can or will deliver. It is unclear how far the UK has worked through the implications of being a “third country”, nor how far the EU is prepared to give the UK a special deal for what will be a third country. As both sides drift into 2021 these issues will become clearer and it looks likely that the foundation of these debates will be at least some kind of thin trade agreement.

Conclusions

Brexit has already placed the UK under considerable and perhaps unprecedented strain. In recent weeks, support for a second referendum in Scotland (where a majority voted against Brexit), and also public support for an independent Scotland, has increased. Nicola Sturgeon and the Scottish National Party have said that should they perform well at elections in Scotland in 2021 then they will push for a second referendum vote.

It also continues to cause considerable domestic volatility. Public disapproval with how Johnson has managed the coronavirus crisis has seen him lose a 20-point lead in the polls in less than a year while the opposition Labour Party has taken a lead in some polls (though it has ruled out rejoining the EU as a policy position at the next election). Meanwhile, the handling of the coronavirus has not only exacerbated tensions between Scotland, Wales and England but also within England, with London and the northern regions arguing over how best to manage the lockdowns. It seems then that while Brexit delivered an external shock to the UK by severing its relationship with the EU, a series of internal shocks are now unfolding which threaten to weaken the UK more generally.

The UK has long been known as the “awkward partner” of the EU and Brexit has cemented this status. But if the UK and the EU are able to forge a deal and secure a more meaningful foundation to their future relationship, then at least this awkward partnership will continue, albeit in a different form from before. **JS**

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