The Business of

What happens next?

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Contents

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He has written extensively on 'Brexit', and especially its trade and business implications, for The Conversation, New Europeans, UK in a Changing Europe, some of which featured in the House of Commons Library Referendum briefing. In addition, he contributes to and shapes public debate about Brexit through his own well-regarded blog: http://chrisgreybrexitblog.blogspot.co.uk/ ("a blog to follow", Andrew Neil, BBC Daily Politics), twitter feed (@chrisgreybrexit) and media appearances. The views expressed in this document are those of the author.

The Business of Brexit: what happens next?

Executive Summary

This is an accessible briefing for those wanting to understand the main current issues and debates about the form that Britain's post-Brexit relationship with the EU will take, especially for business and other organizations. The intention is not to provide detailed economic, political or legal analysis of Brexit. Instead, it offers to well-informed but non-specialist readers explanations of what is at stake in the post-Brexit relationship and corrects some persistent misunderstandings and myths. The focus is primarily on future trade arrangements as these are at the heart of the post-Brexit future. It is assumed that the decision to leave the EU is irreversible and that Brexit in some form will happen. Given this, the briefing summarises how:

- Amongst the different forms of Brexit, the particular form which the UK government is seeking is outside the single market and partially outside the customs union alongside a comprehensive free trade agreement. This is unlike any existing model for the relationship between the EU and a non-EU country.
- There are persistent misunderstandings about what the single market means, and in particular how it differs from a free trade area, how it reduces non-tariff barriers to trade as well as tariffs, and the role of free movement of labour within it. These misunderstandings also impact on the government's plan to leave the single market, which in practice looks likely to retain 'by the back door' many features of EU membership, which is potentially politically controversial.
- Much debate about post-Brexit Britain has relied on a series of myths of which the most common variant is that the German car industry's desire to export to the UK makes an advantageous trade deal likely. This and allied myths reflect a confusion about both the economics and politics of Brexit.
- There are persistent misunderstandings about how in the event of no Brexit deal being reached there is a set of WTO rules to fall back on. This fails to understand the complexities of unbundling the UK from EU WTO trade schedules and the role of Mutual Recognition Agreements in third party trade.
- The decision to partially leave the customs union entails the re-introduction of borders, with significant implications for the operation of international supply chains (the automotive industry being the most obvious example) as well as complex political issues (Northern Ireland being the most obvious example).
- Immigration played a key role in the decision to leave the EU. Post-Brexit, this carries very significant implications for many organizations in terms of access to labour at a time of *de facto* full employment, and for human lives and relationships.
- It is now recognized that although the formal period of exit negotiations will run for two years, until March 2019, in practice there will be a much longer period of transition to whatever shape the post-Brexit relationship with the EU takes. This could extend for several years.

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1. Introduction

Britain's decision to leave the European Union (EU) following the June 2016 referendum (hereafter, Brexit) is undoubtedly the country's most important political and economic event since the Second World War. Prior the referendum, the overwhelming opinion of British business was against Brexit. There were, of course, some high profile business people who advocated Brexit, but these were a minority. Numerous surveys of both large, and to a slightly lesser extent, small and medium sized businesses, showed this. There is now very little likelihood that Brexit will not happen in some form or other. The issue for business, public sector, not-for-profit and third sector organizations therefore, is to understand it, try to shape it, and adapt to it.

It is worth reprising why businesses were generally opposed to Brexit, as this also frames many of the issues that they now face. In brief, EU membership is important to business and other organizations in terms of trade, access to labour markets, with these in turn impacting upon general economic prosperity. As regards UK trade (see tables 1, 3 and 4, Appendix), around half is with the EU-27 (slightly more for imports, slightly less for exports), and another 16% is with non-EU countries via EU trade agreements. Thus in total some 66% of UK trade is bound up with EU membership. As regards labour markets, around 2.25 million EU-27 nationals work in the UK (see table 2, Appendix). As regards the effect of Brexit on the general economy, this is a matter of much dispute and conflicting estimates but the vast majority of forecasts predict a negative impact on growth compared with not having left.

At the very least, few would deny that it is a major change with effects that are unpredictable. It is probably as foolish to pore over each and every economic indicator within such an uncertain context as to try to predict them. The more or less undeniable broad contours so far are that the value of sterling fell considerably as a result of Brexit and that this is beginning to feed through to price inflation because of UK dependence on imports, and hence to falling real wages. Consumer spending held up in the immediate aftermath of the vote to leave, but this was fuelled by borrowing and is now slowing. Business investment began to fall in the final quarter of 2016. At the time of writing there is no evidence of rising unemployment, however.

