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# Consequences of 'no deal'

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# Introduction

Below is a summary of key findings from reviewing the literature on no deal, followed by a more detailed overview of the findings.

## Summary of key points:

- No deal will negatively impact UK GDP in the long-term anywhere up to 10 per cent. Immediately GDP could be affected by up to 2 per cent. Any reduction of this scale on the size of the economy will have significant impacts for jobs, wages and available funding for public services.
- The immediate cost to the public finances of a no deal could be up to £90 billion.
- The government's analysis projects an increase in net public borrowing of between £96 and £141 billion by 2035/2036.
- Productivity is also likely to decrease in the long term by around 1 per cent.
- FDI is likely to reduce in the long term by around 24 per cent, and overall business investment by 3.5 per cent.
- There is potential for up to 482,000 job losses and a potential loss of £4 billion in income tax and NI receipts.
- Real wages are likely to fall (up to 10 per cent in the government's analysis).
- Those on the lowest incomes are likely to be hit the hardest, with the OECD estimating that household incomes could reduce by between £3,200 and £5,000 by 2030.
- No deal will affect a variety of sectors, but services, agri-food, manufacturing (automotive, pharmaceutical, chemicals), science, tech and R&D could feel no deal acutely and quickly due to tariffs and non-tariff barriers (loss of mutual recognition of qualifications and regulatory frameworks etc.).
- The immediate impact on customs and border teams could be huge, with ports coming to a complete standstill. Currently less than 1% of lorries arriving or leaving through Dover or the Tunnel require customs checks.
- In addition to future spending pressures, the public sector will be immediately affected in terms of staff and expertise, and for the NHS in terms of access to clinical trials, equipment and medicines, which could see a six month increase in the time it takes for new drugs to reach the UK market.
- An already fragile market of adult social care providers risks failure due to increased costs driven by inflationary pressures. The 'Operation Yellowhammer' document suggests there is a risk that small providers could fail within 2-3 months of no deal and larger providers within 4-6 months.

- If the UK leaves the EU without a deal, workers in the UK will immediately lose the ability to take challenges to the European court, and its vital judgments will no longer be binding in all UK courts. This means that it will be harder for workers to enforce their employment rights.
- Over the longer term, a no deal Brexit would mean that the UK government could not be stopped from removing from UK law the hard-fought for employment protections that working people benefit from.
- Women, Black, disabled and LGBT+ workers would be at particularly high risk of their employment rights coming under attack. EU law has significantly enhanced UK legal protections for these groups.
- Loss of funding from EU bodies is a concern across multiple sectors.

# Overview

While all Brexit scenarios are likely to have a negative impact on the UK, the most extreme, and the most damaging of these scenarios is a 'no deal' and by default trading on WTO terms.

The government's own long-term economic analysis backs this up, suggesting that over the course of 15 years, the negative impact on UK Gross Domestic Product (GDP) could be between 5 and 10 per cent (7.6 per cent average) which would vary across the regions and nations of the UK<sup>1</sup>.

The OECD has stated that in the shorter term, no deal could reduce UK GDP by as much as 2 per cent over 2 years<sup>2</sup>.

The House of Commons Exiting the European Union Committee, in its latest report published in July of this year concluded that, even by the governments own standards, 'a "managed no deal" cannot constitute the policy of any responsible government.'<sup>3</sup>

What trading on WTO terms means is unclear, the assumptions are based on an assessment of average Non-Tariff Barrier (NTBs) costs between countries trading on non-preferential World Trade Organization (WTO) terms and applying EU Most Favoured Nation (MFN) tariffs<sup>4</sup>. The impact of 'no deal' also varies depending on whether there is transition period before we leave both the single market and Customs Union or whether we crash out with no transition period, no agreements and immediately move to trading on WTO terms – though neither scenario is ultimately good for the UK.

In its own economic analysis, the government notes that the modelled no deal scenario could over- or under-state the impact of a no deal in some areas. If the UK and EU were to start from a position of regulatory alignment, then differences in regulation would be smaller than in typical WTO trading relationships.

Conversely, many countries trading on WTO terms also have a range of side agreements for different products and sectors, so are themselves not trading on WTO rules alone<sup>5</sup>. Switzerland, a member of the European Free Trade Area, has over 100 bilateral agreements

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<sup>1</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>2</sup> OECD, Economic Outlook for UK, volume 2018, issue 2 <https://www.oecd.org/eco/outlook/economic-forecast-summary-united-kingdom-oecd-economic-outlook.pdf>

<sup>3</sup> House of Commons Exiting the European Union Committee, Consequences of "No Deal" for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>, p3.

<sup>4</sup> The UK in a Changing Europe, what would trading on 'WTO terms' mean?

<https://ukandeu.ac.uk/wp-content/uploads/2018/12/What-would-trading-on-WTO-terms-mean.pdf>

<sup>5</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

with the EU<sup>6</sup>. Trading on purely WTO terms could leave the UK far worse off than many of the modelled scenarios suggest.

The scenario assumed in 'Operation Yellowhammer' is that upon exit, all rights and reciprocal arrangements with the EU end and the UK reverts to 'third-country' status. Apart from a reciprocal agreement on social security with the Republic of Ireland – no other bilateral agreements with member states will have been concluded by exit day<sup>7</sup>.

The 'Operation Yellowhammer' document in its base scenario and planning assumptions expects that a few member states may be more understanding and in a small number of instances, where the impact of Brexit will be felt negatively in the EU as well as the UK, member states could act in a way to benefit the UK. However, it also concludes that in general it is likely that member states will be unwilling to engage bilaterally<sup>8</sup>.

On 'day one', in the absence of an agreement with the EU, and without side arrangements with other countries in place or a clear transition period, the UK could find itself in an unprecedented and unique position amongst developed economies of trading on purely WTO terms.

If the UK, in order to mitigate the worst effects of a no deal, immediately offered low or zero tariffs on key sectors (as it has outlined it will do in its temporary tariff regime) there is little evidence that the EU would reciprocate, and it would leave the UK with very little leverage in future trade negotiations<sup>9</sup>.

Much of the literature also points out it is hard to model for potential wider impacts, such as impact on the UK's standing/ soft power or on cooperation within sectors such as science and innovation.

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<sup>6</sup> House of Commons Library, Briefing Paper 7847, UK funding from the EU, November 2018.

