The hidden financial risk in the Withdrawal Agreement

***CIB vice-chairman Anthony Scholefield** writes on one of the dangers of the still-not-dead withdrawal agreement that is rarely commented on: the fact that it does not end the UK's exposure to EU liabilities and contingent liabilities. With the Eurozone in fundamental disequilibrium, this exposure represents a huge risk for the UK. This is yet another reason why the Withdrawal Agreement would be still terrible for the UK even minus the backstop.*

The financial dangers of EU membership lurk in the balance sheet area.

Greece has not become insolvent because of its EU trading arrangements, or because it did not receive enough EU regional aid or other EU money. Countries do not become insolvent because of trading arrangements, tariffs, non-tariff barriers or quotas, although these are not unimportant.

This conclusion is based on simple accounting. The largest numbers in any financial entity, such as a State, are its balance sheet assets and liabilities, not its income or expenditure. Destabilisation in the balance sheet assets and liabilities is the usual cause of insolvency throughout history. It also usually leads to disorder and revolution.

It follows that the area of the UK-EU Withdrawal Agreement that has most potential to expose the UK to financial risk is continued exposure to EU liabilities.

Yet while millions of words have been written about the dangers of the backstop in trapping the UK in the EU's Customs Union and regulatory regime, very little attention has been paid to the very real dangers contained in the financial settlement, which is far from guaranteed to be the concrete £39 billion typically cited by the media.

The Eurozone is in fundamental disequilibrium, and so the UK MUST exit its exposure to EU liabilities and contingent liabilities. These threats were not clearly analysed by the May administration, and they are certainly not dealt with in the draft Withdrawal Agreement she negotiated.

Mrs May's Withdrawal Agreement contained a financial settlement which lacked any formal Accountant's Report. There are a considerable number of uncertainties in the financial settlement, especially in the area of liabilities and contingent liabilities.

Michel Barnier would not commit himself to the opaquely calculated £39 billion cost put forward by the UK government. So, on this issue, the UK government was not wrapping up an agreed figure with the EU, but was unilaterally putting forward unprofessional and opaque calculations of financial liabilities.

This has naturally made British voters uneasy about what the real costs are – what obligations to the EU is their £39 billion supposed to be covering, and how have they been calculated? How much could we really end up paying?

If the Withdrawal Agreement were to be ratified, the UK would be in a much weaker position. We will have agreed to opaque, unprofessionally calculated financial claims by the EU and still not have achieved the real exit from EU liabilities and contingent liabilities. The UK would be stuck with the transitional arrangements unless we asserted no-deal on 31st December 2020, but having cast aside the foundation of its legal position based on Article 50 as well as having agreed to unsound calculations of financial liabilities.

It is a huge risk.

For more information on the dangers of UK exposure to EU liabilities, see the 2016 Futurus paper, ‘UK Membership of the EU. The Threat to the UK Balance Sheet’.