The long-term effects of Brexit will inevitably depend primarily upon the future institutional arrangements for trade, which are inseparable from those for immigration and therefore the labour market. The purpose of this briefing is to explain the debates and issues around those arrangements. Inevitably these debates and issues are rapidly changing and in order to be as up to date as possible the main sources linked to are reputable current news stories rather than academic analysis. The aim is to offer a snap shot of where we are now in a process which will last for many years, and with consequences for many more.

2. Understanding Brexit

The core difficulty in predicting what happens after Brexit is that its meaning is unclear. This reflects the fact that the Leave campaign was primarily one *against* EU membership but was not *for* any particular form of Brexit. Leading figures within the campaign advocated radically different versions of Brexit, so it is fair to say that those who voted to leave also endorsed different models.

In particular, many 'Leavers' (including for many years, although not during the campaign itself, UKIP) advocated a 'Norway' or 'Switzerland' model of Brexit. Although different in detail, both these entailed membership of the European single market, but not the customs union (both of these are discussed in more detail below). Others advocated a 'Turkey' model of being a party to the customs union but not the single market. Others, still, advocated what became called a 'Canada' model of a Free Trade Agreement (FTA) with the EU, with no single market or customs union membership. Finally, some envisaged none of these, but trading with the EU purely on World Trade Organization (WTO) terms (see section 4).

Since no single model was specified to the voters, all of these would have been compatible with the vote to leave. In any case, debate was often conducted in terms of single market 'access', but that does not aid understanding because every country has 'access' to the single market: the issue that matters is in what form and on what terms. Voters may well have believed that 'access is access', but as the models just mentioned show, this is not so.

For several months after the referendum, the UK government avoided specifying what version of Brexit they favoured, using the formula 'Brexit means Brexit'. Although mocked in some quarters, this was not altogether meaningless in that it denoted that there would be no attempt to reverse the referendum decision. It did, however remain ambiguous as to whether the UK would undertake what became called a 'soft Brexit' (meaning, remaining in the single market) or a 'hard Brexit' (meaning, leaving the single market).

This ambiguity was largely removed by the Prime Minister's Lancaster House speech of January 2017 and the subsequent government White Paper. This made it clear that Britain would leave the single market and also elements of the customs union whilst seeking an FTA with the EU. In this sense, it endorsed hard Brexit. However, exactly what that means in practice remains unclear, and it is unlike any existing model for a relationship between the EU and a non-member state. Moreover, the possibility of what could be called 'ultra Brexit' (exit without an FTA, with trade on WTO terms) was left open if no satisfactory FTA was achieved[1].

Even judged as a statement of intent for hard Brexit, the White Paper could be read in different ways, and issues of timescale were and are unclear (see section 7). In particular, quite what extent of single market participation could result is unclear. In any case, the shape that Brexit will take will be determined as much, or more, by the EU as it will be by UK government intentions. That is not simply, and probably not primarily, a matter of economics but of politics.

During the referendum (and, often, since) that matter was presented as a simple one in which the self-interest of, in particular, German car makers would determine the EU stance. It was expressed by many leading Leave campaigners in very similar terms, of which this from veteran Tory Eurosceptic David Davis (now the Brexit Secretary) was typical:

"Within minutes of a vote for Brexit the CEO's of Mercedes, BMW, VW and Audi will be knocking down Chancellor Merkel's door demanding that there be no barriers to German access to the British market."

There are several things that can be said about this. Firstly, it shows considerable naivety about how government trade policies are made. Neither in Germany, nor anywhere else, is it just a matter of

[1] As time has gone on there has been some slippage in terminology. Originally 'soft' meant in the single market and 'hard' meant leaving it. Now that the government have opted for hard Brexit this is becoming called 'soft Brexit' by contrast with the even 'harder' no deal/WTO version which is being re-named as 'hard'. For clarity, I continue with the original terminology, and call the no deal/WTO version 'ultra Brexit'.

demands from leading manufacturers to the country's leaders. Second, it shows a lack of realism about how the EU does trade deals, including any post-Brexit deal with the UK, which would not be done by Germany but by the whole of the EU. Third, it contains a major contradiction: Brexiters usually complain that the EU is slow and lumbering, with trade deals taking far longer than necessary. Yet they claimed that a post-Brexit trade deal would be done with alacrity (see section 7 for more detail on timescales).

