

## QUESTIONS AND ANSWERS ON THE GOVERNMENT, LABOUR AND BREXIT

### 1. **What is the latest state of play?**

Negotiations between the UK and the EU over Brexit are clearly going badly, with gaps between the EU27's and the UK's stances appearing to be widening rather than narrowing. The proposals put forward by the Prime Minister at the Chequers meeting on 6th July 2018 are evidently not going to be fully accepted by the EU, quite possibly not even as the basis for further negotiations, let alone as they stand. There appears to be an unbridgeable gap between the UK's plans for the UK to be out of the EU but still effectively in both the Single Market and the Customs Union and the EU view that the UK is either in the EU or out of it, but cannot expect to enjoy the benefits of membership without accepting all the obligations which this entails. Where does this leave us?

### 2. **What are the current options?**

There are a number of possible eventual outcomes. Maybe there will be a major change in the EU's negotiating stance, making something like the Chequers proposals viable, although this looks unlikely. Another possibility is that the UK at least temporarily will stay in the EEA, where we are currently members as a result of our EU membership. This would, however, require complex negotiations, the outcome of which are uncertain. A third option is that we revert back to what seems to have been the government's original intentions, which is for the UK to come out of the Single Market, the Customs Union and the EEA and then to negotiate a Canada-style free trade deal with the EU. There is evidence that this would be acceptable to the EU27, even at this late stage. If none of these options gains parliamentary assent, the UK may then face a fourth option which is to come out of

the EU on 29th March 2019 with no deal in place, to be followed by a period of uncertainty before new arrangements are established.

3. **How did we get into this position?**

We are in this predicament because in 2017 a parliament was elected which – despite the manifesto commitments given by both the major parties to abide by the 2016 EU referendum result – was not prepared to work towards the Canada-type free trade deal which was the logical consequence of the referendum’s outcome. With Parliament effectively ruling out this outcome, and with the situation worsened by the government allowing the negotiations early on to be side-tracked away from discussions on trade by priority being given to the Irish border, citizenship and money, the government was driven to the Chequers proposals – involving trying to maintain most of the existing Single Market and Customs Union arrangements while nominally out of the EU. The result has been a UK negotiating position which the EU was never likely to accept.

4. **What is likely to happen between the autumn of 2018 and early 2019?**

Sometime late this year or early next year, Parliament is going to have to take a view on what is on offer. A major problem it will face is that the EU27 will then almost certainly expect the UK to sign a binding international Withdrawal Treaty, committing us to pay the £39bn offered by the Prime Minister, as a condition of the EU27 agreeing to the transitional period lasting to December 2020. During this period all the issues relating to trade and other unresolved matters such as the Irish border will need to be discussed, with no certainty as to what their outcome might be but with the UK already legally bound to pay the £39bn. This is going to put the UK into a desperately weak negotiating position. It may well be a way ahead which Parliament is not prepared to sanction.

5. **What about another referendum?**

If Parliament baulks at agreeing to any such a proposal, it is not clear that this will lead to the fall of the government and, even if it did, and there was another general election, that this would resolve the parliamentary impasse. This is why there is rising support for another referendum, although this proposal is also fraught with problems. How would a potentially three-way choice – between staying in the EU, accepting whatever terms were by then available or having no deal – be handled?

Would it be possible to arrange another referendum within the necessary timescale? If the referendum was held after 29th March 2019, unless the Article 50 process was extended, which would not be easy, the UK would by then have left the EU. A vote for EU membership would then have to be for re-application to join, not for continuing membership. Would the EU want us back? And, if they did, what conditions would be imposed on matters such as continuation of our rebate and the UK having to join the euro? Despite the overwhelming support among Remainers rather than Leavers for another referendum, it is far from certain that the result of a second referendum would be any different from the one in 2016

6. **Where does this leave the Labour Party?**

Labour also has a problem in that it is far more Europhile than the electorate at large. The vast majority of the Party's MPs are Remainers, as is most of its membership. Almost 70% of all the seats held by Labour in the 2017 general election, however, had Leave majorities. Labour therefore risks losing significant support in key marginal seats in Wales, the Midlands and the North if it finishes up backing a really poor Brexit deal. From the electorate's point of view, Labour's unwillingness to contemplate any kind of WTO deal, even as a bolt-hole from a highly unsatisfactory outcome, is likely to be seen as making the UK's negotiating position weaker. Labour's Europhile stance may enthuse a majority of the Party's metropolitan and cosmopolitan membership, but at the risk of making the Party much less electable, especially if, more widely, the result is support for the UK having a future relationship with the EU with which few people in the UK are likely to feel happy.

7. **What would happen if there was no deal?**

There is clearly now a possibility that March 2019 will be reached with no deal having been agreed. If this happens, probably the best way ahead might be for the UK to offer immediate free trade with the EU while offering to continue co-operation with the EU in all the other ways in which working together obviously makes sense. This could be combined with the UK offering to meet the EU financial commitments for which we are contractually liable, and to pay a fair contribution towards the cost of any future co-operation. We should also take a generous view of citizenship obligations. The Irish border would have to operate with no physical infrastructure on a "max fac" basis. This is, of course, very similar to the Canada-type deal which the government was originally trying to achieve. The worst that the EU could then do would be to refuse to respond co-operatively – although hopefully this would not happen – leaving the UK to trade with the EU on WTO terms.

8. **How disruptive would this scenario be?**

There is no doubt that arrangements along these lines, put together in a rush at the last minute, would cause a fair measure of disruption, although probably considerably less than some doom-mongers have suggested. People adapt to make the best of the situations with which they are confronted. Trade would continue. Ways would be found to overcome queues and bottlenecks. Would UK GDP be significantly adversely affected? Probably not. The UK economy is not doing particularly well but our future growth rate is much more likely to be influenced - either positively or negatively – by a combination of domestic policy changes and world developments than it is by the consequences of Brexit in whatever form they eventually take. The UK's trade with the EU – in very heavy deficit – currently accounts for about 12% of our GDP. Even in the very unlikely event that this fell by 10%, the impact on UK GDP would be no more than 1.2%, a large but surely not crippling sum from which history tells us that we would be likely quickly to recover.

9. **So what should we do now?**

Faced with all these difficulties and certainties, what should we do? Clearly, we need to prepare for a “no deal” scenario, in case this is what materialises. In the meantime, however, we need to make sure that we are not pushed into obligations, especially over very large sums of money, which we would have to meet even if the main negotiations broke down. This means that we may have to be willing to take a bigger risk of “no deal” to ensure that, if we do finish up with this result, we are in the strongest position to enable us to make the best of the situation in which we then find ourselves. Labour needs to be very careful not to be complicit in generating an outcome where the UK has a legal obligation to pay £39bn but we still finish up with “no deal”, or, by taking such an intransigently Remain stance during the difficult negotiating period which lies ahead, that it heavily alienates key sections of the Party's traditional support.