<sup>7</sup> The Times, 'No deal Brexit preparations: the leaked Operation Yellowhammer document', [https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525\\_54264\\_15662945685777\\_b838081910&wgexpiry=1574070568&utm\\_source=planit&utm\\_medium=affiliate&utm\\_content=22278](https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=planit&utm_medium=affiliate&utm_content=22278)

<sup>8</sup> Ibid

<sup>9</sup> House of Commons Exiting the European Union Committee, 12th Report, Response to the vote on the Withdrawal Agreement, <https://publications.parliament.uk/pa/cm201719/cmselect/cmexeu/2073/2073.pdf>

# The economy

All the literature indicates that a no deal scenario would have significant and negative impacts on UK GDP versus all other trading options and versus our current position as an EU member.

Estimates vary and use different assumptions and timeframes; an overview can be seen below.

**Table 1: GDP impact estimates of no-deal Brexit**

HMG	NIESR	OECD	Bank of England	OBR
7.7 -9.3 per cent (depending on migration) over the course of 15 years	Up to 5 per cent lower over 10 years	Between 3 per cent and 7.7 per cent (optimistic vs pessimistic scenario) by 2030	2021 - 4 - 7.5 per cent lower (relative to May 2016). By 2023 between 5 - 8 per cent lower relative to May 2016 and between 2.5 and 5.5 per cent lower relative to Nov IR	By mid-2021 4 per cent lower than March 2019 FC. By the end of the first quarter 2024 1.6 per cent lower than 2019 FC

Former Chancellor Phillip Hammond also suggested the cost of mitigating the risks of a disorderly no deal could be as much as £90 billion. As chancellor, he had budgeted for £26/27 billion 'headroom' to lessen some of the risks of no deal, but he expects that the full cost would be significantly more, leaving the country with more debt and less to spend on public services<sup>10</sup>.

According to the government's long-term analysis, by 2035-36 net public borrowing, as a result of their modelled no deal, could see an increase of between +2.5 per cent and 3.8 per cent (£96.4 billion - £141.5 billion), as a percentage of GDP<sup>11</sup>.

The National Institute for Economic and Social Research (NIESR) has suggested there is room in fiscal and monetary policy to mitigate some of the risks of an abrupt no deal exit by increasing public spending. However, even with the political will to deliver sufficient

<sup>10</sup> The Times, 'No deal Brexit: the cost could be as high as £90 billion, Phillip Hammond warns', <https://www.thetimes.co.uk/edition/news/no-deal-brex-it-cost-could-be-as-high-as-90bn-philip-hammond-warns-ws00cwrpx>

<sup>11</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

additional spending, it is unlikely this would offset the risks, particularly as the expected sharp reduction in economic growth<sup>12</sup> would leave less medium-term revenue.

## Key drivers of falls in GDP

### Increases in tariff and non-tariff barriers leading to higher costs

In a no deal scenario trading along WTO lines and EU MFN, tariffs in goods averaging around 3% per cent are likely to be applied. However, this varies significantly between different sectors. Standard tariffs on cars are 10 per cent<sup>13</sup>, whereas one in ten agricultural products are subject to tariffs of 25 per cent or more<sup>14</sup>. Nineteen sectors would face tariffs of over 5 per cent<sup>15</sup>.

Non-tariff barriers – e.g. cost of customs checks etc. are likely to equate to a 14 per cent tariff<sup>16</sup>.

In a no deal scenario, the system for protecting industry from dumping and unfair trade practice – known as ‘trade remedies’ – will pass from being run by the EU to being run by the UK government

The Trade Remedies Authority (TRA) – proposed by the government as the body that will manage this– is behind schedule and without a Chair, after the appointed candidate decided they no longer wished to take up the post<sup>17</sup>. Trade unions and employers in manufacturing have also expressed concern that the system proposed by the government is significantly weaker than the current EU system.

This is worrying for many industries, but particularly the steel industry, which is already facing multiple challenges and vulnerable to dumping from other countries such as Turkey and China. Currently the UK benefits from EU level safeguards against unfair trade practices. Leaving with no deal and no alternative arrangements could see a situation where UK steel

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<sup>12</sup> National Institute for Economic and Social Research, Monetary and fiscal options in the event of a ‘no deal brexit’, National institute economic Review No. 249 August 2019, <https://www.niesr.ac.uk/sites/default/files/publications/commentary%20August%202019.pdf>

<sup>13</sup> House of Commons Exiting the European Union Committee, Consequences of “No Deal” for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>14</sup> The UK in a Changing Europe, what would trading on ‘WTO terms’ mean? <https://ukandeu.ac.uk/wp-content/uploads/2018/12/What-would-trading-on-WTO-terms-mean.pdf>

<sup>15</sup> Women’s Budget Group – ‘Exploring the Economic Impact of Brexit on women’, March 2018. <https://wbg.org.uk/wp-content/uploads/2018/03/Economic-Impact-of-Brexit-on-women-briefing-FINAL-1.pdf>

<sup>16</sup> International Monetary Fund (IMF), World Economic Outlook, April 2019, <https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019>.

<sup>17</sup> The Guardian, Liam Fox ministry faces more for lack of Brexit readiness, <https://www.theguardian.com/business/2019/apr/03/blow-to-uk-global-trade-as-new-watchdog-chief-quits-liam-fox>



is having to compete with tariff free imports, but facing tariffs as high as 40 per cent to major export markets<sup>18</sup>.

The potential consequences of no deal for trade in the government's own long-term modelling suggests a drop in trade volume with the EU of 37 per cent. There is likely to be an increase in trade with the rest of the world, estimated at 6 per cent, but this still leaves the UK with a reduction in the overall trade volume of 15 per cent<sup>19</sup>.

## Productivity and output

Productivity will fall in a no deal scenario. The General London Authority (GLA) in the 'Preparing for Brexit' report commissioned by the London Mayor, suggests a productivity reduction of 1.5% for the UK as a whole by 2030 and 0.5% in London – which is arguably less likely to feel the most severe impacts of a no deal scenario, given its higher concentration of high-value, and particularly service sectors<sup>20</sup>. The UK is already considered to be a poor performer in terms of productivity and has some of the biggest regional inequalities in terms of productivity versus the rest of the OECD and G7 economies<sup>21</sup>. Further erosion could be profoundly damaging.

The Office for Budget Responsibility (OBR) fiscal stress test of no deal Brexit is one of the most recent reports and suggests that the output gap will open, peaking at 2.5 per cent by the end of 2020, and leaving potential output 1.1 per cent lower by the end of 2023/24 period. (NB – the OBR highlight that their stress test is based on the least disruptive no deal scenario – so this could be a best-case scenario)<sup>22</sup>.

The NIESR in their most recent report has suggested there is a 30 per cent chance of less than zero output growth in 2020<sup>23</sup>.