In any case, the consensus view of the UK car industry was clear. In March 2016, BMW wrote to all its UK employees in Rolls-Royce and Mini opposing Brexit and a survey of the British Society of Motor Manufacturers and Traders found that 77% of its members wanted to remain in the EU. Nissan and Toyota, both big investors in the UK car industry, wanted Britain to remain in the EU. And Honda's CEO said that "Anything that weakens our ability to trade with the EU region would be detrimental to UK manufacturing". These firms matter to the UK in terms of exports, jobs and foreign direct investment because in the UK car industry there are 770,000 people employed with 53.1% of vehicles produced going to the EU.

There are many variants of the same basic issue (other common examples include the Italian wine industry and the French cheese industry) but the core point is not economic but political. It can't make sense to the EU for the terms of being a member to be no better than the terms of not being a member, as several leading EU figures have repeatedly stated. Moreover, individual countries with the EU will each have their own interests, in many cases nothing to do with trade as they do little trade with the UK (see Table 3, Appendix). And, in point of fact, the German car industry has not made the kind of intervention anticipated by Brexiters and shows no signs of doing so.

The underlying logic of the 'German car manufacturer myth' is a wider idea that the EU needs the UK more than the UK needs the EU because the UK runs a trade deficit with the EU. This argument has little to commend it because in percentage terms far more British trade is bound up with the EU than vice versa (see Table 4, Appendix). There is, in any case, an additional problem with the 'deficit as lever' argument: if it is true, then it has to be recognized that the deficit is in goods trade, whereas the UK has a trade surplus with the EU in services. If the deficit really is a strength, then the services surplus must be a weakness. This is especially important for the UK's service-based economy (about 80% of GDP) and, in fact, this is an issue of more general importance in that neither FTAs nor WTO rules offer significant coverage of trade in services. This goes to the heart of the distinctive nature of the European single market.

3. Understanding the single market

Both before the referendum and since there has been a persistent confusion about what the European single market is, and this confusion also informs the way in which the government plans to leave it. The confusion is to think of the single market as being the same as a free trade area and, associated, to equate this with 'tariff-free trade'. In brief (see here for more detail), a single market is not just about tariff-free trade and the removal of quotas; it is also about the removal of non-tariff barriers to trade and it is from this that most EU regulatory harmonization flows. Non-tariffs are the most technically complex and significant barriers to trade and are most especially pertinent to services. This is particularly important to the UK since, as noted above, it is a predominantly service-based economy.

Similarly, single market membership entails free movement of people not as a kind of a bolt-on which, for some ideological reason, the EU insists on but as a core part of the definition of what a single market is: a complete unification of production and consumption of goods and services (including, also, free movement of capital). You can no more be a member of the EU single market without free movement of labour than you could have a functioning UK single market that restricted movement of people between different counties. To do so would by definition create separate markets in labour (and, for that matter, housing). In a sense, the absence of free movement can be seen as a species of non-tariff barrier in preventing a single market from fully existing (albeit that, as this helpful explainer shows, free movement of people is not the free-for-all that it is sometimes thought to be).

That this has not been properly understood is evidenced by an interesting insider account of the referendum campaign, written by Daniel Korski, formerly Deputy Director of David Cameron's Policy Unit. He records the frustration during the pre-referendum re-negotiation with the EU:

"Nor would our counterparts in Europe acknowledge that the EU's four freedoms are very much divisible. A country can reduce tariffs and remove trade barriers and still maintain restrictions on which foreigners are allowed to enter the country. This is what the United States has done since World War II, with NAFTA being the best example."

These sentences absolutely expose the core misunderstanding: NAFTA is not a single market, it is a free trade area. They are fundamentally different things. The four freedoms are indivisible not because the EU won't 'acknowledge' it but as a matter of definition. In this sense the EU's expression that it will not allow 'cherry-picking' is a misleading one: the cherries cannot be picked because they are inseparable from the tree. It is ironic that the development of an EU single market was championed most enthusiastically by successive British governments since the 1980s, and yet they seem not to have understood what they were championing. Nor can it be said often enough that before the Referendum many in the Leave campaign explicitly said that leaving the EU did not mean leaving the single market.

