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ASG Analysis: The Post-Brexit Future of the UK

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Key Takeaways

- The European Union and United Kingdom reached a last-minute trade agreement on the terms of Brexit, setting in place an extensive list of rules and regulations for the UK's withdrawal from the EU. The agreement is provisionally applied until ratification by the European Parliament, expected by March 2021.

- Reaching a deal means that no tariffs or quotas will be introduced on trade between the two actors for now, although the threat of tariffs will always linger as either side could choose to stray from shared standards on labor, the environment, and state aid.

- Chaos will likely be avoided in the short term as the two sides agreed to extend the negotiating period on issues such as data sharing and financial services, and the UK has decided to delay the implementation of several new customs measures. While this will give governments and businesses time to adjust, it could cause more headaches and contentious negotiations in the long term.

- Businesses in both the EU and UK should prepare for increased paperwork, customs checks, and bureaucracy, all of which could cause delays in cross-border transactions and shipments. A clearer picture of short- and medium-term delays will emerge in the next several weeks as freight traffic picks back up to normal volumes, although some significant delays and supply chain problems have already been reported.

- As part of a post-Brexit push for a "Global Britain," the Johnson government aims to reassert itself on the global stage by leveraging its presidency of the G7 and the UN climate conference and renegotiating a slate of free trade agreements. Domestic issues like the pandemic and a strengthened separatist movement in Scotland, however, pose a risk to the country's diplomatic ambitions.

- It remains to be seen what value the U.S. under a Biden administration will see in the UK now that it lacks influence in Brussels. While Prime Minister Johnson will continue to push for a U.S.-UK trade agreement, an expeditious deal is likely not a priority for President-elect Biden.

Current Status

It might still be too soon to assess the scale of trade disruption caused by Brexit, but after an initial smooth start the logistical and regulatory burdens of the agreement on businesses and transporters are becoming clearer.

The first full week of the new customs regime appeared relatively uneventful on both sides of the channel, largely due to the decrease in freight traffic during the holiday period, ongoing preparedness efforts by both the EU and UK since the Brexit referendum in 2016, and the UK government's decision to phase in several of the new requirements. Covid-19 restrictions on truck drivers and post-Brexit procedures are making businesses more reluctant to send shipments, and UK businesses significantly stockpiled goods ahead of Brexit, temporarily slowing the flow of imports. At the Irish Sea border, where businesses will face additional checks on shipments in order to avoid a hard border within Ireland, there are grace periods for medicines and agri-foods documentation.

While major disruptions have yet to occur, businesses are struggling to quickly navigate an onslaught of new customs checks and documentation requirements. Many delivery and logistics companies are reporting high volumes of shipments and trucks being refused or delayed at ports for having incorrect paperwork, and several companies have temporarily halted their services from the UK to the EU. Government officials have stressed that the onus is on businesses and transporters to conduct the proper checks and have the correct documentation. As traffic volumes return to normal levels in the next several weeks and businesses maneuver the many new rules and requirements, there will likely be more delays, providing a more realistic picture of post-Brexit trade.

One concern already raised by the food and agriculture industries involves the impact of the agreement's rule of origin clauses on supply chains. Under the new provisions, goods imported into the UK (including from the EU) and then exported on or back to the EU – including Ireland – face full EU tariffs if they are only inventoried or minimally changed in the UK, with food and agriculture products typically attracting some of the highest rates. In order to comply with the rule of origin clauses and qualify for zero-tariff entry to the EU, the UK must alter or add value to the goods in some way, thus proving that they sufficiently "originate" in the UK. This has particularly strong implications for supermarkets and retailers with distribution networks in the UK that are re-exporting goods to the EU with minimal or no changes.

Impact on Cross-Border Trade and Employment

One of the most prominent impacts of Brexit on the daily lives of both UK and EU citizens will be an end to the free movement of goods and people across the border. Goods moving from Britain to the EU, and vice versa, face paperwork and checks including customs declarations, rule of origin checks, product safety certificates, and food inspections. Truck drivers will require proper transportation paperwork at the border. While full customs controls on British exports to the EU began on January 1, the UK has decided to delay the full implementation of checks on most EU exports into Britain until July 1.