## Uncertainty and investment

The uncertainty of not knowing what the UK's trading arrangements will look like with the EU and the rest of the world has already had an impact on business investment, with the

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<sup>18</sup> MAKE UK, Implications of a no deal Brexit for UK steel companies, <https://www.makeuk.org/Insights/Publications/2019/02/05/Implications-of-a-No-Deal-Brexit-for-UK-Steel-Companies>

<sup>19</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>20</sup> GLA, Preparing for Brexit, January 2018, [https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

<sup>21</sup> Resolution Foundation, Mapping Gaps: Geographic inequality in productivity and living standards, <https://www.resolutionfoundation.org/publications/mapping-gaps-geographic-inequality-in-productivity-and-living-standards/>.

<sup>22</sup> Office for Budget Responsibility, Fiscal Risks Report, July 2019

<sup>23</sup> National Institute for Economic and Social Research, Monetary and fiscal options in the event of a 'no deal Brexit', National Institute Economic Review No. 249 August 2019, <https://www.niesr.ac.uk/sites/default/files/publications/commentary%20August%202019.pdf>

CBI reporting in 2017 that 40 per cent of the businesses they surveyed stated investment decisions had been negatively affected by Brexit uncertainty<sup>24</sup>.

In a no deal scenario, the UK is likely to become a less attractive prospect for Foreign Direct Investment (FDI). The OECD noted in 2016 that the UK was the most attractive of the EU countries in terms of FDI largely due to its access to the single market and suggested that FDI inflows could decline in the long run by anything between 10 per cent in the most optimistic scenario and 45 per cent in the most pessimistic scenario<sup>25</sup>. More recently, NIESR have stated that in a no deal scenario, FDI is likely to reduce in the long run by an average of 24 per cent, and overall business investment by 3.5 per cent<sup>26</sup>.

Recent data published by the Financial Times suggests FDI is already being impacted by the uncertainty caused since the referendum with foreign 'greenfield' investment (investment in new or extension of existing production facilities) falling by 30 percent in the three years since the referendum – compared to the same period pre-June 2016<sup>27</sup>.

This fall in investment also saw a 19 per cent reduction in the number of associated jobs created (183,000). In information and communication, there has been a 47 per cent drop in jobs created through inward greenfield investment over this period<sup>28</sup>.

### **Migration, which overall has a positive effect on GDP**

Immigration growth has accounted for one half of UK GDP growth since 2005 – creating two million jobs, 60 per cent of which have been filled by EEA migrants<sup>29</sup>. Stricter immigration laws could have a huge impact on multiple sectors including health and social care (165,000 EEA staff across the two will need to apply for settled status)<sup>30</sup>, financial and professional services (where 12 per cent of the London workforce in this sector was born in EEA) and hospitality (where a quarter of staff in this sector in the UK are from other parts of the EU)<sup>31</sup>.

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<sup>24</sup> GLA, Preparing for Brexit, January 2018,

[https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

<sup>25</sup> OECD, The Economic Consequences of Brexit: A Taxing Decision, Economic Policy Paper, April 2016, No.16

<https://doi.org/10.1787/5jm0lsvdkf6k-en>

<sup>26</sup> National Institute for Economic and Social Research, Monetary and fiscal options in the event of a 'no deal brexit', National institute economic Review No. 249 August 2019,

<https://www.niesr.ac.uk/sites/default/files/publications/commentary%20August%202019.pdf>

<sup>27</sup> Financial Times, 'Brexit has chilling effect on UK inward investment',

[https://www.ft.com/content/bdc9f940-bb92-11e9-b350-db00d509634e?accessToken=zwAAAWy0WekYkdO9yflAu5lR6dOzUNsA1QlJtG.MEYCIQD2CYOFpwUY0HeA2edlYptsieF\\_2o7nKfPaCS1bNIWCoglhAJEFd2\\_AEh5aLlqvErrUKLtZdtORL9D8ZFGxpuZN5dUJ&sharetype=gift?token=24d1c0c6-259d-466f-9144-2e67804e0555](https://www.ft.com/content/bdc9f940-bb92-11e9-b350-db00d509634e?accessToken=zwAAAWy0WekYkdO9yflAu5lR6dOzUNsA1QlJtG.MEYCIQD2CYOFpwUY0HeA2edlYptsieF_2o7nKfPaCS1bNIWCoglhAJEFd2_AEh5aLlqvErrUKLtZdtORL9D8ZFGxpuZN5dUJ&sharetype=gift?token=24d1c0c6-259d-466f-9144-2e67804e0555)

<sup>28</sup> Ibid

<sup>29</sup> OECD, The Economic Consequences of Brexit: A taxing Decision, Economic Policy Paper, April 2016, No.16

<https://doi.org/10.1787/5jm0lsvdkf6k-en>

<sup>30</sup> The Kingsfund – Brexit: The implications for health and social care

<https://www.kingsfund.org.uk/publications/articles/brexit-implications-health-social-care>

<sup>31</sup> GLA, Preparing for Brexit, January 2018,

[https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

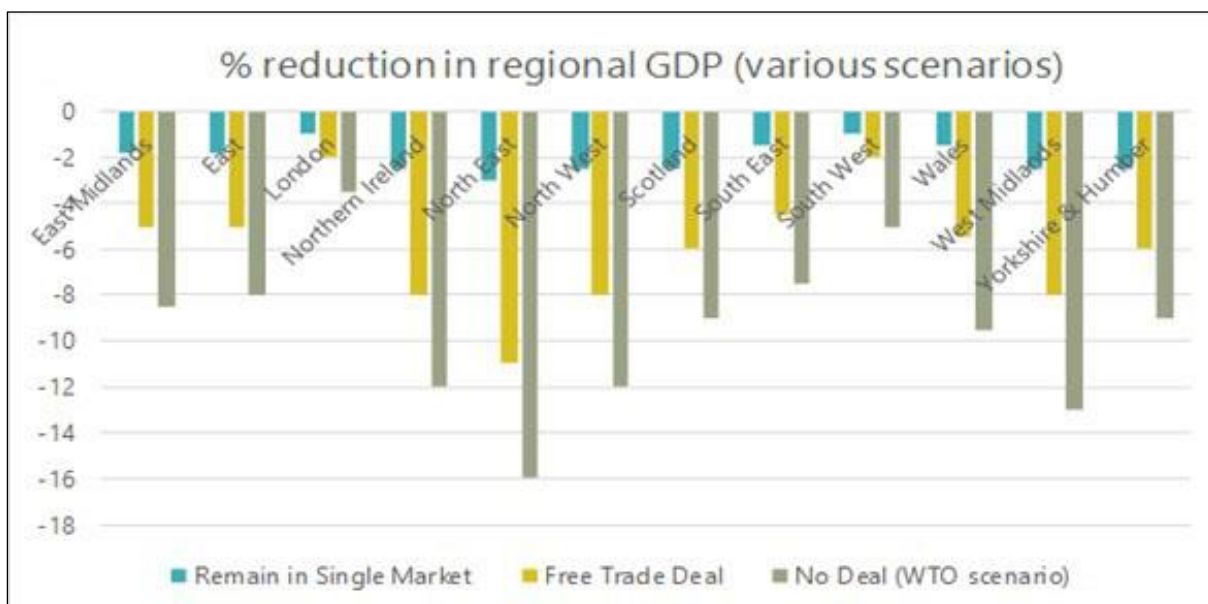
The immediate loss of skilled labour could have a serious impact on productivity, as well as for example in health and social care, patient safety and staff well-being, as already stretched resources become sparser still. In midwifery for example, the number of midwives from other EU countries leaving the UK has doubled between 2015/2016 – 2017/2018 (1981 to 3692). And the number of EEA midwives coming to the UK over the same period has fallen by 91 per cent<sup>32</sup>.

