CENTRE FOR BREXIT POLICY

BREXIT DELAYED IS BREXIT DENIED

Why the UK Must Not Extend the Transition Period

MAY 2020

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THE CENTRE FOR BREXIT POLICY

The Centre for Brexit Policy (CBP) is a new think tank backed by cross-party politicians who support the UK leaving the EU. It has been formed to propose the critical policy changes enabled by Brexit that will boost national prosperity and well-being in years to come, as well as help ensure that Britain fully 'takes back control' when it leaves the European Union.

The CBP aspires to trigger a deep and wide debate about what Brexit should mean for the UK over the next decade or two. By providing a focus for the development of post-Brexit public policy, the CBP hopes to help formulate an overarching framework for the UK that maximises the opportunities Brexit affords. This will be promoted to Government, Parliamentarians, and the public welcoming contributions from those who want to see Brexit open a new and fruitful chapter in our country's life.

The CBP has three core objectives:

- **Identify the benefits and opportunities of Brexit across the full spectrum of economic, trade, social, foreign, defence and security policy areas proposing new policies for the government's agenda**
- **Continue to make the intellectual, evidence-based case for a 'real' Brexit and provide the government with clear and constructive advice on how to deal with ongoing negotiation and implementation issues. A 'real' Brexit, means regaining full control over our laws, borders, seas, trade, and courts**
- **Check any attempts to dilute a real Brexit, as well as serving as a catalyst and rallying point for positive news stories that, over time, will be able to persuade and demonstrate the many substantial advantages of Brexit**

Delivery of these objectives will be based on professional, substantive fact-based research by experts in their fields leading to authoritative reports, short papers, OpEds, events, and briefing meetings - both within and without Government.

The CBP is supported by a cadre of expert CBP Fellows drawn from multiple disciplines to provide additional expertise and experience in developing an agenda for policy change that will ensure the British people benefit from Brexit. Additional support is provided by a CBP Business Forum to bring a business perspective to shaping CBP's agenda, provide input to policy proposals, and deliver a pro-Brexit business voice.

EXECUTIVE SUMMARY

- **Extending the Transition Period (TP) and delaying Brexit for 2 years would cost £380 billion, or trillions of pounds if Brexit were lost forever as a result of extension**
- **An extension of the TP would prevent us from taking the radical steps needed to rebuild the post-Covid economy because the UK would continue to be bound by EU rules and unable to influence them**
- **The British public oppose extension of the TP by 44 per cent to 40 per cent. Among Conservative voters, 61 per cent want to leave on time at the end of this year or even earlier**

For the last five years and in five national polls, the British people have voted clearly and consistently in favour of leaving the European Union (EU).

The UK formally left the EU at 11 pm on 31 January 2020 moving into a TP scheduled to end on 31 December 2020 during which the EU and the UK are to agree a trading relationship under the terms of the Withdrawal Agreement and Political Declaration.

In spite of this demonstrated will of the people and the UK Government's resolve to exit the TP on schedule (as enshrined in law), there remains a sustained campaign to bring pressure on the government to extend the TP - and delay or even deny Brexit. These Brexit opponents have taken advantage of the current Covid-19 crisis to make two core arguments for extending the TP:

- The pressures of responding to the Covid-19 crisis makes it impossible for an EU-UK trade agreement to be reached before 31 December this year, the date on which statutory legislation requires the UK to exit the TP
- If no trade agreement has been concluded with the EU by December of this year, the UK economy, beset by Covid-19, cannot withstand the shock of such a change to our trading relationship with the EU

This paper demonstrates that exiting the TP on schedule - even without an agreed trade deal with the EU - is critical to recovering from Covid-19 and actually improves the chances of reaching a deal with the EU. This is because exiting the TP on schedule.

- Supports the economic recovery from Covid-19 by capitalising on past UK trading success with non-EU countries under World Trade Organisation (WTO) rules.
- Allows Free Trade Agreements (FTAs) to be implemented that, in turn, support the recovery
- Enhances the UK negotiating position making it more likely to reach a deal with the EU
- Provides freedom from EU constraints enabling better regulation that is necessary for revitalising the post-Covid-19 economy

Furthermore, the paper shows that delaying the exit next December, in the hope of reaching agreement on a deal with the EU, is nonsensical.

- It is only the lack of EU political will that prevents concluding a trade agreement by the end of the year
- In the absence of an EU trade deal, trading under WTO terms with the EU is the most attractive, least costly, and best prepared option
  - Unravelling the statute law default position is complex
  - Extension has many negative consequences
  - Extending the TP could cost hundreds of billions of pounds
  - There is no "cliff edge"

Comprehensive professional polling, commissioned for CBP, shows that public opinion backs exiting the TP as scheduled on 31 December 2020.

- The public wants the Government to either shorten the transition period or stick to its current timetable by a small margin (44 per cent to 40 per cent)
- They are deeply cynical about the EU's motives. Asked if extending the transition will lead to further extensions, 46 per cent agreed with only 16 per cent disagreeing - a margin of nearly three to one, indicating that four years after the Referendum in which 17.4 million people voted to leave the EU, they want to get Brexit done
- Conservative voters are overwhelmingly opposed to any extension of the TP despite the Covid-19 emergency: 61 per cent of Boris Johnson's supporters want the UK to exit the transition period by the end of the year or sooner. These are the people the Conservative Government relies on for its 80-seat parliamentary majority.
- The public remains sanguine about Brexit. Asked if the UK would be better off in the long run outside the EU, 45 per cent agreed, with 28 per cent disagreeing - a margin of 17 points for those believing the country has done the right thing to leave
- People also rejected claims that the 31 December deadline and virus-induced interruptions in the talks were grounds for delay. By 42 per cent to 24 per cent, people agreed there is enough time to negotiate with the EU before the end of the TP.
- And, by 45 per cent to 24 per cent (almost 2:1), people agree that the government should be capable of managing both the Covid-19 pandemic and the TP at the same time

CONTRIBUTING AUTHORS

Roger Bootle	Chairman, Capital Economics; Daily Telegraph Columnist
Michael Burrage	Senior Research Fellow, Civitas
Martin Howe	QC (Intellectual property and EU Law); Chairman Lawyers for Britain
Ruth Lea	Economic Adviser, Arbuthnot Group; former Chief Economist, IOD
John Longworth	Former Director General, British Chambers of Commerce; former MEP for Yorkshire and the Humber
Hans Maessen	Independent customs adviser for business and government
Edgar Miller	Managing Director, Palladian Limited; Convener, Economists for Free Trade, Senior Visiting Fellow, Cass Business School
Patrick Minford	Professor of Applied Economics, Cardiff Business School; Chairman, Economists for Free Trade
Owen Paterson	MP for North Shropshire; former Secretary of State for Northern Ireland; former Secretary of State for Environment, Food and Rural Affairs
Matthew Patten	Former MEP for East Midlands; former CEO of the Mayor's Fund for London; former CEO of the Lord's Taverners
Barnabas Reynolds	Partner, Head of Financial Institutions, Shearman & Sterling
Shanker Singham	CEO, Competere; Chairman, Global Vision
Nick Wood	Chairman, Media Intelligence Partners

FOREWORD BY THE RT HON OWEN PATERSON MP

Chairman
Centre for Brexit Policy

For the last five years and in five national polls, the British people have voted clearly and consistently in favour of leaving the European Union. In 2015, the Conservatives promised that, if elected, we would hold a decisive in/out referendum on the UK's EU membership. The Party was returned to Government with more votes and MPs. The EU Referendum Act was passed by a ratio of six to one in the Commons. In 2016, the referendum was held and 17.4 million people voted to leave the EU.

In 2017, the Conservatives stood on a manifesto pledging that "we will no longer be members of the single market or customs union." The Conservatives won more votes than any party for 25 years. At that time, the Labour Party also stood on a platform of upholding the referendum result, so more than 85 per cent of the total votes cast were for parties advocating leaving the EU.

In the 2019 European Parliament elections, with the Conservative Party advocating the old Withdrawal Agreement (WA) and securing only 9 per cent of the vote, the newly-formed Brexit Party topped the polls on an explicitly "no deal" platform, winning in Wales and every English region outside London.

Finally, when Boris Johnson led the Conservatives to the polls pledging to "Get Brexit Done" having secured a new Withdrawal Agreement, he won an 80-seat majority in the House of Commons. The UK formally left the European Union at 11 pm on 31 January 2020.

All that, of course, might seem like a lifetime ago, before the outbreak of the coronavirus pandemic and the health and economic crises which it has entailed. But as well as the unprecedented measures which the pandemic has demanded, it has also served to reignite arguments surrounding the UK's EU membership and, in particular, those that we should extend the TP beyond the end of 2020.

Many of these tired arguments are simply superficially reheated versions of the same arguments that were put forward by opponents of Brexit in order to extend the original Article 50 period. Even in the later stages of 2019, it was held that a new WA could not be achieved without a substantial extension. Now, it is argued that the pressures of the coronavirus pandemic will make it impossible to agree a UK-EU trade agreement by the end of 2020, and that failure to secure an agreement would bring about a catastrophic economic shock.

These, however, are old arguments. A zero-tariff, zero-quota UK-EU trade agreement is in the best interests of both sides, and the history of Brexit so far has demonstrated that bringing compression to negotiations brings about the best chance of achieving such a deal.

Moreover, these old arguments simply do not reflect the new reality. The UK has left the EU yet, for as long as we remain in the TP its obligations to the EU remain largely unchanged. The UK has, however, lost its representation and its voting rights in the EU institutions. Laws can be imposed upon the UK on which it has no say, whose implementation may not be in its best interests, and which are enforceable by a foreign court on which the UK does not sit. The UK is also continuing to pay a substantial monthly fee of over £1 billion and, should the transition period be extended beyond 2020, the UK contribution could dramatically increase at a time when all public funds are needed to help the recovery from the coronavirus pandemic. Plainly, this is an unacceptable situation for the short and the long-term.

Instead, therefore, this paper sets out the arguments in favour of the UK leaving the TP as scheduled on time at the end of the year, as both the surest means of securing a good deal with the EU and as affording the UK the greatest possible freedom and flexibility in stimulating its economic recovery.

The Government to date has been admirably robust on this point and is to be commended for advancing both EU and US trade talks despite the obvious pressures upon it. I very much hope that the arguments presented in this paper are helpful to the Government's task and strengthen its resolve.

BREXIT DELAYED IS BREXIT DENIED

Why the UK Must Not Extend the Transition Period

INTRODUCTION

The United Kingdom formally left the European Union on 31 January 2020 just as the Coronavirus outbreak was becoming a crisis.[1] By the time we get to the end of the TP at the end of this year, the world is going to look and feel a very different place.

Covid-19 has reminded us of the profound and enduring importance of the nation state. People worldwide have overwhelmingly turned to their national governments for leadership, protection and solutions to the crisis.[2]

In the European Union, the first reaction of member states was to flout European treaties and unilaterally seize control of their own borders, introduce state subsidies, implement export bans and relax monetary and fiscal regulations.[3] In response, Brussels has been forced to play catch-up, ditching many of its golden rules and adopting policies it previously rejected outright.[4]

Not that this has helped ease the unfolding crisis. The EU's ClubMed countries are demanding that Northern nations underwrite as much as €1.5 trillion of their escalating national debts.[5] Some East European nations have returned to more autocratic forms of government.[6] Member states are following different Covid-19 recovery strategies and timings. It is no wonder that Italian Prime Minister, Giuseppe Conte, warned EU leaders that "the sanitary emergency has quickly become a social emergency. But now we are facing a political emergency as well."[7]

In the UK, Brexit opponents have seized on this unexpected opportunity to delay the full implementation of Brexit by arguing that the TP, due to end on 31 December 2020, should be extended for as much as two years - the longest permissible extension under EU rules.

This has been echoed by the EU with Michel Barnier complaining that, "The UK cannot refuse to extend transition and at the same time slow down discussions on important areas."[8] The European People's Party, the largest group in the European Parliament, has urged the UK government to do the "responsible thing" and extend the Brexit TP. [9]

Christophe Hansen, a Luxembourg MEP, who sits on the European Parliament's international trade committee, said, "I can only hope that common sense and substance will prevail over ideology. An extension of the transition period is the only responsible thing to do."[10]

However, Boris Johnson is holding firm, having won a comprehensive General Election victory just a few months ago, with the manifesto promise that "We will not extend the implementation period beyond December 2020."[11]

A few weeks later, that promise was enshrined in the Withdrawal Agreement Act, approved by Parliament on 23 January 2020.[12] The original Bill, published in October 2019, allowed ministers to agree an extension to the TP if the House of Commons had approved such an extension. This was amended in the Act so that it now requires further primary legislation for the Prime Minister to extend the transition.[13]

1 www.gov.uk/government/publications/new-withdrawal-agreement-and-political-declaration
2 Fraser Nelson, The Telegraph, 12.3.20; Russel Berman, Telopress, 9.4.20
3 Thomas Pallini, Business Insider 4.4.20
4 Bjarke Smith-Mayer, Politico, 20.3.20
5 Jenifer Rankin, Guardian, 23.4.20
6 Francesca Ratti, Guillaume Klossa, Guy Verhofstadt, Laszlo Andor and others, Euractive, 20.4.20
7 Reuters Business News, 20.4.20
8 BBC News, 24.4.20
9 Jennifer Rankin, Guardian, 30.3.20
10 ibid
11 www.conservatives.com/our-plan
12 www.legislation.gov.uk/ukpga/2020/1/pdfs/ukpga_20200001_en.pdf
13 commonslibrary.parliament.uk/brexit/legislation/the-new-eu-withdrawal-agreement-bill-whats-changed

Since then, the Government has been insistent that the TP will not be extended beyond the end of this year.

On his return to work after recuperating from Covid-19, the Prime Minister's spokesman insisted that Mr Johnson would not ask for more time to do a deal, saying, "we are leaving the transition period on December 31, we will work with the EU to try to do that with a deal, but nobody should be in any doubt that the transition period is going to end on December 31."[14]

In earlier comments, Downing Street stated: "We will not ask to extend the transition. And, if the EU asks, we will say no. Extending the transition would simply prolong the negotiations, prolong business uncertainty, and delay the moment of control of our borders." Extending the TP will "keep us bound by EU legislation at a point where we need economic and legislative flexibility to manage the UK response to the coronavirus pandemic." [15]

Key members and officials of the Government have echoed this:

- Addressing the Future Relationship with EU Scrutiny Committee, Michael Gove, Minister for the Cabinet Office, said the UK would not ask for an extension. "Deadlines concentrate minds," he said, before commenting that, "whenever a deadline was extended, the light at the end of the tunnel was replaced with more tunnel."[16]
- David Frost, the UK's chief negotiator, tweeted that the "Transition ends on 31 December this year. We will not ask to extend it. If the EU asks we will say no. Extending would simply prolong negotiations, create even more uncertainty, leave us liable to pay more to the EU in future, and keep us bound by evolving EU laws at a time when we need to control our own affairs. In short, it is not in the UK's interest to extend."[17]
- Chancellor of the Exchequer, Rishi Sunak, said that he is "confident that work can continue and hopefully reach a satisfactory conclusion, but we remain committed to the timeline that we set out." [18] Standing in for Boris Johnson at Prime Minister's Questions, Dominic Raab responded to Ian Blackford's (Scottish National Party - SNP) demand for an extension to the TP, saying, "the right thing for us to do is double down, get a deal by the end of this year… do this deal, give a shot in the arm to businesses both sides of the channel and this is what we are absolutely wholeheartedly focused on doing."[19]

Nevertheless, even against this unified messaging from the Government, there remains a sustained, campaign to bring pressure on the government to extend the TP - and perhaps delay or even deny Brexit.

