

Potential Brexit scenarios

Given the current high degree of political volatility and the number of factors involved, it is difficult to predict the endgame with any certainty. The following sets out, in broad terms, the potential scenarios that may emerge, based on the current state of play. It should be noted that these scenarios are illustrative and the outcome is likely to involve far more complexity.

Scenario	What is it?	How could it happen?	Potential consequences
<p>1. A no-deal Brexit</p>	<p>A scenario that arises if the UK and EU do not reach a new free trade deal, transitional deal, or other agreement in the Article 50 timeframe, resulting in a “cliff-edge” effect as the UK leaves the EU on 29 March 2019.</p>	<p>Although this is not currently the preferred outcome for either the UK or EU, it is possible it could happen.</p> <p>The most likely reason would be due to a breakdown in trust in negotiations and a lack of compromise on either side on major issues. There may be an inability to move on from “phase 1” of negotiations (where, for example, the financial settlement proves too contentious). The timeframe for Article 50 negotiations could prove too tight, or a lack of trust could prevent a transitional deal from being agreed in time.</p> <p>Another reason would be that this option is actively chosen by UK or EU decision makers. Prime Minister Theresa May has continued to insist that “no deal is better than a bad deal” and some “Brexiters” within the Conservative Party are known to prefer this option. Meanwhile, the other 27 EU member state governments, Commission officials, and MEPs may adopt increasingly tough position (and any deal would require the agreement of European Council and the European Parliament)—forcing a no-deal option.</p>	<p>This scenario would undoubtedly represent a shock for UK and EU businesses and the UK economy. The consequences are likely to be severe in the short term and much will depend on the level of planning and contingency in place. Some of the major consequences include the following:</p> <ul style="list-style-type: none"> • The UK would immediately leave the single market and customs union. UK trade with the EU would fall back on World Trade Organization (WTO) rules, which would mean tariffs, customs checks and regulatory barriers for goods travelling between UK and EU. • In terms of service industries, UK-based businesses would be operating outside the single market and any EU operations subject to non-tariff barriers like different rules, standards, and qualifications. That would be significant, in particular, to UK wholesale financial services. • There would considerable legal and logistical uncertainty across many aspects of UK business and public life, depending on the ability of the UK government to mitigate and resolve these with necessary legislation, processes and infrastructure by 29 March 2019. The sudden change would require necessary infrastructure to be put in place at short notice (e.g., customs checks at ports and airports). • The rights of EU citizens in UK (and vice versa) would be uncertain. • It would most likely result in the emergence of a hard border in Northern Ireland.
<p>2. The UK government’s “Lancaster House” Brexit</p>	<p>A Brexit scenario that broadly resembles UK government’s stated position and objectives (as set out in the Prime Minister’s Lancaster House speech in January 2017) and subsequent official papers.</p> <p>This would put in place a transitional deal for a limited period to prevent the cliff-edge in March 2019, followed by arrangements for a full departure that reflects the following positions:</p> <ul style="list-style-type: none"> • UK outside the single market and customs union • End jurisdiction of the Court of Justice of the European Union (CJEU) in the UK • End freedom of movement and control immigration from EU into UK (but maintain a common travel area with Ireland) • Provide free trade with European market through an agreed comprehensive free trade deal 	<p>Despite the weakening of the Prime Minister’s position following the general election, this remains the stated objective and official position of the UK and the one setting the terms of negotiations. The recent publication of numerous position papers reflects a refreshed impetus in the government’s approach. Nevertheless, for this position to be realised it will need to overcome many challenges.</p> <p>First, in terms of the negotiations, the UK government will need to move beyond “phase 1” of formal negotiations with EU relatively soon, agree a form of transition arrangements, and begin discussions on a future trade relationship that will ultimately be agreed and ratified by the EU Council and Parliament. The European Commission has stated it wants an ambitious agreement with the UK that also includes cooperation in security, counter-terrorism and defence. There are, however, likely be tensions over how the UK is seen to enjoy benefits of a future partnership, in comparison to how it fulfils its obligations and contributions to European cohesion. It remains a priority of the EU to preserve the integrity of the Single Market and the Customs Union.</p>	<p>This is likely to be a much smoother process than the no-deal option. The agreed transition period will prevent the cliff-edge scenario and mitigate much of the disruption and shock for businesses.</p> <p>Nevertheless, with the UK outside the single market, its “four freedoms” will no longer apply: e.g., unrestricted free movement of goods, services, capital, and labour will end. In leaving the customs union, the UK would bring back traditional customs processes with EU member states (e.g., requirements for documentation, customs declarations, safety and security information, licenses, customs duties, and import VAT).</p> <p>The extent of new trading restrictions in place with the EU (tariffs, non-tariff and regulatory barriers) will depend on the extent of the agreed comprehensive free trade deal. As this would represent a bespoke agreement and would be unprecedented, it is difficult to predict its scope at present. The UK’s position is to push for frictionless trade and maintain as much integration as possible. Within this there are several contradictions that will need to be reconciled (e.g., the withdrawal from the customs union while avoiding a hard border in Northern Ireland).</p>