## Regional GDP impact

The regional impacts of a no-deal Brexit vary across the UK. Regions and nations most dependent on manufacturing and agri-food will be most susceptible to changes in terms of trade for goods.

The North East would see the biggest impact on its GDP in a no deal scenario with a reduction in regional GDP of up to 16 per cent. All regions will be affected negatively<sup>33</sup>.

**Chart 1: Regional impacts of various Brexit scenarios**



Source: HoC Exiting European Union Committee.

The Greater London Authority estimates that depending on whether there is a transition period before the UK reverts to a WTO scenario, or whether we crash out with no transition or arrangements in place, the impact on GVA (Gross Value Added) across the UK could be between £49.1 billion and £54.5 billion<sup>34</sup>.

<sup>32</sup> The Kingsfund – Brexit: The implications for health and social care

<https://www.kingsfund.org.uk/publications/articles/brexit-implications-health-social-care>

<sup>33</sup> House of Commons Exiting the European Union Committee, Consequences of “No Deal” for UK business

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>34</sup> GLA, Preparing for Brexit, January 2018,

[https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

Many regional economies also benefit from EU funding through bodies such as the European Structural Investment Fund (ESI), aimed at reducing regional inequalities and channelled through the European Regional Development Fund and the European Social fund. For the period 2014-20 the UK has been allocated a total of £15.2 billion through the ESI. Money and projects up to 2020 have been guaranteed, but what the alternatives to EU funding beyond 2020, such as the proposed Shared Prosperity fund look like and they can be accessed is yet to be fully detailed<sup>35</sup>.

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<sup>35</sup> House of Commons Library, Briefing Paper 7847, UK funding from the EU, November 2018.

## Key sectors affected

In the event of a no deal it is likely every sector will be impacted. However, the literature frequently highlights the automotive industry and other manufacturing, agri-food, pharmaceuticals and chemicals, research and higher education and services as being particularly susceptible.

Competitiveness could be adversely affected by delays due to additional custom checks, particularly for just in time supply chains, loss of mutual recognition of qualifications and aligned regulatory frameworks, and reduced ability to collaborate, train and study across Europe and attract highly skilled labour.

### Services

Services account for 80 per cent of UK GDP (worth £1.1 trillion), 52 per cent of all exports and employment of around 28 million people<sup>36</sup>. Under a no deal, UK service providers would be treated as third country providers.

While the WTO does have its General Agreement on Trade in Services (GATS), it is largely recognised as being nowhere near as highly developed or sophisticated as that of the EU. Trading on these terms could be very detrimental to the sector.

The service sector, particularly in finance, legal, advertising, engineering and information services relies heavily on regulatory alignment with the EU as well as mutual recognition of qualifications.

Non- tariff barriers could see between a 12 and 18 per cent increase in trade costs for services in a no deal scenario<sup>37</sup>.

The UK hosts headquarters to four of the world's top ten law firms and six of the world's top ten accountancy firms<sup>38</sup>. An increase in NTBs could potentially see these, and other businesses, assess their business operations and long-term investments.

The effect on services could also have a further impact on manufacturing. Many manufacturing processes and goods are heavily intertwined with services as well (for example if you bought a piece of machinery, you may also buy the maintenance service).

The UK exported £26.1 billion of financial, insurance and pension services to the EU in 2015. London is considered one of the most important financial regions in the world and the financial centre of Europe. The loss of passporting rights, EU market access and access to a

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<sup>36</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>37</sup> Ibid

<sup>38</sup> Ibid

highly skilled labour force, could see up to a £5 billion loss in investment in the finance and insurance sector alone by 2030<sup>39</sup>.

## Manufacturing

Manufacturing accounts for about 9 per cent of the UK total economy and directly employs 2.4 million people and in 2016 49 per cent of all UK trade in manufactured goods went to the EU<sup>40</sup>.

The potential increase in costs due to tariffs and non-tariff barriers could be between nine and 17 per cent in a no deal scenario<sup>41</sup>.

In the automotive industry for example it is estimated that the cost of a UK built car sold in the EU could increase on average by £2700<sup>42</sup>.

Gross Value Added in automotive and other manufacturing is likely to see a reduction of 8 per cent or more over the 15 years post leaving in a no deal scenario<sup>43</sup>.

Declines in foreign investment are already affecting manufacturing. In the 12 months to June this year jobs created by foreign investment fell to their lowest level since 2003 (just under 4000 jobs)<sup>44</sup>.

## Agri-food

Over two-thirds of the UKs agri-food exports go to the EU and in a no deal scenario tariffs would be particularly high in this sector. Perishable goods would also be more susceptible to customs checks and delays. With 70 per cent of the UKs food import by value coming from the EU this is a real risk<sup>45</sup>. No deal would be a disaster for this sector, and for consumers if it led to price rises and/or food shortages.

In March 2019 the government published its temporary import tariff regime for 'no deal' whereby 87 per cent of imports would be tariff free until deals could be negotiated. However, if this is not reciprocated the UK could face seeing imports come in essentially

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<sup>39</sup> GLA, Preparing for Brexit, January 2018, [https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

<sup>40</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>41</sup> Ibid

<sup>42</sup> Ibid

<sup>43</sup> Ibid

<sup>44</sup> Financial Times, 'Brexit has chilling effect on UK inward investment', [https://www.ft.com/content/bdc9f940-bb92-11e9-b350-db00d509634e?accessToken=zwAAAWy0WekYkdO9yflAu5IR6dOzUNsA1QljTg.MEYCIQD2CYOFpwUY0HeA2edlYptsieF\\_2o7nKfPaCS1bNIWCoglhAJEFd2\\_AEh5aLlqvErrUKLtZdtORL9D8ZFGxpuZN5dUJ&sharetype=gift?token=24d1c0c6-259d-466f-9144-2e67804e0555](https://www.ft.com/content/bdc9f940-bb92-11e9-b350-db00d509634e?accessToken=zwAAAWy0WekYkdO9yflAu5IR6dOzUNsA1QljTg.MEYCIQD2CYOFpwUY0HeA2edlYptsieF_2o7nKfPaCS1bNIWCoglhAJEFd2_AEh5aLlqvErrUKLtZdtORL9D8ZFGxpuZN5dUJ&sharetype=gift?token=24d1c0c6-259d-466f-9144-2e67804e0555)

<sup>45</sup> Institute for Government, 'Implementing Brexit: Customs' [https://www.instituteforgovernment.org.uk/sites/default/files/publications/lfg\\_Brexit\\_customs\\_WEB\\_0.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/publications/lfg_Brexit_customs_WEB_0.pdf)

tariff free, while their exports would be subject to the EU's Common External Tariff – the worst of all worlds potentially for UK producers<sup>46</sup>.