These arguments for extending the TP are centred around two core arguments:

- The pressures of responding to the Covid-19 crisis makes it impossible for an EU-UK trade agreement to be reached before 31 December this year, the date on which statutory legislation requires us to exit the TP.
- If no trade agreement has been concluded with the EU by December of this year, the UK economy, beset by Covid-19, cannot withstand the shock of such a change to our trading relationship with the European Union.

The evidence does not support these arguments. This paper will demonstrate that

I. **Exiting the TP on schedule - even without an agreed trade deal with the EU - is critical to recovering from Covid-19 and actually improves the chances of reaching a deal with the EU**

II. **Delaying the exit in hope of reaching agreement on a deal with the EU is nonsensical**

III. **Public opinion backs exiting the TP as scheduled on 31 December 2020**

The following chapters explain our rationale.

14 Financial Times, 27.4.20
15 The Sun, 18.4.20
16 committees.parliament.uk/committee/366/committee-on-the-future-relationship-with-the-european-union
17 Twitter, @davidghfrost
18 Downing Street Press Conference, 8.4.20
19 Prime Minister's Question Time, 29.4.20

I - EXITING ON SCHEDULE IS CRITICAL TO RECOVERING FROM COVID-19 AND MAY ENHANCE AGREEING A DEAL

There was always a strong argument for leaving the EU as soon as possible and therefore accepting a short transition period. It made sense to get on with the process to bring closer the period when the economy could benefit from the gains expected from Brexit and to minimise the baleful influence of uncertainty.

The Covid-19 crisis has strengthened these arguments. Most importantly, to recover from the economic effect of the crisis, we are going to need to ensure vigorous growth of the private sector. This is the way to deal with the huge levels of government debt that will result from the various measures taken to boost the economy.

Consequently, the UK should embrace exiting the TP as scheduled at 11 pm on 31 December 2020, with or without agreeing a trade deal with the EU. This will be the surest way to prime the economic recovery from Covid-19 and will improve the chances of agreeing a meaningful trade relationship with the EU.

This is because exiting the TP as scheduled

- **Supports immediate recovery from Covid-19 by capitalising on past trading success with non-EU countries under World Trade Organisation (WTO) rules**
- **Allows Free Trade Agreements (FTAs) to be implemented supporting recovery**
- **Enhances the UK negotiating position improving chances of reaching a deal with the EU**
- **Provides freedom from EU constraints allowing better regulation necessary for revitalising the post-Covid-19 economy**

The following sections explain these points.

TRADING WITH NON-EU COUNTRIES UNDER WTO RULES SUPPORTS ECONOMIC RECOVERY

If the UK were leaving an excellent trading relationship for a markedly inferior one, there might be a case for extending the transition to make it as gradual as possible, to reduce the impact and damage of a sudden hard landing. But it is not. The UK is leaving an extremely unsatisfactory and unsuccessful trading relationship in the reasonable hope and expectation of creating a better one on the basis of its proven success trading under WTO terms.

While there is rightly much focus on agreeing FTAs with non-EU countries, implementing such agreements will take time and FTAs cannot be agreed with every country in the world. But the UK can build immediately on its impressive past success trading around the world under WTO rules.

The wish to extend the transition is based, much like the wish to remain an EU member, on the idea that trading as a member of the EU has been a great success, because it has been tariff and quota-free and frictionless, whereas trading under WTO rules is far more difficult because of tariffs, regulatory requirements and customs procedures, which will threaten UK incomes and jobs.

This idea is false.

Trading Under WTO Rules: A Remarkable Success Story

The evidence reported by the Office of National Statistics (ONS) leaves little doubt that trading as a member of the EU has been an expensive failure while trading under WTO rules has been a remarkable success. [20]

1. **Since becoming a member of the Single Market/Customs Union, UK goods exports to the EU have been flat while exports to WTO partners have grown substantially.** Over the two decades 1999-2018, UK goods exports to eight of the fourteen other countries that have been EU members during this period have declined in real terms, though the real compound annual growth rate of all 14 was just above zero, at 0.6 per cent.[21] When the result for the year 2019 is added, the annual growth rate is, in fact, zero. Clearly, at a near zero or zero rate of growth, exports to the EU could have created very few, if any, jobs in the UK over the past 20 years.

   In sharp contrast, goods exports to the UK's fourteen largest of the trading partners under WTO rules grew over these two decades at the real compound annual growth rate of 3.4 per cent - i.e. six times faster than goods exports to the EU 14. It is this trade that has created employment in the UK over these years.

   This ONS data shows that the advantages of exporting to our near neighbours in the EU frictionless and tariff free, as well as the supposed disadvantages of trading under WTO rules to countries scattered around the world, facing tariffs, quotas, non-tariff barriers (NTBs), and fluctuating currencies, have been vastly exaggerated in the post-referendum debate.

   Over the same two decades UK services exports to the 14 EU countries grew at a real compound annual rate of 4.79 per cent, far faster than exports in goods, though UK services exports to the 14 WTO countries grew at a remarkably similar real annual rate of 4.77 per cent. That similarity shows that the UK could not have benefited from the so-called EU Single Market in Services, which remains embryonic and is based on a patchwork of conflicting country-specific regulations.

   These facts raise the question of what the UK has been paying for. The ONS evidence proves it could not have been for any benefits to its exports over the past two decades.

2. **The UK enjoys a healthy goods trade balance with its WTO trading partners and suffers a chronic trade deficit with the EU.** On all counts, UK trade with partners under WTO rules has been a success. It has paid its way. A modest deficit trade in goods of £212 billion over this 20-year period has been more than offset by a large surplus on services exports of £768 billion.

   Trade in goods with the EU, by contrast, has created a large and ever-increasing deficit that totalled £740 billion over the same two decades, though with the thirteen countries that joined after 1999, £869 billion. This deficit will likely reach a trillion pounds by the end of this year (notwithstanding Covid-19) since the ONS recently reported the deficit with the EU 27 for 2019 was £94.8 billion.[22]

   There are no services trade surpluses with five of the EU 14 and the surpluses with the others are small, making a cumulative surplus of £282 billion over 20 years. The services surplus with the EU27 is smaller at £267 billion. This obviously comes nowhere near offsetting the goods trade deficits of £740 billion with the EU 14 and £869 billion with the EU 27. Thus, the total EU trade deficit over the 20 years is £460 billion and £602 billion respectively, both of which are increasing at a rapid rate.

   In stark contrast, there is a surplus on trade in goods and services over the twenty years with the WTO 14 of £553 billion versus a deficit on trade in goods and services with the EU 14 of £460 billion, or with EU 27 a deficit of £602 billion.

20 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments#datasets uktradeallcountriesseasonallyadjusted with export deflator

21 Two decades of the data have been the subject of intensive analysis by Michael Burrage & Phil Radford, WTO vs the EU: an assessment of the relative merits of the UK's trade relationships, 1999-2018, London: Civitas, 2020 (forthcoming). Available at: www.civitas.org.uk

22 Burrage & Radford, Civitas, op.cit.

Crucially, trade with WTO partners has enabled the UK to avoid a trade deficit that the currency and bond markets would have found unacceptable and unsustainable. Trade with the EU has created a chronic problem, and Brexit provides an opportunity for it to be addressed. There is no reason to expect extension of the transition will help the UK do so.

3. **The export success of non-EU developed countries provides a pre-cursor to the UK's future trading with the EU under WTO rules beginning on 1 January 2021 - further time to refine that relationship is unnecessary.** On 1 January 2021, if no trade agreement with the EU is agreed, the UK will have access to the EU single market on exactly the same terms as the US, Australia, New Zealand, India, and numerous other partners. The idea that "access to the Single Market always comes with obligations", promoted by the Institute for Government and others must be false because these countries patently have access to the Single Market without such obligations.

   Various rumours have been floated that the EU will devise extra-special NTBs to punish the UK for leaving. However, the EU is a member of the WTO and such barriers would not be compatible with its basic principles, so it is unlikely that it would blatantly ignore them.

   These nations are the best guide to how UK trade might fare in a WTO scenario since they have been trading with the EU under WTO rules for some time. One simple measure of their success is the rate of growth of their exports to the EU which is most easily observed via International Monetary Fund (IMF) Direction of Trade Statistics (DOTS) on imports to the EU by country 1999-2018, all standardised in current value US dollars, and all therefore higher than the inflation-adjusted real rate.[23]

   The mean compound annual growth rate of all EU Single Market members exporting to other members is 5.35 per cent, but the UK's rate over the two decades was 2.1 per cent. It was the lowest of the 14 members throughout those years, and lower than the 13 members who joined during this period, showing once again that UK membership of the Single Market has been a dismal failure.

   However, it is the growth rates of other developed countries exporting to the EU under WTO/General Agreement on Tariffs and Trade (GATT) rules that are of interest here. There is only one, Japan, that has a lower rate than the UK. The others are all higher: Singapore 2.4 per cent, New Zealand 2.5 per cent, the United States 3.0 per cent, Australia 3.3 per cent, Canada up to 2017, 4.6 per cent, and Korea up to 2011, 8.8 per cent.

   All these countries faced tariffs and NTBs for all or most of the two-decade period and were without the advantage of geographical proximity, which HM Treasury and many other UK analysts attracted by the gravity theory of trade believe is a decisive advantage.

   In the rank ordering of countries by the rate of growth of their exports to the EU, the UK is in 150th place of the 209 states and territories whose exports to the EU the IMF records. It is sandwiched between El Salvador and Cameroon, just ahead of several distant Pacific, African and Caribbean mini states.

   This IMF evidence shows, once again, that the advantages of EU membership and the disadvantages of trading under WTO rules have been much exaggerated in the post-referendum debate. Since the UK has proved more than capable of trading under WTO rules elsewhere in the world, there seems no good reason why they cannot do as well with the EU, with the exception of a minority of exporters who have been protected by the CET (Common External Tariff) and have not created markets either at home or elsewhere in the world.

23 http://data.imf.org/regular.aspx?key=61013712

The more limited evidence on services exports of developed countries to the EU under WTO rules arrives at the same conclusion. Currently, the best available data is that of Eurostat[24], which shows the services imports of the EU 28, though only over the nine years 2010-2018 in current value euros.

Services exports from the UK to the other 27 EU members over these nine years grew at a compound annual growth rate (in current value euros) of 6.5 per cent, but services exports from the 'rest of the world' in aggregate grew at a slightly faster rate of 6.6 per cent, as did exports by the United States, which grew at a rate of 6.6 per cent. These somewhat faster growth rates from other countries are notable since the Rest of the World (ROW) and US exports were much larger in value than those by the UK alone.

At the other end of the spectrum, many other smaller non-EU member countries, whose services exports were of a smaller value than those of the UK also grew faster. Mexico, which has a services trade agreement with the EU, grew at 8.7 per cent pa. However, this growth was not particularly greater than countries without EU trade agreements; for example, Israel grew at 8.3 per cent pa. Services exports from China, Hong Kong, and India, which have no trade agreements, grew at rates of 7.9 per cent, 6.7 per cent and 7.6 per cent respectively - all faster than that of the UK.

Services exports from Singapore grew at a compound annual growth rate of 12.8 per cent over the nine years - almost twice as fast as the UK (this was before their trade agreement with the EU came into force). Singapore's Exports per capita were nearly double the value the UK's exports per capita in 2018.

In summary, the 6.5 per cent growth rate of UK services exports to the EU 14 is not remarkable in any way and does not suggest that the UK services sector has been benefiting from the Single Market in Services. In other words, they line up with ONS data about goods exports to the EU 14 and WTO 14 described above.

4. **EU trade agreements with third countries over all the years of UK membership have never matched the UK's comparative advantages and thus have been of zero benefit to UK trade.** UK goods exports to the 88 countries and jurisdictions with which the EU has concluded goods trade agreements grew at a real rate of 3.0 per cent pa over the two decades 1999-2018. However, the four times larger volume of UK goods exports to the 117 countries with which it trades under WTO rules grew at a real compound annual growth rate of 3.4 per cent, so the idea that the size and clout of the EU has enabled it to negotiate agreements that have benefited UK industry is false.

   The EU has negotiated only 38 agreements to improve services trade, and no less than eleven of these are with British Overseas Territories. Exports to the 27 non-British overseas territories (which cover only 2.4 per cent of UK global services exports) grew at a real rate of 5.2 per cent, which is only just better than the 5.0 per cent pa services exports growth to the 154 other countries to which the UK exported services under WTO terms.

   The value of exports to the eleven overseas British jurisdictions (representing 46 per cent of the total value to the 38 countries covered by EU agreements) grew at a real annual rate of 7.2 per cent, but it is unlikely this was primarily due to EU intervention.

   In any case, three of the six high-value trading partners of the UK that have agreements with the EU - Norway, Switzerland, South Korea - have already signed agreements with the UK to continue the present terms of trade. Discussions with two more, Japan and Canada, are on-going with no signs of major stumbling blocks.[25] The sixth, Turkey, cannot progress a future trade relationship until it knows the terms of any EU-UK trade agreement.

24 https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do: Burrage & Radford, Civitas, op.cit
25 https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries as of 4 May 2020

FTA BENEFITS AVAILABLE ONLY WHEN TRANSITION PERIOD ENDS

To pull the country out of the Covid-19 recession/slump as soon as possible will require UK trade policy to concentrate on fast growing global markets. While we should continue to attempt to secure an FTA with the EU, it should not be secured at the price of damaging the UK's independent trade policy or domestic regulatory freedom. The EU's regulatory system is heading in an ever more anti-competitive direction, and the UK should not, in any way be hampered by that regulatory approach. This is leading to real economic consequences for the bloc. The real annual growth rate of the Gross Domestic Product (GDP) of the EU 14 over the two decades 1999-2018 was 1.4 per cent while that of the WTO 14 was 3.3 per cent.[26] There is no reason to expect these relative rates of growth to change in coming decades.

If UK trade is to increase in the coming years, as it must, it is sensible to start with agreements with countries whose markets are likely to grow fastest, and countries with whom we agree on the fundamental approach to liberalised trade and competitive markets. This means negotiating trade agreements with existing trading partners that correspond with UK interests and comparative advantages more closely than the EU agreements have ever done.

In addition, following Covid-19, the UK will need to diversify its supply chains throughout the world so the reduction of trade barriers will be crucial.

Currently, the two FTA negotiating priorities for the UK are the United States and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which comprises Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This is reflective of those nations that have shown a commitment to open trade, competition, property rights protection and a belief in competitive regulation on the basis of recognition, adequacy or equivalence, not on the EU basis of harmonisation and the export of the EU regulatory model.

US FTA Is a Cornerstone of New UK Trade Strategy

As illustrated by the fact that Boris Johnson has instructed Elizabeth Truss to lead UK-US talks for an FTA and that the first formal discussions have taken place, a US FTA is the cornerstone of the UK's independent trade strategy.