		<p>Secondly, UK government's position needs to be supported by Parliament in the passing the of necessary legislation (eight separate bills) to support its objectives. This is by no means guaranteed (even with DUP support, the government's parliamentary majority is small). Finally, the UK government itself must be able to be stable enough to hold together throughout the negotiation and transition process to conclude a final deal.</p>	<p>In broad terms, the trade agreement may resemble the EU-Canada Comprehensive Economic and Trade Agreement (CETA). This largely focuses on the removal of tariffs and addressing certain non-tariff barriers (through mutual recognition of qualifications, standards, intellectual property and copyrights). The UK-EU deal is likely to be much greater in scope than CETA, but may adopt a similar principle of mutual recognition on regulations.</p>
<p>3. Bespoke deal and remain within customs union</p>	<p>This scenario would be like the UK government's "Lancaster House" negotiating position (see above) but with one crucial difference—that the UK remains in the customs union.</p>	<p>The decision for the UK to leave the EU customs union, to pursue its own free trade agreements with other nations is very much seen as a red line for the UK government at present.</p> <p>This scenario could change, however, through significant political and economic pressure. A notable emerging issue on this is the lack of practical options to prevent a hard border between Northern Ireland and the Irish Republic (a point underlined by the recent European Commission paper on the issue).</p> <p>Second, the position of the Labour Party has somewhat shifted over the summer, with calls for the UK to stay in a customs union with the EU during the transition period and possibly indefinitely (unless there is evidence that new trade deals would make Britain better off). This call will be strongly resisted by key figures in the current government.</p> <p>Such a change therefore would most likely emerge from a substantive political development (a parliamentary vote or even a change of government).</p>	<p>This scenario would be like the Lancaster House scenario, outlined above, but would avoid the return of traditional customs processes between the UK and EU member states.</p> <p>This may be welcomed by manufacturing businesses, particularly those involved in supply chain manufacturing and agriculture.</p>
<p>4. Norway option (with or without the customs union)</p>	<p>This would mean the UK leaves the EU but remains in the single market, subject to its rules on freedom of movement and maintaining the jurisdiction of the Court of Justice of the European Union. It would also require the UK to maintain budget contributions.</p> <p>This would be similar to the current position of Norway and other countries in the European Economic Area (EEA).</p>	<p>There are several scenarios in which this option could emerge. Some of the more likely ones are as follows:</p> <ol style="list-style-type: none"> 1. The EU issues the UK a take-it-or-leave-it EEA-type deal during negotiations, which is ultimately accepted (by a UK government that is unable to accept no deal) 2. The UK enters a transitional deal within the single market, which is prolonged, possibly indefinitely, due to political paralysis 3. The option is actively chosen by the UK, due to changing political/economic circumstances—possibly a change in government <p>There would be complications in joining the EEA itself immediately. The UK would have to join the European Free Trade Association (EFTA)—which may take time and require agreement from other members. As such, the single market option may need to be a bespoke agreement in the first instance.</p>	<p>By staying in the single market, any immediate disruption to UK-based businesses would likely be minimal. The free movement of goods, services, capital, and people would continue.</p> <p>In the longer term, there may be issues around the sustainability of this arrangement. In particular, UK businesses having to accept EU rules, in which the UK has no say over.</p>
<p>5. UK remains in the EU</p>	<p>The UK revokes Article 50 or returns to EU membership later after exit (possibly through a second referendum or change in government)</p>	<p>Such a dramatic scenario appears hard to envisage at present. However, although there may be little value in speculating about the precise mechanisms and processes through which this scenario could happen, it is worth noting that (a) there is currently substantial volatility in British politics and (b) UK public opinion on leaving the EU is not settled. In fact, views are more entrenched and passionate than ever. A substantial economic downturn could trigger a dramatic political response.</p>	<p>Should the UK revoke Article 50 before its deadline then any direct disruption to business should be minimal.</p> <p>Should the UK leave the EU and rejoin later, then the disruption could be considerable. Any impact on business would also greatly depend on the terms by which the UK rejoins the EU (which may be very different from the current terms).</p>