The government's decision to cease to be a member of the single market is apparently based on a realization that membership isn't going to be unbundled from free movement, but still seems to see this as just an intransigent negotiating position on the part of the EU and not a definitional issue of what the single market means. Hence what seems to be envisaged in the White Paper is to recreate just about every feature of the single market for the UK (even, on my reading, a form of CJEU jurisdiction, albeit via the back door of a dispute resolution system) except for free movement of people. Thus paragraph 8.1 states the intention that:

"Our new relationship should aim for the freest possible trade in goods and services between the UK and the EU. It should give UK companies the maximum freedom to trade with and operate within European markets and let European businesses do the same in the UK".

These words (along with several other indications in the white paper) suggest strongly all of the regulatory harmonization and non-tariff barrier avoidance that the single market entails, save for that relating to free movement of people.

So the government's aim appears to be to 'get round' freedom of movement of people by creating between the UK and the EU something akin to the free trade area that Daniel Korski (and, by implication, David Cameron) believed the single market was, or should be. The idea is to shoehorn together two fundamentally different models of international trade. It obviously remains to be seen whether such an arrangement will be created but it seems unlikely to be possible.

4. Understanding the WTO option

If it is not possible to do the kind of deal the government White Paper envisages, then the supposed fallback position is the 'WTO option'. When Theresa May said that "no deal is better than a bad deal" it was widely interpreted that is what she meant. It bears saying, first of all, that if the UK leaves the EU with no deal, it will have a huge impact well beyond trade – everything from airline flying rights to data transfer protocols would be affected, each of which is a hugely complex issue in its own right.

As regards trade, May was channelling what has been a persistent Brexiter myth going back well before the referendum. The myth is that WTO rules offer some kind of basic, entry-level framework for international trade which is sitting, ready and waiting, for the UK to 'revert to'. Nested within that myth is another one, namely that what is at stake in international trade rules is primarily, or even solely, tariffs. And nested within that is an idea that it is companies that do trade, not governments, so that international trade rules and agreements are a nicety if not an irrelevance.

That latter point is hardly worth discussing. Apart from smuggling, no international trade can occur in the absence of some set of laws and regulations that transcend the nation state. The idea of free trade as a kind of state of nature as it appears within Brexit mythology has been comprehensively debunked by Professor Steven Weatherill of Oxford University writing on the EU Law Analysis blog. This is also why the Brexiter idea of sovereignty is rather naïve: as soon as international trade occurs some diminution of sovereignty (in the sense that they mean it) is entailed. This applies quite as much to the WTO as the EU – arguably even more so in terms of transparency and accountability - and indeed the WTO is often criticised by activists on these grounds.

The other issues are much more complicated. The first is the complexity of unbundling the UK from the EU's membership of WTO. Brexiters talk of this as 'regaining our seat', but far more is involved than moving around the table, as respected ex-WTO official Peter Ungaphakhorn has explained. Trading on WTO terms is not just a matter of adopting a certain tariff regime. Within that, countries have different quotas of trade, with different tariff levels above and below the quota. Thus unbundling the UK from the EU entails establishing what proportion of EU trade in a massive number of goods can be attributed to the UK. This is not just a mind bogglingly complex technical matter, although it is surely that, but also entails potentially acrimonious political negotiations not just with the EU but with other WTO members. Depending on which good is under discussion, over 160 different countries – some friendly, some hostile to the UK – will have significant interests at stake. To get a flavour of what is involved, read this explanation of the issues using the example of trade in lamb.

In any case, tariffs and even quotas on trade in goods are not the main issues at stake here. The WTO framework has only limited applicability to trade in services and to non-tariff barriers to trade in both good and services (for an overview, see this briefing from Sussex University's UK Trade Policy Observatory), and indeed has in many other respects been stalled since the failure of the so-called Doha Round that began in 2001 and effectively abandoned last year. In this sense, the idea of WTO rules as a comprehensive trade framework is a misnomer. A related misnomer is that countries such as the USA and China trade with the EU without either single market membership or a free trade agreement. The implication is that these countries simply trade on WTO terms. They do not.

In fact, such countries trade via a complex web of Mutual Recognition Agreements (MRAs) which are principally concerned with removing the non-tariff barriers to trade which are, in most cases, far more important than tariffs. Each MRA is a highly technical and, in most cases, lengthy document and the outcome of long periods of negotiation. The USA, for example, has some 135 MRAs with the EU, and China has 65. On Brexit with no deal, not only would the UK not have any MRAs with the EU but it would also have exited the EU's MRAs with countries like the USA and China. For none of these MRAs exist as part of the WTO rules to which the UK will supposedly revert. It is for this reason that the *pro-Brexit* writer Peter North of the Leave Alliance says:

"One can say, unequivocally, that the UK could not survive as a trading nation by relying on the WTO Option. It would be an unmitigated disaster, and no responsible government would allow it."