- This is even more important now, as the UK will need rapid private sector growth and to reduce entrepreneurial barriers to create new businesses
- There is a very important geo-political dimension to the UK-US FTA. The UK-US axis has for many decades provided stability and policy direction in the world. Ensuring a coherent joint approach by the UK and US towards a liberal economic order, involving trade openness, competition, property rights protection and a reduction of anti-competitive government distortions will be critical to creating global prosperity and lifting people out of poverty.
- Many of the products currently supplied by the EU-27 at relatively high prices can be sourced more cheaply from the US thereby lowering costs for UK consumers. This is especially important for low income UK citizens many of whom are located outside of the South East of England.
- Moreover, establishing an FTA with the US is economically equivalent to establishing FTAs with the rest of the non-EU world because the US can supply any product currently imported from the EU (or any other country) and the US trades at (lower than the EU) world market prices. These factors allow the UK to:
  - Realise the full economic gains of global free trade
  - Insulate itself from the harmful effects of EU-UK tariffs and other potentially hostile trade actions by the EU

26 https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?end=2018&start=1999

– Avoid economic damage from any increasingly likely tariffs or other trade actions imposed by the US on the EU

- Finally, establishing free trade with the US will create a magnet for EU companies to establish operations in the UK in order to export freely to the vast US market.

While the UK-US FTA is intrinsically good, advancing the FTA quickly will put further pressure on the EU to agree to a deal with the UK, especially since the UK ask is relatively straightforward.

CPTPP FTA Taps into Fast Growing Asian Markets

In addition to the critical US-UK FTA, it is also very important for the UK to capitalise upon the fast growing Asian markets that are more likely to emerge from the Covid-19 crisis more quickly.

Combining with countries that broadly share the same commitment to free and undistorted markets, such as Australia, Singapore, New Zealand and Japan through the CPTPP, the UK, US and CPTPP countries can create a trade platform that encompasses 70 per cent of the world's GDP. The original intent of the CPTPP was to bring together a coalition of like-minded countries committed to further and deeper trade liberalisation with a commitment to free and undistorted markets that would not be held back by the slower moving WTO membership as a whole.

This plurilateral CPTPP approach would benefit from UK accession, creating a powerful counterweight to intransigence in the WTO, and market distortions in China.

Benefits of FTAs Significant

A number of studies have estimated the long-term economic impact of the UK implementing FTAs. Their conclusions range from FTAs having essentially no economic impact to a positive boost on GDP of 8 per cent.

- Open Europe modelled the economic impact of the UK achieving global free trade with the non-EU world concluding that there would be essentially no economic impact.[27]
- An EU assessment of the benefits of striking free trade deals with a range of third countries including the US and Asian economies suggested these could boost EU GDP by as much as 2 per cent.[28]
- A study by the Minnesota Federal Reserve Bank suggested reducing trade and investment barriers with the rest of the world by 5 per cent would raise UK welfare by £25-30 billion per year (1.1-1.4 per cent of GDP) even with increased restrictions on trade and investment with the EU.[29]
- Ciuriak, et al (2017) evaluated a scenario whereby the UK traded with non-EU countries under WTO rules but accepted tariff and NTBs for UK-EU trade and found that UK bilateral trade with the EU would fall by 20-30 per cent by 2030 but total UK trade would fall by only around 7 per cent. Given that EU trade is around half the UK total, the implied arithmetic suggests that UK trade with the rest of the world would increase by about 6-16 per cent. Similar results were obtained in a study by Oxford Economics.[30]
- In a similar study, Ciuriak et al (2017) found a boost to UK GDP of 2 per cent from global free trade with non-EU countries.[31]
- Cardiff University evaluated the same scenario as above and found a positive boost to GDP over ten years of 4-8 per cent.[32]

27 Open Europe (March 2015) Booth, S., Howarth, C., Persson, M., Ruparel, R. and Swidlicki, P. 'The consequences, challenges and opportunities facing Britain outside EU' Open Europe report 03/2015. https://openeurope.org.uk/intelligence/britain-and-the-eu/what-if-there-were-a-brexit
28 Harry West, 'How a WTO-based Brexit could yield the UK £100 billion per year', Briefings for Brexit (Sep 2019)
29 ibid
30 Harry West, 'The Treasury is wrong: UK trade will shift to non-EU Countries after Brexit, Briefings for Brexit (Sep 2108)
31 Ciuriak, D., Dadkhah, A., and Xiao, J. (2017) Brexit Trade Impacts: Alternative Scenarios, Ciuriak Consulting Inc. (Ottawa), June, 2017. https://www.gtap.agecon.purdue.edu/resources/download/8782.pd
32 Minford, P. (2019) 'Brexit effects of the new EU deal: a critique of the models and assumptions used in its evaluation', https://www.economistsforfreetrade.com/publication/brexit-effects-of-the-new-eu-deal-a-critique-of-the-models-and-assumptions-used-its-evaluation/

Significantly - compared to the modelled estimates above - the Australian Government estimated that global free trade actually boosted their economy by about 5 per cent over a twenty year period.[33]

These results are in stark contrast to the modelling results obtained by the UK Treasury, which found only a de-minimis benefit from UK free trade with non-EU countries (0.5 per cent boost to GDP).[34] Economists for Free Trade (EFT) carefully analysed the detailed assumptions underlying the Treasury estimates and concluded that these assumptions were either totally arbitrary or supported in only the vaguest manner.[35] Most significantly, every assumption was biased in a negative direction. Annex A summarises the conclusions of the EFT analysis. These conclusions mirror the broad conclusions reached by most economists about the earlier forecasting effort by the Treasury using gravity models.

In addition, the more positive results reported above by Ciuriak and Oxford Economics were obtained using the same model as used by the Treasury (Purdue University GTAP model), but with more objective assumptions. EFT also applied their assumptions to the GTAP model and found a 3-6 per cent boost to GDP from achieving free trade with the non-EU world.[36]

Thus, leaving aside the questionable forecasts of the Treasury, modelling estimates of the long-term boost to GDP from non-EU FTAs range from no benefit to 8 per cent. Australia believes they actually achieved a 5 per cent boost to GDP. If, say a 3 per cent boost to GDP is assumed, this would provide a long-term boost to GDP by about £66 billion. As part of this boost, consumer prices would drop substantially - 8-16 per cent according to Cardiff University. Such a decrease in prices is consistent with the historical observation that consumer prices rose about 20 per cent when the UK first joined the EU Single Market and Customs Union.

Vital To Exit TP on Time

All of these countries, especially Japan, Australia and New Zealand, consider an on-time UK exit from the TP as a key determinant in their calculation of how much political capital to expend in negotiations with the UK. Unless the UK acts now, it is in danger of losing this opportunity. This is because a delay in exiting would likely affect three key assumption made by the UK's negotiating partners - namely:

- **The nature of negotiation between the UK and EU.** The Johnson government has been clear that the negotiation is to create a free trade agreement. Countries are certainly used to negotiating with other countries who are themselves in FTA negotiations with others.
- **The amount of time between now and the potential implementation of such FTAs.** Other countries will want to see that there is likelihood that whatever they agree with the UK can be implemented in a reasonable time frame. If they do not believe this, they will be less likely to draw down the political capital necessary to launch free trade negotiations.
- **The UK's domestic settings and what they mean for its external trade.** If the UK is too close to the EU's regulatory orbit, then the difference between the ease of striking a deal with the UK versus the EU will be much smaller and less important. In extremis, if they perceive that the UK is going to closely align to the EU, they will see the UK as a Trojan horse for the export of the EU regulatory system and will wish to avoid it.

33 CIE (2017) 'Australian Trade liberalisation - analysis of the impacts', Report prepared for the Australian Ministry of Foreign Affairs, Centre for International Economics, Canberra and Sydney. https://dfat.gov.au/about-us/publications/trade-investment/Documents/cie-report-trade-liberalisation.pdf

34 HMT (Nov 2108), EU Exit: Long Term Economic Analysis, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760484/28_November_EU_Exit_-_Long-term_economic_analysis__1_.pd

35 Economists for Free Trade (2018 b)'An overview of the Treasury's new Brexit forecasts', https://www.economistsforfreetrade.com/publication/an-overview-of-the-treasurys-new-brexit-forecasts/

36 Overview Of Treasury Brexit Forecasts: Submission to the Treasury Committee (Nov 2018) https://www.economistsforfreetrade.com/wp-content/uploads/2018/12/Evidence-to-Treasury-Committee-Prof-Patrick-Minford-7-Dec-18.pdf

An extension of the TP would signal to the UK's negotiation partners that some or all of the above factors might change, as an extension would likely:

- Be driven by the EU's desire to delay negotiating an FTA with the UK in order to concentrate on other internal priorities, which would cause alarm with the UK's negotiating partners.
- Delay implementation of any non-EU FTAs likely by two years, which would demotivate the UK negotiating partners from expending time and political capital on the FTA negotiations.
- Result in the UK aligning itself more closely with the EU, which would demotivate further negotiations.

There is an additional variable that was not in the minds of negotiators when they agreed the WA: the Covid-19 crisis. This crisis makes the case for speeding up not slowing down the progress towards FTAs, not just with the EU. The world will be desperate for the creation of private sector economic activity as government debt levels are unsustainable. The UK is likely to emerge with more debt than after the Second World War (which the UK paid off only in 2006). There will be a huge premium on private sector economic growth, and therefore an impetus to significantly lower barriers to economic growth. The UK will need to execute its trade agenda as a matter of urgency.

LEAVING AS SCHEDULED ENHANCES CHANCE OF REACHING A DEAL WITH THE EU

Exiting the Transition Period provides the opportunity for the UK to address legal remedies for some important defects in the EU's structure and the remaining issues contained in the WA, including the Northern Ireland Protocol.

Forces EU to Recognise Likelihood of Unpalatable Remedies

The legal structure of the Eurozone is flawed in three key ways, which collectively create financial risk and unfair trading relationships with non-Eurozone countries:

1. **The structure of the Eurozone is incomplete and flawed resulting in sub-sovereign member-state debt, which is spread throughout the EU financial and regulatory system, being treated under EU law as the highest quality sovereign debt. This fiction leaves the risk of the debt unmanaged, leading to massive financial risk for the rest of the world.** By EU law, there is in fact no sovereign funding for the Eurozone as a whole; consequently, each member state is at constant risk of defaulting on its debts since it does not control the European Central Bank (ECB), and so cannot guarantee to repay its lenders through the printing of more euros. This phenomenal financial risk currently is mitigated for the global markets by the UK, which is where the EU's local markets meet the global financial market. However, the current way in which that risk is mitigated will have to change after the end of this year when the UK leaves the EU's legal framework.
2. **The artificially low value of the euro for northern Eurozone countries, created by the EU's legal setup, which leaves southern states to fund themselves, thereby pulling down the currency value for the more competitive north, means that northern Eurozone businesses are able to export on the basis of a structurally low currency, giving rise to what amounts in law to trade dumping on the rest of the world, including the UK.**
3. **The TARGET2 (the real-time gross settlement (RTGS) system owned and operated by the Eurosystem), itself a feature of the half-built Eurozone system, subsidises Eurozone businesses by providing unlimited financial support to their Eurozone purchasers.**

Once the UK exits the Transition Zone, it will be obliged to construct mechanisms to protect the UK financial market (and, in so doing, other non-Eurozone financial markets - principally the US) from the financial risks created by the incomplete Eurozone. It also will be better positioned to address the unfair trading platforms afforded by the artificially low-valued Euro and TARGET2 subsides. Such initiatives are likely to take the form of:

- Regulations for Eurozone-facing UK financial companies that would prove highly costly to Eurozone financial companies; the UK would also need to ensure that those Eurozone financial businesses seeking to access the UK's global markets through a meaningful on-the-ground presence, would need to do so through an expensively capitalised subsidiary (which would not be capitalised on the basis of the Eurozone's fiction of the sovereignty of its government debt), which would render more expensive access to the UK's global capital market that Eurozone corporates and sovereigns so critically require.[37]
- Imposition of anti-dumping tariffs under WTO law on sales from Eurozone companies that benefit from the artificially low Euro to restore prices to the levels that would have existed in the absence of these structural advantages.[38]
- Imposition of countervailing duties to undo the effects of TARGET2 subsidies on sales into the UK's market.[39]

These initiatives, which can be implemented only once the UK leaves the TP, will be very expensive for the Eurozone, impede its access to global capital markets, and undermine a major plank of the EU's apparent competitiveness - particularly for Germany and the Netherlands. These potential outcomes will not be to the EU's liking and will provide the UK with a potential source of leverage during the current trade negotiations. For example, the EU may decide it is in their interest to agree an Enhanced Equivalence deal in financial services with the UK. None of this can be achieved if the UK were to accede to an extension of the TP. And given more time the EU would no doubt seek to construct a new edifice of arrangements that preserve its unfair and unconscionable advantages, to the detriment of the UK and others.

Normally, it is not considered advantageous to impose tariffs or duties on incoming sales to the UK since the UK consumer then pays more for what flows into the UK, dampening the UK's economy. However, if the UK were to enter into a trade deal with the US, removing tariffs and reducing NTBs with that vast market, since the US market operates at world prices and can supply virtually any product that the UK currently imports, the UK consumer would in fact benefit. Eurozone exporters would be forced to adjust their prices to absorb tariffs and duties out of their excess profits in order to maintain their competitiveness in the UK's market.

So, the UK consumer would be the winner and the UK would protect itself, as it is entitled to do under international and WTO law.

Focuses Resolution of Northern Ireland Protocol/WA Issues

For similar reasons to the above, the UK must unshackle itself from the WA, including the Northern Ireland Protocol, which applies EU state aid law to the whole of the UK, the provisions on citizens' rights, which allow the European Court of Justice (ECJ) to govern such matters for 100 years or so, and from the European Investment Bank (EIB), which is the vehicle being used for the riskiest of funding of the Eurozone's problems.[40]

This agreement was intended, as it had to be under Article 50, to be an agreement entered into on the basis of an understanding of the framework of the future trading relationship between the UK and EU: the parties "shall negotiate and conclude an agreement with [the UK], setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the [EU]." That framework is

37 Managing Euro Risk, Barnabas Reynolds, David Blake and Robert Lyddon, Politeia, February 2020.
38 How to Level the EU's Playing field, David Collins, Politeia, April 2020.
39 Ibid.
40 There are numerous other aspects of this agreement that encroach on UK sovereignty, in relation to matters as diverse as the use of geographic indicators (which are restricted until an FTA is entered into) and the UK's sovereign bases in Cyprus.

contained in the Political Declaration, which, in Article 4, recognises the UK's sovereignty.

Under the WA, the EU is obliged to progress the negotiations for the future framework expeditiously, using "best endeavours, in good faith and in full respect of [the UK's …] legal order", as set out in Article 184. This is a serious undertaking under international law.

Currently the EU has not been progressing the negotiations to finalise the FTA text at the end of the year and has been proffering approaches inconsistent with UK sovereignty, leading to serious issues of compliance with its obligations under the Agreement.

If now the EU changes course and negotiates a reasonable FTA, the WA should be re-vamped to reflect the agreed, sovereign-to-sovereign nature of the future relationship in all its aspects, removing most of its provisions and effects, including those applying EU law and ECJ jurisdiction. This is the outcome the EU agreed to deliver, and it should be held to that - not least, since it reflects the reality that the UK has left the EU as a sovereign nation and, subject to a few points involving the tying up of loose ends, any new arrangements must respect that underlying truth.

There are numerous ways in which proper respect for UK sovereignty can be achieved. For instance, in Northern Ireland it can be done through the use of Alternative Arrangements and/or Mutual Enforcement to ensure an invisible north-south border - the outcome both parties agreed they would achieve.