In order to avoid a hard border in Ireland, Northern Ireland effectively remains in the EU single market for goods and will continue to follow many of the EU's regulations. This means that there will now be border checks on some goods moving between Great Britain and Northern Ireland. Industry representatives have already warned that these new measures are slowing trade, with customs declarations reportedly taking up to 12 hours to be processed as opposed to the assured 30 seconds. Some industries fear that retailers will simply cut Northern Ireland out of their supply chains if the regulations become too much of a hassle or too costly. Ireland has already begun increasing direct shipping routes to mainland Europe in order to bypass feared freight backups at UK borders.

Both the UK and EU have taken measures to prepare for potential delays and backlogs at borders, including emergency storage and truck lots, additional customs personnel, and new technology to expedite customs procedures. Still, delays at ports are to be expected. The UK government anticipates disruptions will worsen over the first several weeks of January as freight traffic increases after the holidays and predicts that delays will likely last about three months. Government officials claim delays will be caused more by unprepared businesses than by the protocols and customs checks themselves. The UK government predicts that in a worst-case scenario, 40 to 70 percent of trucks going to the EU will not be ready for new border checks and will be turned away from ports. The Bank of England also recently forecasted that Brexit will cost the British economy roughly two percent of its GDP over the next few years, with a significant portion of that expense caused by the additional paperwork for customs declarations.

Companies with operations on either side of the channel should be aware of new immigration and visa requirements for employees. As of January 1, 2021, the UK is operating under a points-based immigration system that aims to treat EU and non-EU citizens equally. EU nationals moving to the UK for work, except for Irish citizens, will need to obtain a visa in advance and demonstrate a job offer from an approved employer sponsor. UK nationals will likewise need a work permit and proof of employment to work in most EU countries, although some restrictions vary by member state. The EU-UK agreement protects both EU citizens living in the UK and UK nationals residing in the EU prior to January 1, 2021. On both sides, the right to live and work is maintained as long as EU citizens in the UK apply for the EU Settlement Scheme and UK citizens in the EU apply for a new, country-specific residency permit prior to July 1, 2021.

Global Britain

Post-Brexit, the British government is seeking to position itself as a leader on the global stage under the moniker "Global Britain." This rebranding aims to demonstrate Britain's commitment to multilateralism and cooperation on key global issues as the country emerges from several tumultuous years of Brexit negotiations with a damaged reputation abroad. The Johnson government's push for global leadership not only coincides with the end of the Brexit transition period but also with the need to renegotiate free trade agreements and with the UK's 2021 presidency of the Group of 7 (G7) and the United Nations Framework Convention on Climate Change's 26th Conference of Parties (COP26).

After leaving the European single market, the British government is tasked with either extending previous free trade agreements (FTAs) negotiated by the EU or renegotiating new ones. ASG expects most agreements to be temporarily extended, as some already have, in order to begin discussions on updated versions. Despite the Johnson government's eagerness to deliver on a promised slate of new FTAs, most negotiations are likely to stretch beyond the end of 2021.

The new year also marks the beginning of the UK's presidency of the G7, culminating in a summit in June 2021. Public statements on planning and the agenda have been limited; however, we expect a focus on climate change, in line with the COP26 summit later in the year, as well as on the pandemic. Prime Minister

Johnson has invited India, South Korea, and Australia to the summit as part of an initiative to host a "summit of democracies," or "D10," to address issues regarding democracy, rising authoritarianism, and technology. It is likely that the UK will consult with the Biden administration on topics for consideration.