5. Understanding borders

Much discussion of post-Brexit trade seems to envisage it in terms of something being made in country X and then sold in country Y. This is a misnomer which came to public attention after the referendum partly because of the PSA takeover of Vauxhall and its potential implications for job losses post-Brexit, partly because of Ford's announcement of job losses in Wales, and partly because of doubts as to whether BMW will build the electric mini in the UK. What is at stake here is not so much Britain leaving the single market as leaving the customs union which ensures frictionless movement of goods across borders without checks.

Many modern industries, including the car industry, are characterised by international supply chains. Again, there is a simplistic image of this as being like a transnational assembly line, with part-finished goods moving to their next stage in a different country. But, again, the reality is far more complex. In fact, car components move multiple times across borders before the finished item is ready for sale.

Thus, for example, the crankshaft for a BMW Mini moves across the channel three times during production and this process is repeated (often with more than three shipments) for hundreds if not thousands of parts within a car. Moreover, it needs to be done with a time accuracy in the minutes, so any delays caused for example by customs checks are disastrous. No British-made vehicle is composed wholly of parts made in Britain. In fact, on average 41% of parts are made in the UK. That number is significant because 50% of a car (by value) must be made within a country for it to conform to WTO origin of production rules. With the exception of some models produced by Jaguar Land Rover, no British car meets this figure and most don't approach it. For the Vauxhall Astra, for example, the figure is 25%.

It's probably true that the car industry is the most extreme example of highly integrated international supply chain management, but the same principle applies to many other industries and, in any case, the car industry is especially important both in terms of the quality of the employment it offers and the numbers, directly and indirectly, employed. It's not possible to be certain what the effects of Brexit will be on the car industry, but they cannot be anything but disruptive.

Movement across borders has also come to the fore since the referendum with the realization that hard Brexit will have massive consequences for the border between Northern Ireland and the Republic of Ireland. Issues here include things similar to the car industry – milk, for example, can move five times across Irish border during processing. Drinks manufacturer Diageo products include Guinness which crosses the border twice during production, and they estimate that exiting the customs union will add an extra £85 to each lorry load of the beer. However, for obvious historical reasons, what matters even more are the political consequences which become especially acute given the constant movement of people between, and their relationships across, the border.

This brings us to the parallel matter of freedom of movement of people across borders. A key argument for Brexit was 'regaining control of our borders'. In fact, since Britain is not a party to the Schengen Agreement she retains – and enforces – border controls. This conflation of free movement of people and migration was alluded to by Sir Ivan Rogers, former UK Ambassador to the EU, in his evidence to the House of Commons Exiting the EU Committee (p.10)

They [the rest of the EU] genuinely do not understand a UK debate in which the two are conflated at all. They do not understand why a Government would have a migration target covering migration from within the European Union, which for other people is not migration. They do not call it migration; they do not call it immigration. They call it free movement… [t]hey said, "But one is migration, which is external to the European Union, and the other is free movement of people, which is not at all the same thing".

This again reflects the longstanding British failure to understand what a single market is and how it differs from a free trade area (see section 3). More specifically it, too, flows from a naïve image, this time of immigration within a single market. As with trade, it is not a matter of person X moving to country Y to take a job since such movements become bound up with human relationships and families.

There is a pervasive response to all these issues which is to say 'but we managed perfectly well before being in the EU'. With respect to business organizations, this is simply irrelevant: the world of international supply chains and just-in-time management barely existed in the early 1970s and not remotely in the form that it now does. With respect to Ireland, the Common Travel Area did indeed pre-date the EU but the situation now is that Ireland is in the EU and there is free movement of people from other EU countries into Ireland so on hard Brexit a hard border with the North is inevitable if there is to be border control. In a recent article in the *Daily Telegraph* on the implications of Brexit for Ireland and Northern Ireland there is a revealing sentence from an unnamed British civil servant work on Brexit: "It seems as if every day something new we hadn't thought of comes up". This seems very much to be the case with the implications of leaving the customs union, with the UK Chamber of Shipping recently warning of an "absolute catastrophe" if the issue of borders and customs checks is not satisfactorily resolved.