Properly drafted these arrangements would not encroach on UK (or EU) sovereignty and would not involve any application of EU law (or any role for the ECJ) in Northern Ireland, nor the application of EU state aid law in Northern Ireland or indeed across the UK as a whole. Nor would it involve the absurdity of EU-law-driven checks being made across the Irish Sea. Notably, it would not be to the detriment of the EU commercially.

The application of EU law to Northern Ireland was always an absurdity that was created by the EU's untenable insistence that, somehow, the arrangements could be detached from negotiations regarding long-term trade. Making this intellectual shift in approach is crucial to ensure the UK is not adversely affected through the prism of any Northern Ireland arrangements by EU trade dumping, subsidisation and its dumping of financial risk through the anomalous arrangements for the Eurozone outlined in the previous section.

Covid-19 Further Strengthens UK's Negotiating Position

The EU entered into the Covid-19 crisis in a much weaker financial position than the UK (and much weaker than before the global financial crisis) with some countries in extreme difficulty and very large disparities in debt-to-GDP across the Eurozone effectively preventing the mutualisation of the debt required to support the EU's highly indebted companies. Italy's problems are well known and it is possible that France may be too big to save.

The massive indebtedness in the southern Eurozone states that has arisen from the lack of a sovereign Eurozone debt-raising body is becoming unsustainable in its current form. Those countries are unable to fund their way out of the Covid-19 crisis to the same degree as countries in the northern Eurozone, leading to massive disparities in economic, financial, lifestyle and health outcomes. The disparities are becoming acute and noticeable.

Two decades of lost growth in Italy, coupled with the necessity for more debt-burden, are causing unrest in the south. Talks are becoming acrimonious between north and south, particularly between Germany and the Netherlands on the one hand, the main beneficiaries to date economically from the Eurozone's set-up, and Italy and Greece on the other, and the main states that have paid and suffered.

As a result, Germany and France are each seeking different types of power-based advantage out of the situation, and yet are consumed by their Eurozone problems. Germany has the additional problem that it is being looked at to take on joint and several liability for Eurozone debt - at least in part - because of its relative economic success. And yet it cannot afford to mutualise the level of current and future debt obligations of the southern Eurozone that would be required to remove the financial risk, trade dumping and subsidisation effects mentioned above. Or, at least, it cannot afford to do so without a massive adjustment in its own economic trajectory and the aspirations of its citizens.

This situation dwarfs any issues facing the EU from Brexit, which is likely to override what has hitherto been a wish to force the UK to suffer from Brexit. It seems likely that Germany, the driving political force behind the EU, would wish to ensure a good free trade deal with the UK and would ultimately drop the demands for UK rule-taking. Those demands are at their strongest in France, which applies a Napoleonic approach to its European political aspirations and to trade. It is not at all clear France wants a trade deal with the UK, since that goes against its protectionist preferences. However, the costs of no deal for France are likely to undermine its willingness to persist with such a strategy, nor is it clear that it has any backing from other significant EU states in its aspirations as such aspirations are ultimately to the economic - and political - detriment of other EU states.

FREEDOM FROM EU CONSTRAINTS/BETTER REGULATION CAN BE ACHIEVED ONLY AFTER EXIT

The UK will require maximum flexibility to organise the necessary post Covid-19 economic recovery.

It is notable that many of the measures currently being taken by the UK (and member states of the EU) to deal with COVID 19 would normally not be permitted within EU rules. The UK and other states have chosen to ignore these rules and the EU, partly as a consequence, has relaxed them. However, they likely will be reintroduced in future and will impinge on the UK recovery as long as we are still within the TP, since the UK remains subject to EU rule for as long as we remain in it (notwithstanding that we have no say in the creation of those rules).

Imagine what the situation could be if the UK remains in the TP once the Covid-19 crisis passes and the EU returns to 'business as usual'.

- Even now, there are reports of various EU regulations impeding progress in responding to the Covid-19 crisis, such as procurement of personal protection equipment (PPE) and state aid rules holding up implementation of banking schemes to support companies.
- The Covid-19 crisis has demonstrated the propensity for EU member states to embrace various forms of trade protectionism - for example, export restrictions on medical equipment.
- The EU's approach to data privacy means tracking apps that could help end the lockdown could be delayed.
- Similarly, the EU is clamping down on artificial intelligence even though it may be crucial in crunching the data that will lead to a vaccine.

It is somewhat ironic that the EU is relaxing rules during this period of crisis. It is more normally the case during emergencies that greater restrictions are applied rather than relaxed. This begs the question why these rules are applied in normal times if they are not necessary in extremis.

The restrictions that have been lifted include those that would enforce the principle of free movement. It will be essential for the UK to be able to choose the people and from where who are able to enter the nation, not just in order to prevent further pandemic outbreaks but to ensure that appropriately-skilled labour is available to fuel the economic recovery and an adequate contribution is made to the cost of public services.

It will be essential that the UK is able to deploy tax policy, regional support, sectoral support, loans and grants in order to fuel the post-Covid-19 economy. But, all of these could be considered as state aid by the EU and therefore restricted. This is particularly irksome since other major EU players find ways to work around state aid rules. In particular, Germany's use of the KFW state backed business banking system enables that country to pump billions of euros (over €30 billion pa typically) of long term, favourable loans into the German business community. Moreover, it has been recently reported by the European Commission that, since the beginning of the Covid-19 pandemic, Germany has accounted for 52 per cent of EU approved aid, roughly twice its share of the EU economy.[41]

Freedom to act on tariffs would enable the UK to design a tariff schedule favourable to UK business and to UK consumers. In appropriate circumstances this would help protect, perhaps only temporarily, business sectors in recovery. In other circumstances, the removal of tariffs would boost consumer spending power and reduce the cost of living, especially for the poorest in society. Cardiff University estimates that global free trade would reduce the consumer price index by 8 to 16 percentage points, particularly for items important to low income budgets, such as food, clothing, and shoes. [42]

The EU's relaxation of the precautionary principle during the Covid-19 crisis has enabled an emergency response by the rushing of new equipment and the acceleration of drug programmes of benefit to the population. This begs the question as to why the precautionary principle is considered advantageous to the EU in normal times other than as a protectionist tool to inhibit competition.

A new approach to regulation once the UK is out of the TP, will improve innovation to the benefit of the British people and help stimulate economic growth. The economic benefit of improved and simplified regulation has long been acknowledged.

- An extensive Cardiff University study estimated the potential benefit of increased labour productivity from better regulation post leaving the EU to be between 2 per cent and 6 per cent of GDP, depending on the degree to which government would be able to capitalise upon the opportunities).[43]
- A study by Open Europe concluded that the 100 most important EU regulations cost the economy £184 billion pa (more than 8 per cent of GDP) - with the top four (Working Time Directive, Climate Change and Renewable Package, Energy Performance Certificate, and Temporary Agency Workers Directive) costing £97 billion pa (4.4 per cent of GDP). [44]
- The EU's own estimates suggest the cost to business is large, as much as 4-6 per cent of GDP.[45]

A boost of 2 per cent to 8 per cent of GDP would represent a very significant benefit to the economy. There also would be the intangible upside of avoiding future burdensome rules arising from the EU.

Provided such deregulation does not produce serious negative effects on public safety and having due regard for the unintended consequences of regulation, post-Brexit simplification should provide a welcome fillip for the economy and stimulate growth. Such deregulation, combined with the eliminating the all too often well intended protectionist purpose of regulation and controls - not least the precautionary principle - will help facilitate trade arrangements around the world as NTBs are removed through mutual recognition.

41 Minford, et al (2015), An Economic Analysis of a Troubled Relationship (Chapter 4), Second Edition https://www.e-elgar.com/shop/gbp/should-britain-leave-the-eu-9781785360329.html
42 Ibid.
43 Minford, et al (2015), An Economic Analysis of a Troubled Relationship (Chapter 2), Second Edition https://www.e-elgar.com/shop/gbp/should-britain-leave-the-eu-9781785360329.html
44 Harry West, 'How a WTO-based Brexit could yield the UK £100 billion per year', Briefings for Brexit (Sep 2019)
45 ibid

II - NONSENSICAL TO DELAY EXIT IN HOPE OF REACHING AGREEMENT WITH THE EU

It has been suggested that the argument for delaying our exit from the TP has been strengthened by the coronavirus crisis, in two ways.

First, the crisis has interrupted the scheduled calendar of negotiations and made face-to-face meetings more difficult. It therefore makes it less likely that we can conclude a trade agreement with the EU in time, thereby making it more likely that we leave the TP without a trade deal, forcing us to trade with the EU on WTO terms.

Second, the Covid-19 crisis has greatly weakened the UK economy and put enormous strains on UK businesses, as it has on businesses in the rest of Europe and around the world. With businesses weakened and many vulnerable to failure, this is not a good time to place added burdens on them. Even if we manage to secure a trade deal with the EU, depending upon the nature of the deal, some sectors may face new arrangements. In the event that we leave without a deal, then businesses will face three sorts of problems:

- The extra administrative burden of paying tariffs on UK exports to the EU
- Possible disruption to their market and the loss of business from these tariffs
- Delays at borders arising from our having left the Single Market

These extra difficulties could push some businesses over the edge; now is not the best time to impose these added burdens on businesses.

Although these arguments are superficially persuasive, they do not stand up to scrutiny.

- **Only the lack of EU political will prevents concluding a trade agreement by the end of the year**
- **In the absence of an EU trade deal, trading under WTO terms with the EU is the most attractive, least costly, and best prepared option**
  - Unravelling the statute law default position is complex
  - Extension has many negative consequences
  - Extending the TP could cost hundreds of billions of pounds
  - There is no "cliff edge"

This chapter explains these conclusions in detail.

LACK OF EU POLITICAL WILL PREVENTS AN AGREEMENT

The EU's demands are quite extraordinary in trade negotiations. The EU seeks to place the UK under long-term so-called "level playing field" obligations (including the forward application of EU state aid rules which the UK must follow as and when the EU modifies its own rules or their interpretation) which have no counterpart in the EU's trade agreements with other countries.

It is as if the EU wishes to ignore the fact that the UK has become once again a sovereign state. Its objective of creating a long-term colonial relationship seems to have eclipsed the EU's interests in promoting trade for mutual benefit. The same attitude can be seen in the EU's demands on fishing, where it seeks effectively the long term continuation of the Common Fisheries Policy (CFP) - itself an encroachment on UK sovereignty which resulted from the UK's entry into the EU - which has proved so disastrous for the UK's fishing industry. In effect, it is seeking the permanent donation to the EU of much of the catch in the UK's own waters.

These and other demands by the EU mean that an agreement with the EU based on such terms is plainly contrary to the interests of the UK and, come 31 December 2020, the UK will be better off leaving the TP without a preferential trade agreement with the EU. It is as and when the EU comes to realise that its proposed terms are not going to lead to an agreement, and the preservation of its preferential access into the UK market for its exports becomes its priority, that it could be possible to arrive at a zone where agreement is possible.

Inadequate Time and Resources Not Credible Reasons for Extension

The suggestion is that the transition period should be extended to assist a successful conclusion of the UK-EU negotiations, which might otherwise fail from lack of time. However, the suggestion that lack of time is the reason for current problems with the negotiations does not bear up under the most cursory scrutiny.

Giving extra time to the negotiations will not solve this problem. In fact, it would do the reverse and be deeply damaging. It would remove the time pressure on the EU to modify its position and do a deal. In fact, it would positively encourage the EU to believe that if it sticks to its hard line the UK will eventually buckle. And from the EU's point of view, an extension gives the EU all the time in the world because the terms of the extension oblige the UK to carry on giving preferential access to the UK market for EU goods and services and to deny equivalent access from third countries, as well as disrupting the UK's trade negotiations with third countries - another big win for the EU. And, as an added bonus, EU citizens could continue to settle in the UK up to the end of the extended transition and gain permanent rights to reside.

The suggestion that the technical details of a UK-EU deal cannot be stitched up in time for December 2020 if the political will exists to agree sensible terms is not sustainable. The UK's demands are almost all for the application to the UK of conventional trade agreements, whose terms are mainly copied out from existing EU trade agreements with other countries. In fact, the UK's ask is pretty minor, against any blue-sky trade deal it might have sought. Since the ECJ's formal Opinion on the EU-Singapore FTA it has been clear that almost all aspects of modern conventional trade agreements lie with the external treaty-making powers of the EU, a lengthy process of national ratification of the trade provisions of a UK-EU treaty would not be necessary.[46]

Furthermore, Brexit negotiating teams have been structured in free-standing task forces outside of ministerial organisations and generally do not have skill-sets relevant to dealing with Covid-19 issues.

EU Makes Progress Amidst the Crisis When It Desires

The successful resumption of talks between the EU and HMG by video conference has demonstrated the practical possibility of pursuing an agreement within the existing timescale of the TP. It has:

- Conducted several major summits and conferences week to deal with Covid-19 and financial support issues. Any failures of such meetings were not due to lack of resources but rather to deep-seated intra-EU political differences.
- Announced plans for negotiating the accession of six Balkan countries as potential new EU members.
- Indeed, the resumption of full talks with a clear schedule bears out this point.

Much more important are the philosophical differences and poor understanding of the UK's position on the part of the EU. Michel Barnier's recent comments have revealed that he continues to view the UK as an adjunct of the EU and does not see Brexit as creating a fully independent and sovereign UK. There is a clear threat that, because the UK would be a competitive threat to the EU, it must be kept in the orbit of the EU. This therefore limits the possibility of reaching a conventional trade arrangement as is normally the case between sovereign states and the EU.

If this view prevails within the EU then there will be no trade deal that could be negotiated under any circumstances. But if it is prepared to flex and act in accordance with the Political Declaration, then the UK has ensured that executing on such a path can be extremely swift. No major new concepts or wordings need be agreed. The work has been done.

46 The only exception is the area of investor protection, but this could be left to be a later add-on if needed at all.

TRADING ON WTO TERMS IS THE MOST ATTRACTIVE, LEAST COSTLY, AND BEST PREPARED OPTION IF NO EU DEAL

Calls are currently being made to "allow more negotiating time" for talks with the European Union by extending the current TP which governs the UK relationship with the EU until 31 December 2020. These calls are ill conceived for several reasons.

There seems to be widespread belief that arranging for the TP to be extended is a straightforward matter: the UK government would just ask, and an appropriate period of extension would be granted. This is not the case. The process would be more difficult, fraught, and with more negative consequences, than the successive extensions of the UK's membership which took place under Article 50(3) of the Treaty on European Union (TEU).

Unravelling the Statute Law Default Position Is Complex

The legal basis for extending the transition period is in Article 132 of the WA between the UK and the EU. Article 132(1) states:

"Notwithstanding Article 126,[47] the Joint Committee may, before 1 July 2020, adopt a single decision extending the transition period for up to 1 or 2 years."

The rather curious wording "up to 1 or 2 years" appears to be a relic of the negotiating history of this clause and of political debate surrounding a possible extension under the May government. It does not seem to alter the effect of the clause, which could more simply have read "up to 2 years" to the same effect. So, it authorises a decision for a one-off extension which could range (in theory) from one day up to the full two years. Unlike Article 50(3) TEU[48] which authorises multiple successive extensions of a withdrawing State's EU membership, Article 132 of the WA does not provide a legal basis for a later "extension to the extension". But that does not mean that such a further extension would be impossible - it could be done by the UK and the EU jointly agreeing to an amendment of the WA.