After the G7 summit, the UK will shift focus to hosting the COP26 in Glasgow. The convention was slated for November 2020 but was rescheduled due to the pandemic. The focus will be on shoring up greenhouse gas reduction commitments under the Paris Agreement, including expected carbon neutrality pledges like those made by the EU and China. As a sign of commitment to a successful summit, Alok Sharma, the president of the conference, resigned from his ministerial post to focus on the government's plan for COP26. Previous UN climate conferences have drawn criticism for being ineffective due to weak interest from the host country, so Sharma's move underscores the importance of the conference to the "Global Britain" agenda. The Johnson government is also likely to take advantage of the U.S.' "return" to global climate governance under the Biden administration to push for more aggressive commitments from other countries.

Despite the UK government's ambition to reassert itself on the international stage, domestic issues are likely to hamper its ability to fully deliver on the promise of "Global Britain." Covid-19 continues to ravage the country at a rate much greater than its EU counterparts, and the logistics of the country's vaccination scheme and lockdowns are likely to take oxygen away from foreign affairs. The economic repercussions of Brexit will also pose challenges to Prime Minister Johnson's ability to govern, compounded by a rising Labour party under leader Kier Starmer. Scottish frustrations over Brexit will continue to dominate politics in the country as Scottish Nationalist Party leader Nicola Sturgeon will make an independence referendum central to her campaign for the Scottish Parliament elections later this year. Calls for Irish reunification have also continued to rise, further weakening Johnson's ability to focus on international affairs.

U.S.-UK Free Trade Agreement

A comprehensive trade deal with the U.S. has frequently been touted as a major benefit of Brexit and a key stepping-stone toward "Global Britain." A U.S.-UK FTA would symbolize the UK's freedom to pursue its own trade policy outside of the EU and further distance the country from the EU's economic and regulatory grasp, a political win for Prime Minister Johnson's government. It remains unclear, however, whether the UK will be a priority for the Biden administration relative to the EU economic bloc.

President-elect Biden will inherit President Trump's incomplete trade negotiations with the UK. According to officials in the Trump administration, some sections related to SMEs, investment, and digital services were close to completion, but substantial differences remain on pharmaceutical regulation, textiles, goods standards, and intellectual property. Agriculture, including food safety and animal welfare regulations, is expected to be a highly contentious issue. Under the incoming Biden administration the U.S. is expected to take a more gradual and cautious approach to trade overall, prioritizing Covid-19 response and domestic economic recovery. This approach does not bode well for the swift completion of a deal with the UK, despite some urgency in London to get a deal in front of Congress before the Trade Promotion Authority – legislation that allows for trade agreements to be fast-tracked through Congress – expires in July 2021.

While a trade agreement is unlikely in the near term, reaching a Brexit deal does remove some of the friction between Boris Johnson's government and the Biden administration. Biden had previously stated his opposition to a no-deal Brexit that would create a hard border in Ireland and violate the Good Friday Agreement, stating along with House Democrats that he would definitively not sign a trade agreement if the Agreement were not upheld. Another boon for the Johnson government is Biden's desire for UK support in addressing global challenges such as climate change and countering China. A strong UK operating in concert with the U.S. and EU would only benefit the Biden administration's ambitions.

Ratification

While British Parliament swiftly passed legislation implementing the EU-UK trade agreement on December 30, European parliamentary committees will begin discussing the deal in the coming weeks. Normally, Parliament decides together with the EU Council to approve any trade deal, but the last-minute agreement on Brexit did not allow time for parliamentary scrutiny before the end of the transition period. EU ambassadors instead agreed to provisional application of the treaty, which will last for up to two months to allow time for Parliament to ratify the deal. This means that the period of provisional application is set to expire at the end of February, with the European Commission proposing February 28 as the final deadline for ratification. Parliament, however, has requested to extend the period of provisional application to allow for a ratification vote during their March plenary session.

It is not clear at this point whether this timeline will hold, as the deal will need to be debated in multiple parliamentary committees before final approval. Under normal circumstances, the ratification process can take three months or more. Several MEPs have expressed discontent over the negotiation process, as they were not able to provide input before the Commission and EU member states agreed to provisionally apply the deal. Parliament President David Sassoli has indicated, however, that the deal will most likely pass through Parliament with little opposition.

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