The impact of a hard border in Northern Ireland could potentially have multiple social, political and economic affects. Economically, the impact it could have on Agri-trade between the Northern Ireland and the Republic is significant.

There are 4.6 million commercial vehicles crossing the Irish border every year, about a third of which is agri-food – all of which would be subject to sanitary and customs checks. The Northern Ireland Retail Consortium has estimated that under MFN tariffs, Northern Irish consumers could end up paying between 35 and 45 per cent more for products such as beef and dairy<sup>47</sup>.

'Operation Yellowhammer' paperwork acknowledges that the Agri-food sector in Northern Ireland will be hardest hit and that in general the "no new checks with limited exceptions" model, announced by the government to avoid the immediate risk of a return to a hard border, is unlikely to be sustainable<sup>48</sup>.

The UK between 2015-20 has also received over £18.9 billion (the fifth largest allocation) from the European Agricultural Guarantee Fund – which consists of direct payments to farmers to help stabilise revenues and market measures to tackle specific market situations and promote trade<sup>49</sup>.

## Technology, science and innovation

The government has frequently stated that science, technology, R&D and innovation are fundamentals of its modern industrial strategy. All these areas are put at serious risk from a no deal Brexit.

Key concerns centre on funding, access to shared resources, data sharing and aligned regulatory frameworks, mutual recognition of standards and qualification, collaboration and the ability to attract high skilled workers.

The government's sectoral analysis of higher education stated that a quarter of internationally mobile EU students chose to study in the UK, which is more than any other EU country. These students are vital to the UK's world class higher education and research output. Under no deal, with stricter visa rights and less freedom of movement, reduced access to EU funds and collaboration, many may choose not to come to the UK. The effects

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<sup>46</sup> House of Commons Exiting the European Union Committee, Consequences of "No Deal" for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>47</sup> Ibid

<sup>48</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document', [https://www.thetimes.co.uk/edition/news/no-deal-brex-it-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525\\_54264\\_15662945685777\\_b838081910&wgexpiry=1574070568&utm\\_source=plait&utm\\_medium=affiliate&utm\\_content=22278](https://www.thetimes.co.uk/edition/news/no-deal-brex-it-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

<sup>49</sup> House of Commons Library, Briefing Paper 7847, UK funding from the EU, November 2018.

of this would not be felt evenly, with higher profile universities favoured and course closures in others<sup>50</sup>.

In science and technology, the UK receives almost 16 per cent of all the EU science funding from the European Research Council<sup>51</sup>.

Between 2007 and 2013, the UK won over 18 per cent of all EU research money, all associated countries (third countries) won just 7 per cent combined over the same period<sup>52</sup>

The UK will also no longer be part of the Digital Single Market – which covers a variety of economic activity including digital infrastructure and telecoms, e-commerce, and broadcasting – employing 1.5 million people directly and contributing £118 billion to the UK economy in 2017. 49 per cent of the UK's total digital trade is with the EU – any barriers to this trade are likely to hit the sector hard<sup>53</sup>.

Data sharing is also a key concern across many sectors, highlighted again in 'Operation Yellowhammer'. Acknowledging that the EU will not have made a data decision regarding the UK by exit day - adequacy assessments (the status granted by the EU commission to third countries it feels have comparable data protection safeguards, allowing the free flow of data) could take years to agree.

To date the EU has granted 11 countries and territories full adequacy decisions<sup>54</sup>. This does not include Canada and the United States, who were deemed to only provide partially adequate data protection<sup>55</sup>.

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<sup>50</sup> House of Commons Exiting the European Union Committee, Consequences of "No Deal" for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>51</sup> GLA, Preparing for Brexit, January 2018, [https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

<sup>52</sup> House of Commons Exiting the European Union Committee, Consequences of "No Deal" for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>53</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>54</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document', [https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525\\_54264\\_15662945685777\\_b838081910&wgexpiry=1574070568&utm\\_source=plait&utm\\_medium=affiliate&utm\\_content=22278](https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qxkrqm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

<sup>55</sup> Institute for Government, <https://www.instituteforgovernment.org.uk/explainers/data-adequacy>



## Jobs and income

In a no deal scenario, the GLA has estimated that up to 482,000 jobs could be lost by 2030<sup>56</sup>.

The Bank of England in its 'unprepared Brexit scenario' modelling has suggested the unemployment rate could peak at 5.5 per cent in 2021 and the OBR has estimated 200,000 job losses due to no deal<sup>57</sup>. OBR predictions also suggest lower employment could impact the income tax and national insurance receipts by £4 billion at its worse in 2021/22<sup>58</sup>.

On income, the OECD estimated in their 2016 report that as a result of a three per cent reduction in GDP in the immediate aftermath of a no deal, household income could fall on average by £2,200. By 2030, they estimated that household income could have reduced by between £3,200 and £5,000<sup>59</sup>.

Real wages are almost certain to fall, with the OBR suggesting they will be 2.5 per cent lower by the start of 2024<sup>60</sup>. The government's own long-term analysis suggests real wages could fall by 10 per cent in the event of a no deal<sup>61</sup>.

There has been very little analysis of the impact on Brexit in any form on women, however the Women's Budget Group have suggested that given that any Brexit, and certainly a no-deal Brexit, is likely to have negative impacts on public spending and services (where women are overrepresented as employees and users), falling wages and rising costs of food, women would be disproportionately affected. Black and disabled households are also likely to suffer disproportionately<sup>62</sup>.

Similarly, 'Operation Yellowhammer' recognises that there is likely to be increases in food, energy and fuel costs which will disproportionately affect low-income groups<sup>63</sup>.

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<sup>56</sup> GLA, Preparing for Brexit, January 2018,

[https://www.london.gov.uk/sites/default/files/preparing\\_for\\_brexit\\_final\\_report.pdf](https://www.london.gov.uk/sites/default/files/preparing_for_brexit_final_report.pdf).