This brief discussion of borders again illustrates how issues of trade and issues of migration are inseparable within the single market and, therefore, within arrangements to leave it. But whereas borderless trade is relatively politically straightforward (at least leaving aside questions of CJEU jurisdiction) migration is far more controversial.

6. Understanding free movement of labour

There is little doubt that immigration was a major reason why Britain voted to leave the EU. Yet from an organizational perspective Britain needs more immigration, not less. Whole sectors of British economy and society are not sustainable without immigration at present or higher levels. These sectors span the skill range from agriculture, catering and care homes through to scientific research, medicine and finance.

The reason for this is two-fold. First, because the British economy is running at what in economists' terms is probably full employment. That does not mean zero unemployment, as there is always a tranche of people who are unemployed because they are temporarily between jobs or because they are to all intents and purposes unemployable. To see what this means, watch the instructive BBC film from 2010 on 'the day the immigrants left'. It shows British people bemoaning being unemployed due to immigration but, when given the chance to do the jobs undertaken by immigrants, being for the most part completely incapable of doing so even at the most basic level of turning up on time.

It is not the case that these people are kept out of jobs by immigrants – that is the well-described 'lump of labour fallacy' - although it is the case that some of those currently unemployable could become employable with training and education. And this can and should occur whether or not Britain is in the EU. But training and education will not render large numbers of them capable of doing the high skill science and finance jobs that many EU immigrants undertake, or large enough numbers to fill the low skill jobs.

The second reason is demographic. Britain has an ageing population, and to sustain it entails an influx of economically active people in order to sustain economic growth and to support pension payments. It's possible that one way of dealing with this, rather than immigration, is for British citizens to work longer before they get their pensions, and indeed it has been mooted that this will indeed be a consequence of Brexit. But it is unlikely to be popular or to match the skill profile needed.

A naïve response to this is to say that if wages were higher then the British workforce could fill the gaps of immigration. The reason this is naïve is because if the people aren't there to work then higher wages won't create them. At best, higher wages in, say, the care sector will lead to labour shortages in, say, the retail sector. And whilst many may favour higher wages they mean higher prices. Do people want to pay those, on top of the higher prices already caused by Brexit because of the collapse of sterling? In any case, as wages rise investment in mechanization becomes more attractive to companies, with rapidly developing robotic technology likely to be a growing possibility.

There's also a lazy response to this, which is to say that immigration puts pressure on public services. It's lazy because EU immigrants are net contributors to the public finances: the issue isn't immigration it's the use made of the funds contributed by immigrants. In fact free movement of labour within the EU is a particularly effective way ensuring net contribution precisely because of the ease of movement in both directions – EU migrants tend to come to work in the UK when they are economically active but not to retire in the UK.

The fact that Britain needs immigration is acknowledged, even by Brexiters. Hence David Davis and others have said that it will continue post-Brexit, something confirmed by Home Secretary Amber Rudd. The difference, it seems, will be that it will be via some kind of work permit scheme (yet to be set out). Plus any new trade deals with, for example, India, are likely to come with a relaxation of immigration restrictions from such countries.

Meanwhile, for those who are not concerned about immigration it just means an extra layer of bureaucracy and cost, in having to apply and pay for immigrant employment. Is it, then, a matter of no change other than increased costs for businesses (not that these are negligible)? No, because although at the low skill level of immigration – where all the political fuss has been – it won't make much difference to numbers, at the high skill level it surely will. They will not be so willing to go through bureaucratic hoops to come to the UK, especially when bringing families with them.

The British economy needs immigration, and free movement within the EU is by far and away the easiest way for this to happen. It enables supply and demand in labour markets to be easily matched. No other system allows this, and the benefits are not just economic because it allows all the human things around the labour market (relationships, children) to happen easily as well. Huge numbers of families in the UK (and in the rest of the EU) are now intermingled. That last point matters because migration should not just be seen in transactional, economic terms but also in cultural and human terms. This is an important point for organizations to consider, as the human resource issues posed by Brexit are not just to do with ease of recruitment but also managing the insecurities and concerns of existing EU-27 employees.

7. Conclusion: where do we go from here?

At the time of writing, a general election campaign is underway. The widespread expectation based on opinion polls is that the outcome will be the return of Theresa May's government with an increased majority[2]. Many commentators believe that this will have the effect of weakening the 'ultra-Brexiters' who want Brexit with no deal in place (i.e. WTO terms) and, certainly, this was the judgment of the financial markets which is why sterling rose after the election was announced. Assuming this is so, it means that the UK will seek something like the form of Brexit set out in the White Paper.