The Joint Committee is a body established under the WA which contains representatives of the EU and the UK. Michael Gove is currently the UK's Chief Representative. The Joint Committee can only take formal decisions when both sides (the EU and the UK) agree.

However, the UK's representative on the Joint Committee is prohibited by primary legislation from agreeing to any extension. Section 15A of the European Union Withdrawal Act 2018 (EUWA) states in bald terms that "A Minister of the Crown may not agree in the Joint Committee to an extension of the implementation period." That section was inserted into the EUWA by section 33 of Boris Johnson's European Union (Withdrawal Agreement) Act 2020 (EUWAA), in fulfilment of his pledge in the 2019 Conservative General Election Manifesto which stated in bold type and without qualification that **"we will not extend the implementation period beyond December 2020."**

A further barrier to an extension is that s.39(1) of EUWAA 2020 hard codes the ending of the transition period as "31 December 2020 at 11.00pm" for the purposes of UK domestic law. So a full Act of Parliament would need to be passed in order to authorise a UK Minister to agree to the extension in the Joint Committee, and to change UK domestic law to continue to apply the full panoply of EU laws to the UK during the extended period. Although certain legal commentators, notably Catherine Barnard and Alison Young, have argued that an extension could be authorised by statutory instrument, with respect it seems extremely bold to argue that a statutory instrument under the EWAA can be used to amend an unqualified

47 Article 126 states that the transition period ends on 31 December 2020.
48 At least in the way it has been interpreted by the EU and the UK government.

restriction on the powers of Ministers intentionally inserted into that Act itself by primary legislation.[49]

So as a matter of UK domestic law, a transition extension could take place only if the government were to about-turn on a central plank of their election manifesto and drive through a Bill which would overturn it. But even assuming that such barriers under domestic law could be overcome, there is a significant further barrier since the financial terms would need to be negotiated with the EU.

Extension Has Many Negative Consequences

Much talk about an extension seems to assume that it is just about extending the time for carrying on negotiations with the EU. This is only one of many profound consequences of extending the transition period. This is a quite extraordinary arrangement unique in international law and practice since colonial days, in which the UK is subject to EU laws while having no vote or veto on them, and subject to foreign courts and foreign administrative and executive agencies such as the European Commission while having no representation of its citizens on them. Indeed, Art.7 of the WA specifically bans UK representatives from attending EU meetings, the only limited exception being when UK representatives can attend "by invitation only" for the purpose of being told what to do.

This arrangement is exceptionally dangerous, putting the UK and its industries at risk of having new legislation, or changes of rules or interpretations, imposed with no remedy or recourse. The direct jurisdiction of the ECJ would continue throughout the extended transition period, together with its powers of enforcement including the power to impose fines. Areas of UK industry which are particularly at risk include:

Fishing. The extension would lead to the grossly unfair and unbalanced CFP continuing to apply to UK waters.

Financial services would be particularly at risk, from rules or rule changes which (whether by accident or design) undermine the competitiveness of the City as a global financial centre. One particular point of concern is that Eurozone national government bonds are treated under EU rules as if they are risk-free "sovereign" bonds. These bonds are not in fact sovereign because Eurozone states lack the power enjoyed by sovereign states, if necessary, to issue national currency in order to meet debt obligations.

The pressures upon EU authorities and Eurozone national governments to force markets (including the huge UK-based global financial services markets) to treat Eurozone government bonds as if they are risk-free and not to address the true default risk that arises from those bonds will intensify at the same time as the actual risk of defaults by certain states grows because of the coronavirus crisis. It is risky enough for the UK to be exposed to regulatory control in this way until 31 December this year, but the magnitude and unforeseeability of that risk is likely to grow exponentially if the transition period were extended.

State aid control is another critical field, where the UK is currently subject to EU Commission (and ECJ) control of state aid in the UK, even though the UK now has no representation on the Commission (or in the EU's Council or Parliament) and is not in a position (unlike a Member State) to bring political pressure to bear. EU state aid law is a political instrument, applied with vast discretion by the Commission across any areas of what the ECJ defines from time to time as amounting to national economic inducement - including tax. Even purely domestic matters within a state are governed by this regime.

The Commission has published a framework for state aid approvals during the coronavirus emergency. It is not widely appreciated that the Treasury is having to get Commission state aid clearance for its financial support schemes. It is clear that the continued application to the UK of the EU state aid regime is causing problems.

49 https://ukandeu.ac.uk/deliveringanextensionofthetransitionperiod/ "Delivering an extension of the transition period", 20 April 2020. Their argument relies in part on the fact that subs.39(4) of the EUWAA allows definition of the end of the transition period to be amended by statutory instrument. However, the authors overlook or ignore the fact that this SI power is an extremely narrow one which can, by virtue of s.39(3), only be exercised if the end date or time of the transition period changes "by virtue of any change to EU summertime arrangements" (e.g. if the EU were to extend current summer time through the winter which has been mentioned as a possible change). The extreme narrowness of this SI power undermines the authors' argument Parliament could have intended that extending the transition period could take place by means other than primary legislation.

- The limitation of the government guarantee to 80 per cent on the troubled Coronavirus Business Interruption Loan (CBIL) scheme seems to be rooted in Treasury concerns about EU state aid rules
- The Treasury and the British Business Bank which administers the CBIL scheme on its behalf have indicated that they are obliged by Commission guidance to require lenders to apply the "undertaking in difficulty" rules from the EU state aid bloc exemption Regulation (EU) No 651/2014. Art.2(18) of this Regulation contains a complex definition of "undertaking in difficulty" which is extremely difficult to apply to businesses which suddenly face a catastrophic fall in sales but were previously healthy

This difficulty is compounded by the fears of lenders about the possible retrospective recovery from them of any government guarantee payments under the scheme if the Commission were in future to take state aid infraction proceedings. Such proceedings can be very long and drawn out. An extension of the TP would result not only in the substantive state aid rules continuing to apply to the UK during the extension, but would also extend the period of time during which the Commission could bring proceedings for past infractions.

In fairness to the Commission, there seems as yet to be no publicly available evidence that the Commission is applying its state aid rules in a way which discriminates against the UK as compared with EU27 member states, but even so the fact that the UK has not yet regained its sovereignty is a source of serious problems.

Those problems are likely to become more acute once the immediate emergency phase has passed and the emphasis of the UK and of other countries will be on economic recovery. Longer term business support schemes will be necessary, and if the transition period is extended all such schemes would continue to be subject to EU state aid controls into next year. The environment could well change from a permissive one to one where other countries and the Commission will be scrutinising UK business support schemes with an eye to the possible competitive impacts on their own industries.

By extending the TP, the UK would place itself in damaging and dangerous position unique in the world. It would not be an independent sovereign country able to fashion its business recovery policies subject only to WTO rules. It would not be an EU member state with a seat at the table when it comes to fashioning the common state aid rules which apply across the EU, nor a seat at the Commission table when those rules are applied in a discretionary way. Instead, it would be subject to the EU rules which would be applied to the UK by institutions committed to safeguarding the interests of the UK's competitors. To voluntarily extend such a period would surely be madness.

Jurisdiction and laws. Similar points can be made more generally across the board regarding the continued application to the UK of EU legal jurisdictions, both by the Commission and by the ECJ. Art.4(4) of the WA requires that provisions of the WA which incorporate or are based on EU law or concepts must be interpreted in the UK in conformity with ECJ case law "handed down before the end of the transition period". An extension of the TP would automatically extend the binding effect of ECJ judgments into cases decided in 2021. And according to Art.158(3), the 8-year period during which the ECJ can hand down preliminary reference judgments which bind the UK on EU citizens' rights would be further extended.

Financial/budget consequences of extending. This is a far more complex issue than the financial consequences of previous membership extensions, or under the current transition period. Extensions of the UK's membership automatically continue to apply the existing system of financial contribution rules to the UK, while the current extension period in broad effect continues to apply the financial rules to the UK as if it is still a member state under the EU's current Multi-Annual Financial Framework (MAFF) and "Own Resources" decision which run (coincidentally) up to 31 December 2020.

However, if the current transition period is extended beyond the end of 2020, that will mean the UK will still be a quasi-member after the start of the new MAFF. Negotiations between the remaining EU27 states on the new MAFF are already fraught because of the absence of the UK's huge net budget contribution. The additional strains on the EU budget caused by the coronavirus crisis will only increase the desire of the EU27 to milk the UK for the largest possible financial contribution as a price of the extended transition period.

The basis of the UK's financial obligations during an extended transition period is not defined. Arts.132(2)(a) and (b) of the WA would partly shield the UK from automatic liability for new spending programmes committed under the post-2020 MAFF, and from automatic application to the UK of the EU's post-2020 Own Resources Decision. However as regards what the UK would be required to contribute, Art.132(3)(a) simply says that the Joint Committee shall "establish the appropriate amount of the contribution of the United Kingdom to the Union budget for the period between 1 January 2021 and the end of the transition period, taking into account the status of the United Kingdom during that period".

This means that the amount of the financial contribution would be established by a negotiation in which the EU is in effect free to demand as much as it wants, with no effective legal redress or remedy on the part of the UK. If the UK makes such a request it will be a supplicant and will be treated as such by the EU. Bearing in mind that the UK would be making the request up against the July deadline under Article 132, it is likely that the EU would use the same tactic which it used so successfully against Theresa May of "running down the clock" to make sure its budgetary demands were met. It is inconceivable that the EU's budget demands would be less than the UK's current net contribution to the EU budget (£11 billion pa in 2018) and it is highly likely that they would be considerably more.

Effect on trade with non-EU countries. One important aspect of the transition period is that it obliges the UK to continue to be part of the EU's customs territory and to apply EU external tariffs and customs rules to trade with other countries of the world.

This creates two huge disadvantages for the UK.

- The UK's huge goods trade deficit with the EU27, which coupled with the nature of the UK's imports and the structure of the EU's external tariffs mean that UK consumers are obliged to buy many EU goods from EU producers at well above world market prices. This is particularly true of food; joining the Common Market in 1973 led to a 20 per cent increase in food prices (phased over a number of years) which is a permanent drag on the living standards of UK consumers.
- The effective subsidy given by UK consumers to EU27 producers because the UK has to apply the EU's external tariff wall is less visible and less well known than the direct subsidy towards the EU by UK taxpayers into the EU budget, but is at least as large. The UK can mitigate this cost by adopting its own tariff schedules in its own interests once the TP ends, but this would be postponed if the TP is extended.
- A transition extension would make it impossible for the UK to implement any of the trade agreements with non-EU countries (including the USA) which it is currently negotiating. Not only would this be inherently damaging, it would also undermine the faith of negotiating partners who are putting time and effort into their UK negotiations, and would be gravely damaging to the credibility of the UK in international trade. Would they bother again? Would they fear if there is one extension that another could follow? (Although a further extension under the Art.132 mechanism would not be possible, third counties would fear that the UK and the EU could amend the WA to provide for a yet further extension).

Political Consequences Are Dangerous. Asking a virtual Parliament to extend the UK's stay in the virtual EU would be unwise as:

- The issue has been settled over the best part of four years after one referendum, two Prime Ministers and three general elections.
- The resulting disruption and uncertainty would distract and undermine efforts to recover from the economic effects of Covid-19.
- Political instability would almost certainly be triggered taking us back to the dying days of the May government.
- The EU has every interest in delaying the conclusion of an agreement (annual fees, fish, no rival UK trade policy, UK subject to EU rules, etc).
- The EU will be hoping to preserve the institutional arrangements that have generated a massive trade deficit in goods.

- Negotiations and agreements with other countries might facilitate or expedite agreement with the EU, but the idea that extending the transition period to reach an agreement with the EU would help to reach agreement with any other countries is absurd
- The EU has entered these negotiations with its leaders publicly committed to the goal of ensuring that the UK leave the EU with fewer benefits than it enjoyed as a member. Since the benefits are difficult to identify, this may be difficult, but the commitment does not augur well for the negotiations, or give confidence that an extension would make agreement more likely.

Extension Undermines the UK's Negotiating Position. If the UK were to delay Brexit, the EU would have more time to construct a new vision under which it tries to force the UK into a subordinated and less successful role, and the UK would continue to be exposed directly - and potentially even more so - to EU and particularly Eurozone risk and the consequences of its unfair trading platform. It seems unlikely that additional time would be used to enter into a more favourable deal for the UK.

There is also the issue of the how the EU's laws may operate in a way that fails to protect UK interests during an extended transition. The EU is already adjusting its state aid laws. These form an essential underpinning of its economic structures and are used to advance its interests. It is not at all clear how they might be applied during an extended transition, but they could well be applied in a manner that is detrimental to the UK, given that the priority will be to find monies and legal constructs to prop up the Eurozone without requiring Germany to mutualise the debt burden (given Germany's refusal to do this).

Thus, there is likely to be an increased displacement of risk and costs onto non-Eurozone countries, which the UK (being governed by the EU acquis) would be prevented from challenging given that the internal logic of EU law, which would regard the offloading of risk and cost from the Eurozone in this manner as a justifiable means to achieve the EU's intended ends.

Extending TP Could Cost Hundreds of Billions of Pounds

If it proves impossible to secure a trade deal with the EU by 31 December, then the UK is faced with a choice of either:

- Imposing a 31 December deadline on an EU that claims it cannot agree to a deal in time, in which case the UK leaves the EU on 31 December under WTO rules
- Agreeing to a further period of transition under EU control, at the end of which the UK has no guarantee that a satisfactory agreement would be reached

If the UK leaves on 31 December, as currently scheduled, it moves at once to full control of its affairs and can reap the substantial gains of worldwide trade agreements, transforming the regulative system into one that drives innovation and competitiveness, controlling borders, ending its annual contribution to the EU budget, etc.

If the TP is extended, not only are the gains summarised above delayed, but the momentum behind current trade talks around the world is lost, risking loss of these FTAs altogether. More money is paid and, worst of all, the UK is exposed to great risks of future EU regulation and massive financial risk from potential EU financial crises, in which we would be a bailout partner with no say in decisions.

In practice, we believe, if Brexit opponents are able to exert sufficient political pressure to cause not only an extension U-Turn on the part of the Government but also to force through a majority vote in Parliament to rescind current legislation calling for the TP to end on 31 December, it is highly likely that Brexit opponents would demand the maximum two-year extension. Demonstration of such political power in Parliament would almost certainly lead to the end of Brexit. Certainly, a two-year extension would likely terminate any hope of negotiating FTAs with non-EU partners.

Therefore, we have evaluated two scenarios:

- A two-year extension after which we leave the EU as an independent nation
- A permanent loss of Brexit

There are at least five costs potentially created by extending the TP:

1. Continuing the annual EU Budget contributions that the UK has been making so far
2. Delay or loss of FTAs with non-EU countries
3. Delay or loss of benefits from better regulation
4. Delay or loss of benefits from better control of unskilled immigration
5. Exposure new budgetary demands as a result of entering the new EU budgeting cycle that begins on 1 January 2021, as well as being forced to contribute, for example, to the EU's costs of coping with Covid-19 or the looming EU's funding crises required to support failing member-states

Although it is not possible to arrive at an exact figure for the cost of delaying the UK's exit from the TP, it is possible to calculate the order of magnitude of such costs to assess whether they will be tolerable or a major economic threat.