<sup>57</sup> Bank of England, EU withdrawal scenarios and monetary and financial stability – November 2018.

<https://www.bankofengland.co.uk/-/media/boe/files/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability.pdf?la=en&hash=B5F6EDCDF90DCC10286FC0BC599D94CAB8735DFB>

<sup>58</sup> Office for Budget Responsibility, Fiscal Risks Report, July 2019

<sup>59</sup> OECD, The Economic Consequences of Brexit: A taxing Decision, Economic Policy Paper, April 2016, No.16

<https://doi.org/10.1787/5jm0lsvdkf6k-en>

<sup>60</sup> Office for Budget Responsibility, Fiscal Risks Report, July 2019

<sup>61</sup> HMG, EU Exit – Long-term Economic Analysis, November 2018

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/760484/28\\_November\\_EU\\_Exit\\_-\\_Long-term\\_economic\\_analysis\\_1\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis_1_.pdf)

<sup>62</sup> Women's Budget Group – 'Exploring the Economic Impact of Brexit on women', March 2018.

<https://wbg.org.uk/wp-content/uploads/2018/03/Economic-Impact-of-Brexit-on-women-briefing-FINAL-1.pdf>

<sup>63</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document',

<https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document->

Workers with protected characteristics also often work in sectors considered 'low skill' and would be more susceptible to erosion of employment rights<sup>64</sup>.

EU law has provided a vital basis for UK discrimination law, helping to protect many workers from discrimination in the workplace.

The ECJ and ECtHR have often supported workers experiencing discrimination in the workplace by hearing and ruling on challenges to discriminatory practices<sup>65</sup>. And EU directives, such as one adopted in 2000 to enhance the protection of disabled workers, have significantly strengthened UK legislation and helped to tackle direct discrimination and harassment in the workplace<sup>66</sup>.

As with other employment rights, which are discussed later in this paper, these are under threat should the UK leave with no-deal.

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nit&utm\\_medium=affiliate&utm\\_content=22278](https://www.wbg.org.uk/wp-content/uploads/2018/03/Economic-Impact-of-Brexit-on-women-briefing-FINAL-1.pdf)

<sup>64</sup> Women's Budget Group – 'Exploring the Economic Impact of Brexit on women', March 2018.

<https://wbg.org.uk/wp-content/uploads/2018/03/Economic-Impact-of-Brexit-on-women-briefing-FINAL-1.pdf>

<sup>65</sup> The TUC – LGBT+ Equality – Risks of Brexit, <https://www.tuc.org.uk/sites/default/files/BrexitLGBT.pdf>

<sup>66</sup> The TUC – Disability rights – Risks of Brexit,

<https://www.tuc.org.uk/sites/default/files/BrexitDisabledrights.pdf>

# Public Services

## Health and Social Care

As previously noted, health and social care rely significantly on EU migrants and training domestic workers to fill potential gaps would take significant time. This will mean frontline services would be hit hard by the loss of staff and their expertise. Both the NHS and social care could see a situation of staff, medicine and resource shortages due to a no deal, compounded further by severe winter weather, stretching resources even more thinly.

There is still great uncertainty about the mutual recognition of qualifications, which will impact EU migrants working here, and UK migrants working abroad, as well as a risk of increased costs of sponsoring visas.

For adult social care, the 'Operation Yellowhammer' documents highlight that the market is already fragile due to declining financial viability of providers. Any increases in the costs due to inflationary pressures could lead to smaller providers facing failure within 2-3 months and larger providers within 4-6 months<sup>67</sup>.

In terms of accessing treatment abroad there are 27 million people who currently hold the EHIC card, which is issued by the UK to allow people to access healthcare abroad and the costs be reclaimed. If this were no longer valid in the event of no deal and no alternative arrangement in place, people travelling to Europe would see costs of insurance rise<sup>68</sup>. Disabled people or people with long-term health issues could find themselves particularly vulnerable to rising costs<sup>69</sup>.

The biggest threat may be to the Britons living in the EU, many of them are pensioners and rely on European medical services more than the EU migrants living in the UK. In the event of no deal how they receive or pay for treatment could cause serious problems. Should they need to return to the UK, this could put even more pressure on already stretched NHS and social care services<sup>70</sup>.

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<sup>67</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document', [https://www.thetimes.co.uk/edition/news/no-deal-no-deal-brex-it-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525\\_54264\\_15662945685777\\_b838081910&wgexpiry=1574070568&utm\\_source=plait&utm\\_medium=affiliate&utm\\_content=22278](https://www.thetimes.co.uk/edition/news/no-deal-no-deal-brex-it-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

<sup>68</sup> The Kings fund – Brexit: The implications for health and social care <https://www.kingsfund.org.uk/publications/articles/brexit-implications-health-social-care>

<sup>69</sup> The TUC – Disability rights – Risks of Brexit, <https://www.tuc.org.uk/sites/default/files/BrexitDisabledrights.pdf>

<sup>70</sup> The Kings fund – Brexit: The implications for health and social care <https://www.kingsfund.org.uk/publications/articles/brexit-implications-health-social-care>

'Operation Yellowhammer' recognises that although all member states have published legislative proposals for UK nationals, not all have passed the legislation yet. Equally, the level of generosity and detail is mixed between states.

Three quarters of medicines and more than half of devices used by the NHS come into the UK via the EU. Currently as part of the European Medicines Agency (EMA), drug companies need only submit one application to obtain market authorisation. In the event of a no deal, it may mean companies have to submit multiple applications, which would increase the costs and cause delays<sup>71</sup>.

'Operation Yellowhammer' planning assumptions include significantly reduced flow rates of medical supplies across the main channel crossings on day one, with significant disruptions lasting up to six months<sup>72</sup>.

The UK also has 'tier 1' status – meaning when a new drug is developed, the UK is prioritised for launch. In a no deal scenario, where we negotiate our own drug approval system separate to the EMA (as Canada and Switzerland have), the lack of ease of access may mean an additional wait of six months for new drugs<sup>73</sup>.

Many drugs are also very susceptible to supply chain delays, and it is not always possible to stockpile – particularly supplies of radioisotopes used in cancer treatment, which is currently regulated by Euratom (established in 1957). The UK has outlined that it will leave Euratom, putting supplies at risk<sup>74</sup>.

Medicines for veterinary use, if subject to significant delays, could have far reaching consequences on the UK's ability to prevent and control the spread of disease, potentially affecting animal health and welfare, food safety, the environment and human health.