The timescale for achieving this is another area of persistent misunderstanding, which is only now becoming slightly clearer. Interviewed in April, the Prime Minister indicated that there was no prospect of a trade deal with the EU being signed within two years, and that if and when it happened it would be with the UK as a third party (i.e. outside of the EU) rather than as part and parcel of the

[2] If the polls turn out to be wrong, and the Conservatives lose the election, much of this briefing will become superseded and, in particular, some form of single market membership might come back on to the agenda.

Article 50 negotiations. This means, in turn, that it will fall under a different process which requires unanimous ratification by EU member states, rather than the qualified majority of the Council (plus simple majority of the European Parliament) needed to agree the exit terms.

In one way, this is not surprising as anyone with any familiarity with the issue already knew that this was how things would be, and it was heavily trailed by the EU during the referendum campaign and since. Article 50 only covers the exit terms (albeit "taking account of" the shape of future arrangements) and it would actually have been quite conceivable that no trade talks would even begin until after these had been settled. In fact, the EU position on this has turned out to be relatively soft, with the Council (and now the Parliament) agreeing to begin talks on future trade once they judge that 'sufficient progress' has been made on the exit terms negotiation.

However, hitherto the government had at the very least implied that exit and trade talks would be completed within two years, and certainly had asked in the Article 50 letter that they would occur in parallel from the beginning of the Article 50 period. It's true that May had been rather ambiguous in the past. She had talked of 'reaching an agreement' within the two years which would then take longer to implement. That could, at a pinch, mean just the outlines of an agreement but in reality implementation could not begin until agreement had been completed. So the strong implication was undoubtedly that pretty much everything would be agreed within the two years. That is now out of the question, as are parallel talks from the outset of the process.

Whatever ambiguity there may have been in the government's position until now, there is no doubt at all that Brexiters claimed – both before the referendum and since – that a trade deal, and moreover an advantageous trade deal, would be easy to achieve, and in less than two years. Last October Boris Johnson claimed that 18 months was "absolutely ample" to get a "great deal". As recently as 30 March veteran Eurosceptic Peter Lilley said that "there's no reason why it [a trade deal with the EU] should take more than ten minutes". Even taken as a figure of speech that is clearly absurd.

The time frame now being implied by the government matters because, amongst other things, the length of time it will take and the uncertainty about the terms on which it will happen, if at all, directly affect companies' willingness to invest and their decisions about relocation. In many cases, as is being seen in the financial sector, relocation processes take a long time and must therefore be decided on well before any completion of trade negotiations. It also affects individuals residing in different member states as to what the future holds for them. So how long will it take? The best estimate would still seem to be the two to ten year period which Sir Ivan Rogers was hounded out of office for reporting in January. He has since suggested that a ratified deal by the mid-2020s is likely. It is worth noting that at the same time he predicted that the EU would not allow a sector-by-sector single market deal (something floated in the White Paper) and that has now been proved right by the EU Council's draft guidelines.

Pro-Brexit politicians often argue that this deal can be much quicker than a normal trade deal because standards and regulations are already harmonized between the UK and the EU and it is this which takes the time in trade negotiations. But that misses the point that, precisely, this will not be a normal trade negotiation. Normally, the intention is to improve the ease of trade. This time, it is to erect barriers. If the Brexiters mean that the UK can in effect stay in the single market in every way except for freedom of movement of people and CJEU jurisdiction then they have been missing the whole point of what the EU means by 'no cherrypicking'. The matters of lengthy dispute will not be about standards harmonization, they will be about, primarily dispute resolution systems and possibly a preferential immigration system. Moreover, because this deal will need unanimity there will have to be votes in all national and some regional parliaments before ratification. That all takes time and can be unpredictable, as the recent Canadian FTA experience has shown.

So for all these reasons the Rogers' estimate of timescale still looks reasonable. This, then, means – and May, again, seems to have conceded it is so – that there will be a long period during which the UK remains within the single market, under CJEU jurisdiction and with freedom of movement. It will not be a 'no deal better than a bad deal' WTO scenario, as talks will still be ongoing. An additional aspect of this is that it will also mean that the UK is still in the customs union and, therefore, that no new trade deals with non-EU countries can be signed in the interim. How long the interim will last is impossible to say. The EU Parliament have suggested they will not agree for it to go beyond a maximum of three years. It is possible that could be negotiated to be longer but even if not it still takes us to 2022; some have suggested a seven-year EEA interim after completion of EU exit in 2019, taking us to 2026.