Costs of Extending the TP. This section estimates broadly the magnitude of the costs of each of the five cost-items listed above.

1. **Contribution to the annual EU Budget.** At a minimum, the UK would continue making its annual contribution to the EU, as it has been doing for the past several years. In 2018, this amounted to £20 billion gross (before rebates and grants) and £11 billion net.[50] These figures increase annually roughly in proportion to the growth of EU Gross National Income (GNI). Moreover, once the UK enters into the new EU budgeting cycle, it is possible the formula for determining the contribution could change to our detriment as we would have no voice in such decisions.

   Thus, a two-year extension would result in two years loss of our net payment of £11 billion, or **£22 billion**. If Brexit were lost and the UK continued making such contributions forever, the present value of an ongoing stream of payments of £11 billion pa growing at 2 per cent pa and discounted at 5 per cent would be **£367 billion**.[51]

2. **FTAs with non-EU countries.** As outlined above, almost certainly the result of a two-year extension would be the end of Brexit. Even if that were not the case, it likely would be a very long time before the UK's FTA negotiating partners would be willing to devote the necessary time, political capital, and resources to negotiate FTAs with the UK again. Therefore, the prudent assumption is that these FTAs would be lost for the foreseeable future.

   If, as discussed in the earlier section on FTAs, a boost of 3 per cent of GDP is arbitrarily assumed from implementing FTAs with non-EU countries, this would be equivalent to a boost of today's GDP of about £66 billion. The present value of losing this boost to GDP for two years is **£132 billion** and the cost of losing this benefit forever is **£1.1 trillion.**[52]

50 Office for National Statistics: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/theukcontributiontotheeubudget/2017-10-31

51 The present value of an infinite stream of payments is given by the formula 1/(r-g), where r = the long-term discount rate and g = the annual growth of the payment. In this section, we have assumed 5per cent for the discount rate and 2per cent for the annual growth.

52 The boost of £66 billion builds up over 10 years; so, on average, it is an annual boost of £33 billon. If this grows at 2 per cent pa and is discounted at 5 per cent, the present value of this stream is £1.1 billion.

In addition, because we are assuming a scenario of exiting the TP without an EU trade agreement thereby leading to tariffs imposed by both sides, the UK would receive tariff revenue under today's conditions of £13 billion pa.[53] Therefore, a two-year delay would **cost £26 billion** and, if this benefit were lost forever due to no FTAs being implemented, the present value of this stream would be **£433 billion**.

In summary, in the very unlikely outcome of being able to implement FTAs immediately following a two-year extension, the cost would be **£158 billion** and the cost of losing FTAs permanently would be **£1.5 trillion**.

It's also worth noting that part of the overall boost to GDP from FTAs stems from the reduction in prices to consumers. Cardiff University estimates this to be a reduction in the Consumer Price Index (CPI) of 8 per cent to 16 per cent. Thus, if FTAs are delayed, or lost, this consumer benefit would also disappear.

3. **Benefits from better regulation.** Earlier, in the section on better regulation, three studies were cited that collectively estimated the benefits of better regulation as being in range of 2-8 per cent of GDP. Assuming a figure of 4 per cent of GDP (the lower tercile of that range) results in an annual benefit from better regulation of £88 billion. Therefore, a two-year extension would cost **£176 billion** and if such a benefit were lost forever due to the loss of Brexit, the present value of that loss would be **£2.9 trillion**.
4. **Control of unskilled immigration.** Economists for Free Trade has estimated a positive impact on the economy from better control of low-skilled immigration thereby reducing the taxpayer subsidy of meeting the gap between the expenses to the State versus tax revenue received.[54] This was estimated to be 0.2 per cent of GDP, or an annual figure of £4 billion. A two-year delay would cost £8 billion, or if permanently lost £133 billion.
5. **New exposures emanating from becoming involved in the new EU budgeting cycle beginning on 1 January 2021.** If the UK extends the TP, in addition to the continued contribution the EU's annual budget discussed above, there is the question of UK liability in the event of another serious EU crisis. Such a crisis currently threatens from two directions:

   - The Covid-19 financial crisis, which the EU South faces with already high public debt/GDP ratios.
   - The parlous state of the EU's banking system loaded with sub-sovereign[55] member-state debt, backed by a central bank whose balance sheet is full of the same debt. If, say, Italy defaulted on its debt due to its current problems, it could lead to a market run on banks and weak governments, whose rising interest rates would trigger fears of wider defaults and worsen this run: the well-known 'doom loop' between government debt and the financial system.

   In such an event,[56] the UK would have liabilities under an EU funding mechanism called the 'Commitments Appropriation'. This starts afresh at the beginning of each new seven-year budget cycle. It effectively places an upper limit of what can be requested from EU member states in respect of each budget cycle (currently 0.26 per cent of EU GNI, about €280 billion) and in normal circumstances, where every member state was able to pay its way, it would allocate a portion of this to each EU member state (currently, 12 per cent in the case of the UK, or about €34 billion over the entire seven-year budget cycle). The allocation is only a guideline because the liability is joint-and-several. In addition, member state payments against their share may only materialise many years later - for example when a borrower from one of the funds created with the Commitments Appropriation fails to pay back its loan.

53 Economists for Free Trade, Why a World Trade Deal Exit from the EU May be the Best for Britain (June 2018), https://www.economistsforfreetrade.com/wp-content/uploads/2018/06/Why-a-World-Trade-Deal-exit-from-the-EU-may-be-best-for-the-UK-Final-15.06.18.pdf

54 McKinnon, Neil (2018) 'Immigration: a central Brexit issue', https://www.economistsforfreetrade.com/wp-content/uploads/2018/11/Immigration-a-central-Brexit-issue.pdf

55 The term, 'sub-sovereign', was coined in the book "Managing Euro Risk", co-authored by Barnabas Reynolds, David Blake, and Bob Lyddon, which was published in February of this year by Politeia

56 We are grateful to Bob Lyddon, an author who has published numerous times on this subject, and contributed the following analysis.

If the UK does not extend the TP, it will have no obligation in the new 2021-2027 budget cycle. But, what if the UK extends the TP and consequently becomes involved in the new 2021-2026 budget cycle?

The base case assumption would be rolling forward the 0.26 per cent of EU GNI and 12 per cent UK apportionment. Allowing for growth of EU GNI, the potential UK obligation over the 7-year period might be on the order of, say **£40 billon**.

However, it is possible - because of the looming financial demands on the EU - that the 0.26 per cent of GNI could be increased; a feasible upper limit might be to 0.35 per cent.

Furthermore, the 12 per cent UK allocation of £40 billion is based on the assumption that all EU member states are financially viable and able to contribute their share, whereas the legal liability is joint-and-several, or "last man standing pays everything". By definition, if a crisis is caused by one or more member states defaulting (for example, Italy), the UK allocation would increase from 12 per cent because a member state defaulting on its debt would not be able to meet the guarantee call made to cure its own non-payment. A credible upper limit might be 25 per cent. Thus, under such a scenario, the UK obligation could easily be on the order of €110 billion (**£97 billion**).

To provide a sense check on these figures, what levels of liability could result from an Italian default?

Italian debt is growing towards 150 per cent of GDP, once the cost of the virus bailout is factored in. With a GDP of circa £1.6 trillion, that is a debt level of £2.4 trillion. In the event of a default, lenders would - judging from the Greek model - have a 'haircut' forced on them by the authorities, a figure of perhaps, say 35 per cent. Thus, £840 billion of Italy's debts of £2.4 trillion would be written off.

The bailout would be mounted as an 'extraordinary assistance' operation through one of the European institutions - most likely the European Central Bank (ECB)[57] - in which the UK remains a shareholder. This institution would take the loss and would need to be recapitalised in the same amount. This route likely would be taken because Italy's largest single creditor is the Eurosystem itself, via the ECB's Quantitative Easing programme. Thus, the Eurosystem owns approximately 30 per cent of Italy's debt, or £720 billion. A loss of 35 per cent of this amount (£250 billion), passed back to the ECB, would bankrupt the ECB many times over.

Indeed, since so many of the holders of Italian debt are thinly-capitalised European institutions or Italian banks, the 'haircut' would have to be mutualised at a European level in order to cure the problem of over indebtedness in every Italian institution that is over indebted. If the UK were faced with covering 25 per cent of the recapitalisation amount of £840 billion (Italy, in these circumstances, would not be able to pay in its share of 12 per cent or so), the UK's share would be £210 billion, - over twice the £97 billion figure calculated above.

Taking all of the above into account, a minimum figure for UK potential liability in the new budget cycle would be **£40 billion**, which plausibly could increase to **£97 billion**, if other member states could not pay their way. Of course, these figures only hold if the Commitments Appropriation acts as a cap on the total liability.

If, however, the EU decided upon "extraordinary assistance" to a member state, which it deemed necessary to the EU's own survival, it has the power (under the Treaty on the Functioning of the EU) to bypass the budget cap and mount the kind of rescue described above. That could be very expensive for the UK, and paying for it would not necessarily eliminate the liability under the Commitments Appropriation.

57 A fuller explanation of how and why the bailout would be mounted through a European institution and indeed through the ECB is to be found between pages 32 and 37 in "Why the Eurozone's Fate Makes an Immediate Brexit Vital" by Bob Lyddon, published through Global Britain in July 2019: www.lyddonconsulting.com/wp-content/uploads/2019/06/Global-Britain-paper-High-Financial-Risks-of-Remain-27jun19.pdf

Summary of Costs. The table below summarises the costs outlined above.

Potential Costs of Delaying Brexit

	Two Year Delay	Permanent Loss of Brexit
Contribution to the annual EU Budget	22	367
FTAs with non-EU countries	132	1100
Benefits from better regulation	176	2900
Control of unskilled immigration	8	133
Exposures for the new EU budget cycle	40	97
TOTAL	**378**	**4597**

All figures in billion £s

It can be seen in the table that the total costs of a two-year delay (assuming that the benefits of Brexit can be accrued immediate afterwards) would be on the order of £380 billion and, if the extension leads to the permanent loss of Brexit, the cost becomes some £4.6 trillion.

Even in the favourable two year scenario, the cost of extending the TP represents a serious economic threat to the UK's post-Covid-19 recovery.

And, of course, such figures do not quantify untold potential negative impacts on the UK's democratic integrity, sovereignty and position in the world.

There Is No "Cliff Edge"

The frequent portrayal of leaving the EU as a "cliff edge" in post-Referendum debate has left the impression that British firms would 'crash out' into a wholly unfamiliar trading environment upon leaving the EU without a trade deal. That is an entirely false impression, since the WTO trading success described above would hardly have been possible without many UK firms and people knowing how trading under WTO rules is best conducted. Unfortunately, their voices were seldom, if ever, heard during those many months of squabbling about no deal.

According to HMRC Business Population Estimates, there are 83,000 UK firms that do not export to the EU at all, and hence must trade largely, if not exclusively, under WTO rules, and a further 73,000 who export to both WTO and EU partners. There are therefore some 156,000 UK firms for whom trading under WTO rules could not possibly be a "cliff edge" or present any kind of problem. They do not need further time to prepare for trading under WTO rules, since they have been earning their livelihoods for years by doing so.

However, HMRC estimates there are 150,000 UK firms that export exclusively to the EU and for them the transition could present difficulties.[58] What lies ahead for them?

Fortunately, during the four years since the referendum, extensive preparations by the Government and industry have been made and rehearsed. The major logistics displacements created by the Covid-19 crisis have identified the weak points in business supply chains so that businesses are already reconfiguring them and moving toward reshoring. The Covid-19 environment has demonstrated how effectively businesses can adapt and cope with new problems that have been many times worse than anything that could be imagined for Brexit border issues. Moreover, given the certainty of exiting in January, there is still ample time for government and industry to concentrate on a narrow range of straightforward actions that can ease the transition even further.

58 https://www.gov.uk/government/collections/business-population-estimates

1. **Robust preparations for an exit under WTO rules are already in place and sticking to the December deadline provides certainty and additional time to prepare.** When the UK leaves the EU on 1 January 2021 the litmus proof of operations will be the functioning of the customs borders. There will be no great difference in border operations if we leave on FTA or WTO terms, although an FTA would make processes simpler because there will be less duty liability. If an FTA were to include provisions for mutual recognition of conformity assessment bodies and their work to certify compliance with EU and UK product regulations and standards on agricultural and restricted goods, this could also streamline or obviate the need for checks and controls.

   Because both sides are committed to use their best efforts to deliver a new trade agreement by December, UK exporters to the EU are well aware that in December the customs union will come to an end, whether there's a FTA or not.

   - This means that UK exporters already know that, as of January 1, they will trade with the EU in the same manner that they trade with the rest of the world under WTO rules employing standard customs formalities. All that remains to be done is to see that those accustomed to EU trading learn standard custom formalities. This job should not take more than six months when livelihoods are at stake and given a reasonable government education campaign.
   - The only unknown element is comparatively minor, whether there will be a free trade agreement reducing EU import tariffs and streamlining regulatory checks or not. This aspect need not take long to agree. The UK has offered zero tariffs and mutual recognition of conformity assessment - an economically rational EU presumably would like the same.

   By sticking to the agreed TP, by June the UK should have insight as to whether an acceptable trading agreement is likely to be agreed, thereby giving the UK six months to finalise any border and custom processes needed to trade with the EU on WTO terms (as the UK does with most other trading partners).

   Enhanced border operations in France, Belgium, the Netherlands, and Ireland will be available in January 2021. It will depend for a large part on the British side how smooth the transition will take place. A comprehensive plan in which government and the customs industry cooperate is necessary to make this a success. Border Force and HMRC need to work together to make customs declarations available on a large scale. Customs formalities can be done at the points of loading and unloading or on locations near the border. Technology is available to create green lanes. The existing Transit system can be used to embark and disembark ferries without delay and perform customs obligations where they logistically are most efficient.

   HMRC will soon have the new Customs Declaration System (CDS) available to enhance the capacity of the present Customs Handling of Import and Export Freight (CHIEF) system and gradually take it over. Thus, in coming years, customs formalities will be 100 per cent digital. But this will require professional declarants to determine the right procedures and make the digital declaration, and clients need to be ready with the right data. Declarants are crucial for Brexit. Declarants know about international trade and transport; they apply tax law in a fully real time digitalised environment.

   Thousands of new professional declarants both in trade and transport will be needed to accommodate the expected 500 per cent increase in declarations. The customs industry is now concentrated in Felixstowe and Heathrow but must expand to other (airports and inland) locations. Financial support is available and new staff can now be hired by the customs industry to be trained. It is crucial that no further delay in Brexit takes place so that trained declarants can start to work as planned, and so that investment in the industry can be spurred.