The leaked government document suggests that stockpiling, air freight capacity and special import schemes being used to try and mitigate risks in the supply of other medical products are not a financially viable way to reduce the risks associated with availability issues for veterinary medicine<sup>75</sup>.

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<sup>71</sup> The Kingsfund – Brexit: The implications for health and social care

<https://www.kingsfund.org.uk/publications/articles/brexit-implications-health-social-care>

<sup>72</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document',

[https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-](https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

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<sup>73</sup> British Medical Association, A health service under threat: the dangers of a 'no deal' Brexit

<https://www.bma.org.uk/collective-voice/influence/europe/brexit/health-services-under-threat>

<sup>74</sup> Ibid

<sup>75</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document',

[https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-](https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

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Many research programmes, as well as NHS organisations and projects supporting issues such as ending Violence Against Women and Girls<sup>76</sup>, benefit from EU funding through schemes like the European Social Fund and the European Structural Investment Fund.

Between 2007 and 2017 the UK received the highest level of funding among all the EU countries for health-related research projects - £1.2 billion and was actively involved in collaborating on over 1000 health projects<sup>77</sup>.

In the long-term, whether they will still be able to access those funds or have influence over programmes is questionable in a no deal scenario. The UK could also become less attractive in general for things like clinical trials and research if there are increased barriers to collaboration between the UK and EU.

Whether the government can provide the funds themselves in the long term, particularly if the worst-case scenario forecasts for economic growth come to fruition is also highly doubtful. The British Medical Association has raised concerns that loss of funding and impacts on public spending could further exacerbate existing regional health inequalities<sup>78</sup>.

## Customs and border agencies

In the event of no deal and no alternative arrangements being agreed, the UK border and customs will come under exceptional pressure due to increased immigration and customs checks and costs to business will increase significantly.

The cost of additional custom declaration checks could be up to £4 billion a year for businesses<sup>79</sup>.

In major ports such as Dover, Holyhead and the Channel Tunnel custom checks could increase by a hundredfold. Many of these ports do not have the physical space or the capacity in terms of systems or staff to deal with such a huge increase in workload. The UK also has a system of fully privatised ports, so the government has limited control or oversight.

Currently, less than 1% of lorries arriving through Dover or the Channel Tunnel require customs checks<sup>80</sup>. Under no deal, ports could come to a standstill on day one.

'Operation Yellowhammer' documents estimate that on 'day one', 50-85 per cent of HGVs travelling via the main Channel crossings will not be prepared for French customs. An immediate reduction in flow rates across the main crossings of HGVs to 40-60 per cent of

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<sup>76</sup> Women's Budget Group – 'Exploring the Economic Impact of Brexit on women', March 2018. <https://wbg.org.uk/wp-content/uploads/2018/03/Economic-Impact-of-Brexit-on-women-briefing-FINAL-1.pdf>

<sup>77</sup> British Medical Association, A health service under threat: the dangers of a 'no deal' Brexit <https://www.bma.org.uk/collective-voice/influence/europe/brexit/health-services-under-threat>

<sup>78</sup> Ibid

<sup>79</sup> Institute for Government, 'Implementing Brexit: Customs' [https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG\\_Brexit\\_customs\\_WEB\\_0.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_Brexit_customs_WEB_0.pdf)

<sup>80</sup> Ibid

current levels is likely to occur, with the worst disruption lasting up to three months. Disruption could last much longer. In their own 'reasonable worst-case scenario' the government estimates delay of 1 ½ to 2 ½ days before HGVs are able to cross the border<sup>81</sup>.

Access to shared data systems is a vital part of frictionless trade with the EU. The UK currently benefits from access to 20 EU systems relating to goods and customs<sup>82</sup>, maintaining access to these databases is vital in reducing the administrative burden of increased checks.

In the event of no deal, an additional 200 million declarations may need to be made<sup>83</sup>. The impact on Small and Medium sized Enterprises (SMEs) could be particularly acute. 180,000 traders, many of whom are SMEs, will need to make customs declarations for the first time: whether many of these firms even know this, let alone how to do it, is unclear<sup>84</sup>.

The British Chambers of Commerce told the Select Committee for Exiting the EU that a third of businesses were not making any preparations for no deal, and SMEs were even less likely to due to lack of capacity and resources to do so<sup>85</sup>.

## Local Government

Headline concerns raised by the LGA regarding a no deal scenario echo the above, with the LGA emphasising in its own no deal briefing, that under no deal, immediately councils would require the following clarifications/ assurances<sup>86</sup>:

- Clarity on the continued employment and residency for non-UK EU citizens running vital public services.
- Compensation for the additional costs to councils from any new tariffs on imports from the EU.
- A guarantee for local regeneration currently funded from the EU (NB the government has agreed to underwrite the money received through the European Structural and Investment Fund to 2020 (ESIF – worth £5.6 billion to local communities in England between 2014 and 2020). But more detail is needed on what arrangements beyond that will look like and how communities can access proposed alternatives like the Shared Prosperity Fund.)

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<sup>81</sup> The Times, 'No-deal Brexit preparations: the leaked Operation Yellowhammer document', [https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525\\_54264\\_15662945685777\\_b838081910&wgexpiry=1574070568&utm\\_source=plait&utm\\_medium=affiliate&utm\\_content=22278](https://www.thetimes.co.uk/edition/news/no-deal-brexit-planning-assumptions-the-leaked-operation-yellowhammer-document-797qkrcm?wgu=270525_54264_15662945685777_b838081910&wgexpiry=1574070568&utm_source=plait&utm_medium=affiliate&utm_content=22278)

<sup>82</sup> Institute for Government, 'Implementing Brexit: Customs' [https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG\\_Brexit\\_customs\\_WEB\\_0.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_Brexit_customs_WEB_0.pdf)

<sup>83</sup> Ibid

<sup>84</sup> Ibid

<sup>85</sup> House of Commons Exiting the European Union Committee, Consequences of "No Deal" for UK business <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/news-parliament-2017/consequences-no-deal-business-report-published-17-19/>

<sup>86</sup> Local Government Association, Brexit "no deal" briefing for councils, <https://www.local.gov.uk/sites/default/files/documents/No%20Deal%20Briefing%20Oct%2018.pdf>

- Similarly, alternatives to the monies available to local government in the UK as an EU member through the European Investment Bank (EIB), which on average lends £4.9 billion a year to UK projects<sup>87</sup>, need to be clarified.
- Additional capacity and resources to fulfil regulatory responsibilities at ports of entry or inland if there are no checks at ports and/ or EU third country controls require it. The briefing notes that local regulatory capacity has reduced around 50 per cent due to cuts to local government funding, and without additional resources, local authorities 'will be unable to absorb any additional work arising as a result of EU exit'<sup>88</sup>.
- Immediate UK replacements where local government relies on EU processes (e.g. procurement); and
- The opportunity to immediately reform some EU laws which constrain local economies (such as procurement and state aid).

