The Brexit complexity

Professor Frank Peck of the University of Cumbria's Centre for Regional Economic Development writes for in-Cumbria on the big issues of the day and the economic data behind them. This month, a business response to Brexit - forewarned is forearmed?

As I write, it is Wednesday, March 29 – Brexit trigger day. When Article 50 of the Lisbon Treaty was drafted, few would have anticipated the circumstances in which these clauses would be tested. Contrary to what you might expect, it does not take long to read - it can be printed easily on half a page of A4. It starts by asserting the right of sovereign States to withdraw from the Union if they so wish and the requirement to notify the European Council of this intention.

Article 50 continues… "…the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking into account the framework for its future relationship with the Union"

This clause in the Treaty clearly links the conditions for withdrawal with the nature of the future relationship, but does not specify the precise sequencing of these discussions.

Negotiations are likely to begin very soon – in May or June 2017 – with the aim to complete these by October 2018. Then the agreements reached will be subject to democratic vote in the UK and European Parliaments.

So why should buisnesses in Cumbria become animated by nuances in Article 50 of the Lisbon Treaty? It is fair to say that these discussions will include matters that are likely to have fundamental impacts on the environment within which all Cumbrian businesses operate – either directly or indirectly.

It is inevitable there will be detailed discussion surrounding agriculture and withdrawal from the EU's special arrangements for financial support for agriculture that assists farming particularly in upland areas.

A recent publication by Janice Morphet (Beyond Brexit? How to assess the UK's Future) makes important points on this particular issue. She points out that replacing farm support within the UK is not guaranteed and could be made complex by the need to negotiate special arrangements under rules determined by the World Trade Organisation (WTO).

Theresa May signing the Article 50 letter

As regards other sectors, businesses in Cumbria will have varied direct exposure to the threat imposed by the increase in transaction costs that will be associated with tariffs imposed on movements of goods and services between the UK and continuing EU States. While precise estimates vary, a "hard" Brexit with a complete withdrawal from the Single Market and Customs Union is likely to impose considerable cost on producers that currently trade with Europe which could affect competitiveness and future investment.

Changes in trade rules and regulations with the EU that may well be negotiated in part sector by sector. There are clear signals in the recent Green Paper on Industrial Strategy that negotiations will involve a sectoral approach. This is confirmed in Teresa May's Brexit letter delivered to Donald Tusk which refers specifically to "financial services" and "network industries" as sectors that are "crucial to our linked economies". The UK is likely to seek "special arrangements" for these sectors as well as the vehicle industry as part of Brexit negotiations. The detail of these arrangements will clearly be critical for businesses in Cumbria that are part of automotive supply chains.

'The discussions will include matters that are likely to have fundamental impacts on Cumbrian businesses'

In may not all be negative. In response to the risks of increased transaction cost, for instance, it is possible that multinationals operating in the UK may seek to reduce exposure to risk by developing local supply chains thereby creating opportunity for some businesses in the UK.

Surveys over recent years indicate that the vast majority of businesses in Cumbria buy and sell within the UK.

So why should Brexit negotiations be of concern? This raises the question of the indirect effects of Brexit on businesses.

Estimates vary, but many commentators expect that Brexit could reduce the size of the UK economy measured by GDP by between 2 per cent and 7 per cent by 2030. This implies that many Cumbrian businesses could be operating in a static or even shrinking market in the short to medium term. For some, however, this might be offset by improved market share arising from increased levels of protection provided by tariff barriers faced by European competitors.

There is so much complexity surrounding Brexit that one may be tempted to put off thinking about it until at least some of the decisions have been made. I am more inclined to the view that we need to have conversations about these matters now – sharing what we can be sure of… and identifying the key questions we cannot yet answer. Forewarned is forearmed.