An extensive education and communications programme with the business community has been underway for some time and is continuing as follows:

- The Government has started the process of informing business about the changes they will have to make after 1 January 2021
  - www.gov.uk/guidance/trading-under-wto-rules began in August 2019
  - www.gov.uk/starting-to-export Transport goods out of the UK by road: step by step
  - www.gov.uk/guidance/trading-under-wto-rules began in August 2019
  - www.gov.uk/starting-to-export Transport goods out of the UK by road: step by step
  - www.gov.uk/transition-check with email updates
- There is time for the 156,000 WTO trading firms to pass on their knowhow and experience to the 150,000 who have no experience, but would like to be prepared for exporting to EU customers under these rules. Even if there is an FTA, it is unlikely to allow trade to continue in exactly the same manner as now.
- The Institute of Export and International trade[59] already runs short courses for those and no doubt could be encouraged to run more or make podcasts and online YouTube tutorials. There is one government department that has long experience and deep knowledge of all the procedures and difficulties encountered by those trading with the EU under WTO rules: HMRC. No doubt, HMRC has other concerns preparing for 1 January 2021, but if a few of their staff were assigned to DIT, they could form a highly experienced team with the specific mission of encouraging, informing, advising all those engaged in the task of telling firms accustomed to supposedly frictionless trade with the EU how they might export just as well under WTO rules.
- Furthermore, the civil service has prepared to leave the EU and trade on WTO terms several times already: first in March, then in April, and again in October last year and again on January 31 this year and is now prepared finally to leave on December 31 this year. Such preparation has included for example:
  - Road shows and seminars for importers and exporters
  - Explanatory websites and online training
  - These preparations have helped businesses understand the pinch points in their supply chains and that the UK is determined not to extend transition hence new customs processes for the EU need to be undertaken
  - With a definite, legally immobile date for leaving the TP, companies will have another 8 months to get organised

Another extension would waste all of this preparation.

2. **Covid-19 has placed logistical issues into perspective, may mitigate them, and has motivated a new 'can-do' approach to problem-solving.** What we have been through over recent months shows that supply chains can rapidly adjust and cope - food is available in the shops, drugs and radio-isotopes are being delivered to hospitals, and even the unprecedented demand for PPE essentially is being met, in spite of the huge logistical challenges.

   Global trade is down 25 per cent and any disruption caused by a "no deal" exit is bound to be less than it would have been in more normal times because of capacity headroom at the border, within companies and in the freight transport industry to apply global rules or FTA rules. Furthermore, the transition will be initiated after the Christmas peak of the holiday season, moving into the slow month of January.

59 https://www.export.org.uk/page/about

As long as Government and industry apply themselves to solving the few outstanding issues and committing capital and leadership energy to getting the customs, veterinary and freight forwarding industries ready and their clients switched on to procuring the right data there should be very little fear of queues at Calais and Dover.

Panic buying at the beginning of the Covid-19 crisis has allowed UK retailers to identify their supply bottlenecks and some essential products that had been outsourced to EU manufacturers are being on-shored and diversified in order to improve supplies and this trend can be built on.

If the newly-discovered "can do" spirit brought on by the Covid-19 outbreak is invoked for thinking creatively about how supply chains can be considered in the round for leaving under WTO rules or an FTA on 31 December, fear of the "famous cliff edge" need not reappear. There are thousands of currently furloughed workers worried about their jobs who with the right encouragement and signposting could be using the Covid-19 downtime to learn new skills and creativity in customs processing made available online for example by real customs operators like the Customs Clearance Consortium, Customs Academy and Institute for Exports.

Such customs operators and international companies have prepared plans for investment. A focused, incentivised programme can facilitate the growth of existing customs industry but could also invite foreign investment to enhance its capacity and innovation. Now that the UK is sovereign to decide on customs issues itself, it can fast track permissions, provide special financial arrangements and use creative new procedures in customs. Infrastructure investments in ports and inland logistic hubs and pop-ups are needed. But adjustments in supply chains due to Covid-19 and Brexit can be combined in one operation.

Government should now present its comprehensive cross-department plan for customs and border operations on 1 January 2021. Now that the UK has regained its sovereignty, new concepts can be presented for government services of Border Force, HMRC and the agricultural department combined. Physical and virtual "green lanes" can be created with technology and infrastructure as can a major programme of education as to the differences created for industry. Since this takes some time clear, decisive and well-funded action is needed now.

3. **Clarity that the UK will be leaving the single market and customs union on 1 January 2021 - come what may - now provides the right environment to motivate business to take action in the few remaining specific straightforward areas necessary to clarify outstanding process questions, support business preparation, and increase capacity into the service industries that can help the efficiency of dealing with new formalities.** Government can now act at pace in the following areas:

    - Making decisions on where and how companies may comply with regulatory formalities with regard to animal and plant product safety and broader safety and, Sanitary and Phytosanitary Standards (SPS) / Rapid Alert System for Food and Feed (RASFF) declarations for carriers, and helping create services for compliance with these formalities, and being creative in the use of existing systems like Trade Control and Expert System (TRACES) for declaration purposes.
    - Increasing veterinary capacity in key places to enable the above, and enlisting private sector, as well as Government to building capacity for import procedure and import standard checking facilities at ports handling EU trade volume.
    - Making decisions about and enabling officers whether from HMRC or Border Force to give their input as may be required for procedure for inland clearance and Transit related formalities at more localities away from Dover / Folkestone. These and other physical facilities for handling customs documents at important inland transport nodes are necessary to prevent congestion and provide for logistic efficiency.

- Helping companies understand that different incoterms with their suppliers and customers can have dramatic effects on the efficiency within the supply chain of dealing with duty liabilities, and examine how to change their terms to make this process efficient in case there may for a time have to be provision for duties and financial capacity in the points of the chain where such liabilities might arise.
- Providing more flexible financing arrangements to intermediaries and encouraging insurance to help them meet demand for services that include the handling of customs liabilities.
- Helping companies understand and procure the data points that will be required for entry into the different customs and regulatory formalities.
- Encouraging training and automation in the declaration processes and building capacity of Declarants and Declarant service providers by encouraging foreign investment and helping to scale innovative service providers.
- Encouraging furloughed or unemployed service industry participants to take the training courses available.

The essential point is that none of these actions are inherently difficult and they can be achieved in the time remaining. None of them demand the extraordinary efforts demonstrated by building the Nightingale hospitals or ramping up production of ventilators.

It is purely a matter of focus and organisation. What is new is the certainty - which must be maintained - that the UK will exit the TP on 31 December 2020 so that both government and industry are now aware of what they must do and by when.

III - PUBLIC OPINION BACKS EXITING THE TRANSITION PERIOD ON SCHEDULE

Under the cover of the Covid-19 emergency, a hare has been set running. And its message is seductive. Common sense dictates that with the country yet to emerge from lockdown, the Government has just one priority - combating the virus and resuscitating a paralysed economy. All else must be put on hold.

Of course, it is nonsensical. There are hundreds of things the Government, its agencies and other public bodies must do every day. Pensions and benefits must be paid, the military, police and fire services must be kept in good order, the streets must be cleaned, the post delivered, dustbins emptied and, yes, our diplomats and civil servants have to carry on doing whatever it is they do when it comes to foreign governments and promoting the national interest.

Past Polling

Best for Britain (BfB) has commissioned polling from Focaldata, which it claims, shows that 66 per cent of people want an extension of the TP. Strange then that the question posed to achieve this figure does not actually mention Brexit or the TP.

People were asked if they agreed with the proposition that "the UK Government should focus 100 per cent of its energy on dealing with Covid-19 for the rest of the year". Not surprisingly, the majority agreed. After all, not many people are going to say that ministers should adopt a lackadaisical approach to the worst pandemic to hit the world for 100 years.

But those who agreed were then assumed to be backers of an extension. They were then asked to choose between a Brexit extension of a year, or one lasting indefinitely, until the pandemic was over.

The technical term for the BfB survey is "push polling" in that the questions are loaded to produce the desired result and to shift opinion in a particular direction.

CBP Poll

In contrast, the CBP commissioned Savanta ComRes to conduct a detailed inquiry into the true state of opinion. In all, we posed 31 questions and we are able to analyse the results according to whether people had voted Conservative or Labour in the 2019 general election and whether they had backed Leave or Remain in 2016.

The results are striking.

- **By a small margin (44 per cent to 40 per cent) of the public wants the Government to either shorten the transition period (8 per cent) or stick to its current timetable by which it is concluded at the end of this year (35 per cent).** Rounding of the two numbers brings the total to 44. So, 44 per cent of the electorate are in favour of the status quo or a quicker exit. They slightly outnumber the 40 per cent who want the transition period extended to 2021 or beyond (under the current law the maximum period of extension is 2 years and that has to be agreed at the outset, which means by the end of next month). BfB's 'finding' that two thirds of the people want transition extended into next year bears little relation to reality.
- Naturally, people do worry that with the pandemic perhaps only just past its peak and with hundreds of deaths every day from Covid, the Government might struggle to complete its trade negotiations in time. **Nonetheless, the polling found that by a margin of nearly 2:1 (45 per cent to 24 per cent) voters believe that the Government is capable of doing two things at once.**

- The survey found that the public are deeply cynical about the EU's motives. **Asked if extending the transition will lead to further extensions, 46 per cent agreed with only 16 per cent disagreeing** - a gap of 30 points or a margin of nearly three to one, indicating that four years after the referendum in which 17.4 million people vote to Leave the EU, they do indeed want to get Brexit done.

The politics of the poll are also important. Conservative voters are overwhelmingly opposed to any extension of the transition period despite the coronavirus emergency.

- Over half of Tories (52 per cent) support the current timetable; a further 9 per cent of Conservatives want a shorter timetable, meaning that **61 per cent of Boris Johnson's supporters want the UK to exit the transition period by the end of the year or sooner.** These are the people the Conservative Government relies upon for its 80-seat parliamentary majority. It would be a reckless Prime Minister who embarked on a U-turn in the face of such numbers, given the strength of feeling Brexit engenders among many of his supporters.
- **Among Labour voters, 56 per cent want an extension, as opposed to only 29 per cent of Conservatives.** A similar divide appeared among Leave and Remain supporters in the referendum, with Leavers favouring the end of year timetable and Remainers wanting an extension.

Despite the grave suffering and insecurity provoked by the pandemic and the consequent lockdown, the public remains sanguine about Brexit.

- **Asked if the UK would be better off in the long run outside the EU, 45 per cent agreed, with 28 per cent disagreeing** - a margin of 17 points for those believing the country has done the right thing to quit.
- People also rejected claims that the December 31 deadline and virus-induced interruptions in the talks were grounds for delay. **By 42 per cent to 24 per cent, people agreed that there was enough time to negotiate with the EU before the end of the transition period.**

National pride and honour are also at stake.

- **By 40 per cent to 27 per cent, the public said it would be "embarrassing" to continue the talks into 2021.**
- **People also thought that extension was more in the EU's interests than the UK's.**

The survey also uncovered stark regional differences, although given the small sample sizes the findings should be treated with some caution.

- **In England, London is the only region where a majority of people want the transition period extended beyond 2020** - 45 per cent for extension against 40 per cent for sticking to the end of year timetable plus those who want an even shorter transition period. A rating of plus 5 percentage points for going long.
- **All the other English regions oppose extension:** North West (minus 5 percentage points); North East (minus 7); Yorkshire and Humberside (minus 15); West Midlands (minus 2); East Midlands (minus 37); South West (minus 14); South East (minus 7); Eastern (minus 2).
- **Wales (minus 16) was also opposed to extension.**
- **Besides London, the support for delay came from Scotland (plus 43) and Northern Ireland (plus 8).**
- **Take London and Scotland out of the equation and there is a strong majority for no delay (47 per cent to 37 per cent),** a difference in favour of completing our exit this year of 10 percentage points.
- Extending this analysis to the so-called "Red Wall" seats that the Conservatives captured from Labour at the general election also reveals a big majority for no delay. **The combined result of the regions roughly analogous to the Red Wall seats (North West, North East, Yorkshire and Humberside, Wales, West Midlands, East Midlands, South West) results in a 44 per cent to 33 per cent majority against extension - a margin of 11 percentage points.**

Drilling down into the "agree" or "disagree" responses of voters, the differences between Conservatives and Labour are clear, mirroring the Leave/Remain split. Roughly three in five Conservative voters are opposed to any delay in the transition period and see delay as damaging to the national interest. Among Labour supporters the opposite is the case. For instance:

- **Three in five 2019 Conservative voters (61 per cent) agree it is important for the UK to stick to our agreed scheduled transition period**, in comparison to less than a third of 2019 Labour voters (30 per cent)
- **Three in five 2016 Leave voters (63 per cent) and 2019 Conservative voters (59 per cent) agree that extending the transition period will lead to further extensions,** in comparison to just a third of 2016 Remain voters (34 per cent) and 2019 Labour voters (35 per cent)
- **Three in five 2016 Leave voters (59 per cent) and over half of 2019 Conservative voters (54 per cent) agree that we still have enough time left to negotiate with the EU before the end of the scheduled transition period,** in comparison to just a third of 2016 Remain voters (31 per cent) and 2019 Labour voters (33 per cent)
- **Three in five 2016 Leave voters (63 per cent) and 2019 Conservative voters (58 per cent) agree that the government should be capable of managing both the Coronavirus pandemic and the transition period at the same time,** in comparison to just a third of 2016 Remain voters (32 per cent) and 2019 Labour voters (34 cent)
- **Three in five 2016 Leave voters (61 per cent) and 2019 Conservative voters (56 per cent) agree that it would be embarrassing for the UK to extend the transition period with the EU into 2021,** in comparison to just a quarter of 2016 Remain voters (24 per cent) and 2019 Labour voters (26 per cent)

The poll also asked people if they thought the transition period was too long, too short or the right amount of time. Opinion divided three ways on this question, with 27 per cent saying too long, 24 per cent saying too short, and **(the largest group) 35 per cent saying it was the right amount of time**. The significant number for too long (27 per cent) suggests **that there is a large group of people highly sceptical about the value of the transition period**, mirrored by the answer to another question leading to the response that an extension would lead to yet further extensions.

The poll also found that there was quite a lot of confusion about the UK's precise relationship with the EU in the light of the Withdrawal Act and the formal, legal exit from the EU on January 31 this year.

- Approaching **half the population (45 per cent) do not know that the "the UK is no longer a member of the EU**, and is in a transition period where it still abides by most EU rules".
- **Nearly one in eight people think that the UK is no longer a member of the EU and abides by its own rules**; nearly one in five think that the UK is still a member of the EU and negotiating the terms of its exit; and a tiny fraction (one in 50) have missed the whole Brexit saga and think that the UK is still in the EU and has no plans to leave.

Full details of the Savanta ComRes poll are given in Annex B to this report.