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<sup>87</sup> House of Commons Library, Briefing Paper 7847, UK funding from the EU, November 2018.

<sup>88</sup> Local Government Association, Brexit "no deal" briefing for councils, <https://www.local.gov.uk/sites/default/files/documents/No%20Deal%20Briefing%20Oct%2018.pdf>

# Employment rights and no-deal Brexit

## Employment rights immediately after no deal

### *EU law transferred to UK law*

If the UK leaves the EU without a deal, workers in the UK will immediately lose the ability to take challenges to the European court and its vital judgments will no longer be binding in all UK courts. This means that it will be harder for workers to enforce their employment rights.

Over the longer term, a no deal Brexit would mean that the UK government cannot be stopped from removing from UK law the hard fought for employment protections that working people benefit from.

### *European Works Councils*

Workers will lose their ability to set up new EWCs. EWCs currently enable UK workers in multi-national organisations to participate in strategic decisions that impact on jobs, investment and training. EWC rights are cross-border rights, which depend upon membership of the single market/European Economic Area (EEA). Unions and employers are very concerned that if UK reps lose their place at the table, the risk to UK jobs and investment will increase.

The government has put in place Regulations (the Employment Rights (Amendment) (EU Exit) Regulations 2018) intended to preserve existing EWCs in the event of a no-deal Brexit. However, workers will lose the right to create future EWCs, as well as numerous existing protections.

Despite the stated intention of the Regulations, there may also be problems for existing EWCs. There has been speculation amongst legal commentators that some existing EWC arrangements may become invalid for various reasons, including an EU requirement for EWCs' central management to be situated in the EU.

### *Power to extend transfer of undertakings rights*

The government has passed other "no deal" regulations (The Employment Rights (Amendment) (EU Exit) (No2) Regulations). These regulations are intended to preserve, in the event of no deal, the secretary of state's power to extend transfer of undertakings rights beyond the scenarios envisaged by the original EU directive. However, the regulations do not state clearly, what sort of protections will be offered.



### ***Employer insolvency***

UK and EU employees working outside the UK in an EU country for a UK employer might find that they are no longer entitled to national guarantee fund payments in the event of employer insolvency. This will depend on national provisions.

### ***Right to work***

There will be immediate implications in relation to right to work. EU citizens in the UK will need to apply for 'settled status' to have the right to permanent residence and to work in the UK. Vulnerable workers who do not have employment contracts or proof of residency, however, will be at risk of being refused settled status and becoming undocumented, without a recourse to claim rights. While EU citizens in the UK have until December 2020 to apply for settled status, there are also considerable dangers that post-Brexit between November 2019 – December 2020 employers will dismiss EU citizens that have not yet been granted settled status on the grounds that they do not have certainty about their immigration status. Union-friendly legal advisors such as the Joint Council for the Welfare of Immigrants will be crucial allies in this area. While some EU states have guaranteed UK citizens a right to permanent residency (e.g. Spain) not all have, which raises questions about the ability of UK citizens to claim rights post-Brexit.

### ***EU directives, legal principles and judgments after no-deal Brexit***

There will be significant changes to the application of new EU law, legal principles and judgments following a no-deal Brexit. Given the unprecedented nature of Brexit, it is impossible to predict exactly how the application of principles and judgments will change over time.

### ***New EU directives will no longer apply***

EU directives not operative by exit day and any new ones after this date, will not apply to the UK. This will mean the UK will cease to benefit from new developments in EU law.

### ***ECJ case law***

Any new, post- Brexit decisions made by the European Court of Justice will no longer be binding on UK courts and tribunals.

However, Clause 6 of the WA sets out that ECJ rulings made before Brexit will generally have to be followed by UK courts and tribunals, but not by the UK's Supreme Court.

### ***No principle of direct effect***

The principle of direct effect, whereby member states can rely on EU directives, principles and fundamental rights without having to enact national legislation, will no longer apply.

### ***“Marleasing” duty may fade or end***

The obligation to interpret UK law in accordance with the outcome intended by EU law (the “Marleasing duty”) will no longer have a clear application. UK courts may decide to place

more importance on the UK parliament's intentions, resulting in the gradual ending of the Marleasing duty.

### ***No more "Francovich" actions***

The EU will no longer be able to bring infringement proceedings against the UK as a member state for failure to comply with EU law.

No principle of effectiveness

Enforcement remedies will no longer have to be sufficient to ensure effective legal protection of EU rights.

### ***The future of employment rights***

In the event of a no-deal Brexit, and no longer constrained by the legal principles outlined above, any government will be free to undo employment rights derived from EU law.

### ***De-regulation of EU-derived rights***

Set out below are some examples of EU-derived employment rights that are likely to be near the top of a right-wing government's hit list. This is by no means an exhaustive list.

#### ***Working time***

UK workers currently have the right to daily and weekly rest periods, paid holiday and a maximum 48-hour working week. Boris Johnson has expressed his opposition to working time rights in the past. He may attempt to reduce some of these entitlements.

#### ***Rights to information and consultation***

Collective consultation and information rights are of great value to trade unions, especially in potential redundancy situations. These are likely to come under attack. Rights under EWCs will immediately be reduced (see above).

#### ***TUPE protections***

The Transfer of Undertakings (Protection of Employment) Regulations 2006 provide protections for employees transferring from one employer to another, in the event of circumstances such as a sale of a business. The government may try to reduce the scope and nature of these protections.

#### ***Health and safety***

The government may seek to reduce employer obligations in relation to health and safety of workers. For example, the obligation to carry out workplace risk assessments and take steps to address risks.

### ***Discrimination law***

Although now, there is a consensus around protection against discrimination under the Equality Act 2010, this may well change in future. Protection for pregnant women and against the newer forms of recognised discrimination, such as age or transgender discrimination, might be particularly vulnerable.

### ***Atypical worker rights***

The EU acted to ensure equal treatment for atypical workers by way of a series of directives relating to part-time, fixed-term and agency workers. These provided safeguards for those employed in precarious forms of employment. There was particular resistance in the UK to protection for agency workers, suggesting these rights may be targeted.

### ***Employer insolvency***

Many employees can currently claim from a state supported redundancy payments fund in the event of employer insolvency. The government may seek to close the fund.

### ***Compensation***

As the UK will no longer be bound by the EU's principle of effectiveness, it will no longer be required to ensure remedies are effective, proportionate and dissuasive. Therefore, the government may choose to review and reduce current levels of compensation and other remedies for breach of employment rights. For example, it may introduce a cap on discrimination claims compensation.