ANNEX A - COMPARISON OF TREASURY AND CARDIFF MODEL ASSUMPTIONS FOR A WTO EXIT

(Assumptions Relevant to FTAs Highlighted in Red)

The Treasury model published in November 2018 produces a 9.3 per cent negative impact on GDP assuming a Brexit exit under WTO rules. The Cardiff model produces a 6.8 per cent positive impact on GDP. Seven implausible assumptions used by the Treasury model account for this overall negative 16.1 per cent of GDP difference between the Cardiff and Treasury models. These are:

1. Implausible and unsupported very high compliance costs to UK exporters due to 'behind the border' NTBs
2. **Virtually no economic benefit provided to the UK economy by new UK FTAs with non-EU countries**
3. An assumption of zero net migration of EEA workers to the UK following Brexit thereby creating a negative impact on GDP
4. Virtually no economic benefit assumed from better regulation
5. Implausible and unsupported high costs of customs procedures at the border
6. Large negative impact on the UK economy from mutual EU-UK tariffs
7. No economic benefit from no longer paying the annual EU Budget Contribution

QUANTIFIED IMPACT OF TREASURY ASSUMPTIONS

Treasury Rationale	Treasury	Cardiff	Difference	
1. Behind the Border NTBs	(4.2)	0	(4.2)	26%
2. Impact of new UK FTAs with non-EU countries	+0.2	+4.0	(3.8)	24%
3. Impact of no net migration of EEA workers	(2.2)	+0.2	(2.4)	15%
4. Impact of better regulation	+0.1	+2.0	(1.9)	12%
5. Cost of customs procedures at the border	(1.8)	0	(1.8)	11%
6. Impact of mutual EU-UK tariffs	(1.4)	0	(1.4)	9%
7. Elimination of the EU Budget Contribution	0	+0.6	(0.6)	4%
TOTAL	**9.3**	**6.8**	**16.1**	**100%**

SUMMARY COMMENTARY ON TREASURY ASSUMPTIONS

1 - Behind the Border NTBs reduces GDP by 4.2 per cent

Treasury Rationale	There will be no new NTBs and consequently no impact on GDP
EU will determine immediately after Brexit that UK exporters do not meet EU product standards, which will create very high compliance costs for UK exporters, depressing GDP by 4.2 per cent	At Brexit, UK goods will be totally compliant with EU standards Any attempt on the EU's part to target UK goods specifically would be illegal under WTO anti-discrimination rules that require importers from all countries to be treated the same As UK-EU standards diverge in future, UK exporters will ensure in their own commercial interest that their goods continue to meet other country standards - for example, JLR sells different versions of its cars to the EU, US, and China

2 - De-minimis impact from new UK FTAs with non-EU countries

Treasury Rationale	No conceptual or empirical basis provided for Treasury's de-minimis result
Unjustified assumptions used to arbitrarily produce de-minimis benefits - i.e. • Post-Brexit, UK will maintain existing EU NTBs to non-EU countries reducing gains from free trade • Additional arbitrary, unjustified assumptions reduce above understated gains from free trade by 16-times (½ x ¼ x ½) – Only half of goods NTBs with ROW will be eliminated – Implementation difficulties will result in only 25 per cent of above potential being implemented – Free trade will be achieved with only half of non-EU countries	UK's long-standing liberal stance on trade is directly counter to Treasury hypotheses Treasury de-minimis result is at odds with • Australia's achieved 5 per cent positive impact on GDP from free trade • Treasury's own separate claim that a UK FTA with the EU alone creates a 3 per cent boost to the UK economy • Cardiff modelling result that FTAs with non-EU countries will boost UK GDP by 4 per cent Positive impact of free trade is one of the most widely accepted tenets of economics

3 - Zero net migration of EEA workers depresses GDP by 2.2 per cent

Treasury Rationale	Treasury assumption is counter to likely Government policy and control over low-skilled migration is economically beneficial
Post-Brexit net migration of EEA workers will be zero resulting in reduced population growth and consequently a reduction of GDP	Zero net migration of EEA workers is absurd and counter to mooted government policy EFT's modelling demonstrates that improved control over unskilled workers from all origins reduces benefit subsidies producing a 0.2 per cent enhancement of GDP

4 - Virtually no positive economic impact from better regulation

Treasury Rationale	Significant economic benefits can be achieved from just gains in labour productivity
Assumes economic impact from better regulation is only 0.1 per cent of GDP	This surprising conclusion appears to be based on little analysis - just quotes from a few selected 3rd-party reports Extensive Cardiff University study focusing **only on labour productivity impact from deregulation** produced a 6 per cent positive impact on GDP. This figure was arbitrarily cut by a third to 2 per cent to account for implementation difficulties. Additional gains could be expected from other areas - for example financial services, corporate compliance, etc

5 - High costs of customs procedures at the border reduces GDP by 1.8 per cent

Treasury Rationale	Costs of modern computerised border procedures are trending toward zero
Very high border costs assumed for processing of customs declarations, rules of origin certificates, and goods inspections • Border costs for goods assumed at 6 per cent, which gives rise to GDP reduction of 1.3 per cent - even higher costs assumed for the EU-UK FTA scenario • Unspecified border costs assumed for services that reduce GDP by 0.5 per cent	Treasury assumptions reflect poor understanding of how modern computerised, pre-declared border procedures actually work • Inspections are intelligence led and consequently rare, often requiring only confirming computerised documentation - for example only 1 per cent of UK imports were physically inspected in 2017 • Typical actual costs of modern border procedures are well below 1per cent and the Swiss customs authority reports costs of only 0.1 per cent • Services cannot contribute to border costs as they do not attract tariffs and are not inspected at the border

6 - Impact of mutual EU-UK tariffs depresses UK GDP by 1.4 per cent

Treasury Rationale	EU-UK mutual tariffs are unlikely to persist very long and, in any case, FTAs with non-EU countries will negate any harmful effects
EU and the UK will impose mutual tariffs that will be maintained over the long-term (ie, until 2030) UK import tariffs will impact UK economy negatively	Mutual tariffs unlikely to be maintained long-term - more likely that an EU-UK FTA will be agreed in short-to-medium term In short-term, the UK has announced elimination/ reduction of tariffs accounting for 90per cent of EU-UK trade Once UK has agreed FTAs with non-EU countries (in particular, the US), the home market will trade at (lower) world market prices. - EU exporters will have to absorb tariffs in order to sell into the UK home market thereby insulating the UK from the negative impact of any remaining import tariffs

7 - Elimination of the EU Budget Contribution amounts 0.6 per cent of GDP

Treasury Rationale	Eliminating the UK's Annual Budget Contribution to the EU should not be dismissed
Eliminating UK's Budget Contribution not included	Eliminating the UK's Annual Budget Contribution to the EU amounts to 0.6 per cent of GDP

ANNEX B - CONCLUSIONS OF SAVANTA COMRES POLLING

Savanta ComRes for Centre for Brexit Policy

4 May 2020

Q. Which of the following statements do you think best describes the UK's current relationship with the European Union?

The UK is no longer a member of the EU, and now abides completely by its own rules	13%
The UK is no longer a member of the EU, and is in a transition period where it still abides by most EU rules	55%
The UK is still a member of the EU, and negotiating the terms of its exit	17%
The UK is still a member of the EU, and has no current plans to leave	2%
Don't know	13%

- A majority of the UK public (55 per cent) correctly assess the current relationship between the United Kingdom and the European Union: that the UK is no longer a member and in a transition period where it still abides by most EU rules.
- In the UK, nearly two thirds of 2019 Conservative voters (63 per cent) correctly understand the current relationship between the United Kingdom and the European Union, as opposed to just half of 2019 Labour voters (51per cent).
- Nearly two thirds of 2016 Leave voters (63 per cent) correctly understand the current relationship between the United Kingdom and the European Union, as opposed to just over half of 2016 Remain voters (56 per cent).

Q. The United Kingdom formally left the European Union on 31 January 2020. There is now a transition period until the end of 2020 in which the UK and EU are negotiating additional trade and other arrangements. The current rules on trade, travel, and business for the UK and EU will continue to apply during the transition period, and no new trade deals can be implemented until its end. New rules will take effect on 1 January 2021.

In light of the above, to what extent do you think the current transition period from 31 January 2020 - 31 December 2020 is too long, not long enough, or the right amount of time?

NET: Too long	27%
NET: Too short	24%
Much too long	12%
Slightly too long	15%
The right amount of time	35%
Slightly too short	8%
Much too short	15%
Don't know	14%

- The UK public is relatively evenly split on whether the current duration of the transition period is the right amount of time, with just roughly a quarter saying it is too long (27 per cent), a third saying it is the right amount of time (35 per cent), and another quarter saying it is too short (24 per cent).
- This split is reflected in party voters, as a third of 2019 Conservative voters (31 per cent) believe the transition period is too long, in comparison to just a quarter of 2019 Labour voters (23 per cent).

In contrast, a third of 2019 Labour voters (32 per cent) believe the transition period is too short, in comparison to just one in six 2019 Conservative voters (16 per cent).

- This split is also reflected in EU referendum voters, as two in five 2016 Leave voters (37 per cent) believe the transition period is too long, in comparison to just a fifth of 2016 Remain voters (18 per cent). In contrast, over two in five 2016 Remain voters (43 per cent) believe it is too short, compared to just one in ten 2016 Leave voters (10 per cent).

Q. To what extent do you think that the transition period is helpful, unhelpful or makes no difference to the process of leaving the EU?

NET: Helpful	36%
NET: Unhelpful	16%
Very helpful	10%
Somewhat helpful	26%
Makes no difference	34%
Somewhat unhelpful	9%
Very unhelpful	7%
Don't know	14%

- Half the UK public (50 per cent) believe that the transition period is either unhelpful or makes no difference to leaving the EU, with just a third of the public (36 per cent) believing it to be helpful. In contrast, a third think it makes no difference (34 per cent) and one in six believes it to be unhelpful (16 per cent).
- Over two in five 2016 Leave voters (42 per cent) believe the transition period makes no difference to leaving the EU, in comparison to less than a third of 2016 Remain voters (30 per cent).
- Approaching half of 2016 Remain voters (45 per cent) believe the transition period is helpful to leaving the EU, compared to just a third of 2016 Leave voters (35 per cent).

Q. As a result of the Coronavirus pandemic, there have been some suggestions that the transition period for the UK to leave the EU should be extended beyond 31 December 2020, into 2021 or beyond. Others say that the transition period should remain as already agreed between the UK and the EU, and end 31 December 2020, while others say that the transition period should be shortened so that it ends sooner than 31 December 2020. Any change to the transition period would require Parliament to agree. Which of the following statements best represents your view on the length of the transition period?

The transition period should remain as currently agreed, ending 31 December 2020	35%
The transition period should be extended beyond currently agreed, into 2021 or beyond	40%
The transition period should be shortened, so that it ends before the currently agreed date of 31 December 2020	8%
Don't know	16%

- Just eight per cent of the UK public believe the transition period should be shortened as a result of the Coronavirus pandemic, in comparison to a third who believe it should remain as agreed (35 per cent), and two in five who believe it should be extended (40 per cent).
- Over half of 2019 Conservative voters (52 per cent) believe the transition period should remain as currently agreed, in comparison to just a quarter of 2019 Labour voters (23 per cent).

- 2019 Labour voters are instead keener on an extension, with nearly three in five 2019 Labour voters (56 per cent) supporting this, in comparison to three in ten 2019 Conservative voters (29 per cent).
- Just one in ten 2019 Conservative voters (9 per cent) and six per cent of 2019 Labour voters back shortening the transition period due to the Coronavirus pandemic.
- Over half of 2016 Leave voters (55 per cent) believe the transition period should remain as currently agreed, while three in five 2016 Remain voters (60 per cent) believe it should be extended.

Q. To what extent do you agree or disagree with each of the following statements about extending the transition period?

	NET: Agree	NET: Disagree	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree	Don't know
Extending the transition period will lead to further extensions	46%	16%	20%	27%	29%	11%	5%	9%
The UK will be better off in the long run outside the EU	45%	28%	27%	18%	20%	10%	17%	7%
The government should be capable of managing both the Coronavirus pandemic and the transition period at the same time	45%	24%	20%	24%	24%	15%	10%	7%
It is important for the UK to stick to our agreed scheduled transition period	44%	24%	23%	20%	26%	14%	10%	7%
Extending the transition period is in the interest of the EU	44%	14%	20%	24%	32%	9%	5%	10%
We still have enough time left to negotiate with the EU before the end of the scheduled transition period	42%	24%	18%	23%	25%	13%	11%	9%
It would be embarrassing for the UK to extend the transition period with the EU into 2021	40%	27%	20%	20%	25%	13%	15%	7%
Extending the transition period is in the interest of the UK	38%	28%	16%	23%	25%	13%	16%	8%
Extending the transition period would result in a better outcome for the EU	38%	16%	16%	23%	35%	10%	6%	11%
Extending the transition period would result in a better outcome for the UK	35%	26%	13%	21%	31%	12%	14%	8%

- Three in five 2019 Conservative voters (61 per cent) agree it is important for the UK to stick to our agreed scheduled transition period, in comparison to less than a third of 2019 Labour voters (30 per cent).
- Over two thirds of 2016 Leave voters (68 per cent) agree it is important for the UK to stick to our agreed scheduled transition period, in comparison to just a quarter of 2016 Remain voters (25 per cent).
- Over two in five UK adults (44 per cent) agree that extending the transition period is in the interest of the EU, in comparison to fewer than two in five (38 per cent) who believe it is in the interest of the UK.
- 2016 Remain voters (56 per cent) and 2019 Labour voters (51 per cent) are significantly more likely than their 2016 Leave voter (26 per cent) and 2019 Conservative voter (27 per cent) counterparts to agree that extending the transition period is in the best interests of the UK.
- In contrast, 2016 Leave voters (57 per cent) and 2019 Conservative voters (54 per cent) are significantly more likely than their 2016 Remain voter (39 per cent) and 2019 Labour voter (36 per cent) counterparts to agree that extending the transition period is in the best interests of the EU.
- Three in five 2016 Leave voters (63 per cent) and 2019 Conservative voters (59 per cent) agree that extending the transition period will lead to further extensions, in comparison to just a third of 2016 Remain voters (34 per cent) and 2019 Labour voters (35 per cent).
- Three in five 2016 Leave voters (59 per cent) and over half of 2019 Conservative voters (54 per cent) agree that we still have enough time left to negotiate with the EU before the end of the scheduled transition period, in comparison to just a third of 2016 Remain voters (31 per cent) and 2019 Labour voters (33 per cent).
- Three in five 2016 Leave voters (63 per cent) and 2019 Conservative voters (58 per cent) agree that the government should be capable of managing both the Coronavirus pandemic and the transition period at the same time, in comparison to just a third of 2016 Remain voters (32 per cent) and 2019 Labour voters (34 per cent).
- Three in five 2016 Leave voters (61 per cent) and 2019 Conservative voters (56 per cent) agree that it would be embarrassing for the UK to extend the transition period with the EU into 2021, in comparison to just a quarter of 2016 Remain voters (24 per cent) and 2019 Labour voters (26 per cent).
- Over a quarter of UK adults (26 per cent) **disagree** that extending the transition period would result in a better outcome for the **UK**. In comparison, just one in six (16 per cent) **disagree** that extending the transition period would result in a better outcome for the **EU**.
- Approaching half of 2019 Labour voters (46 per cent) and 2016 Remain voters (45 per cent) agree that extending the transition period would result in a better outcome for the UK, in comparison to just a quarter of 2019 Conservative voters (26 per cent) and 2016 Leave voters (25 per cent).
- Both 2019 Conservative (42 per cent) and Labour (39 per cent) voters are united in their levels of agreement that extending the transition period would result in a better outcome for the EU. However, there are significant differences between 2016 Leave voters (47 per cent) and Remain voters (36 per cent) on the subject.
- Whilst four in five 2016 Leave voters (80 per cent) and over two thirds of 2019 Conservative voters (69 per cent) agree that the UK will be better off in the long run outside the EU, this sentiment is significantly rarer amongst 2019 Labour voters (27 per cent) and 2016 Remain voters (20 per cent).

Methodology note:

Methodology: Savanta ComRes interviewed 2,058 UK adults aged 18+ online from 1 to 3 May 2020. Data were weighted to be demographically representative of all UK adults by age, gender and region. Savanta ComRes is a member of the British Polling Council and abides by its rules. Full tables at www.comresglobal.com.

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BREXIT DELAYED IS BREXIT DENIED
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34 South Molton Street
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www.centreforbrexitpolicy.org.uk
@CentreBrexit