The political consequences of that are very difficult to imagine or predict. One is that since the UK will have left in 2019 it will no longer have any representation within the EU and certainly no MEPs in the European Parliament, even though EU decisions will continue to affect the UK. Beyond that, clearly much can change in such a time frame. To get a sense of how much, suppose that the interim period did go on until 2026, ten years after the Referendum. Then consider what was happening in 2006, ten years before the Referendum. That was when David Cameron in his first conference speech as Tory leader warned his party to stop "banging on about Europe".

This only serves to underscore the difficulties of making predictions about the future. And whilst that is true in general, it is especially true of Brexit. Stripped back to essentials, what is underway is something without parallel in modern economic history: an attempt simultaneously to detach and re-attach a major trading economy from and to the global economic system. It is the economic equivalent of trying to re-build an aeroplane whilst in flight. At the very least a considerable degree of turbulence can be expected. It remains to be seen whether the result will be a catastrophic crash.

Appendix: Tables

Table 1

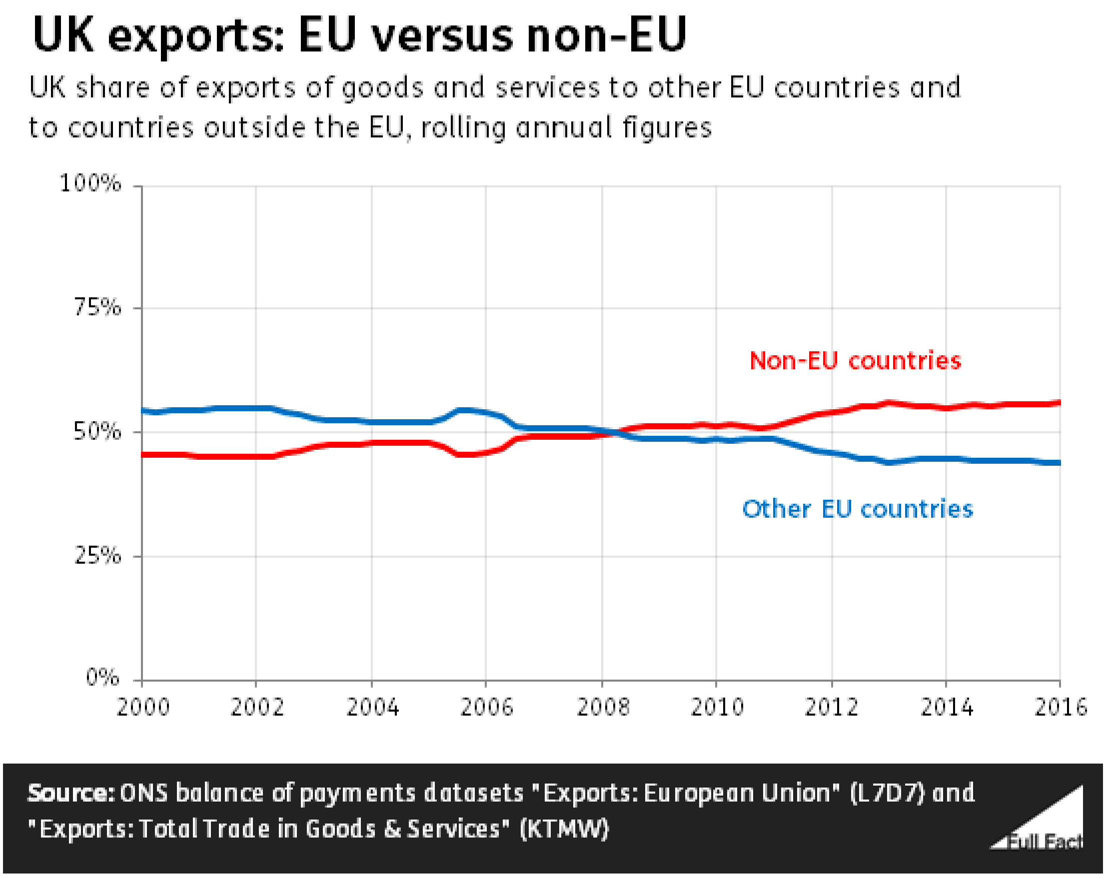
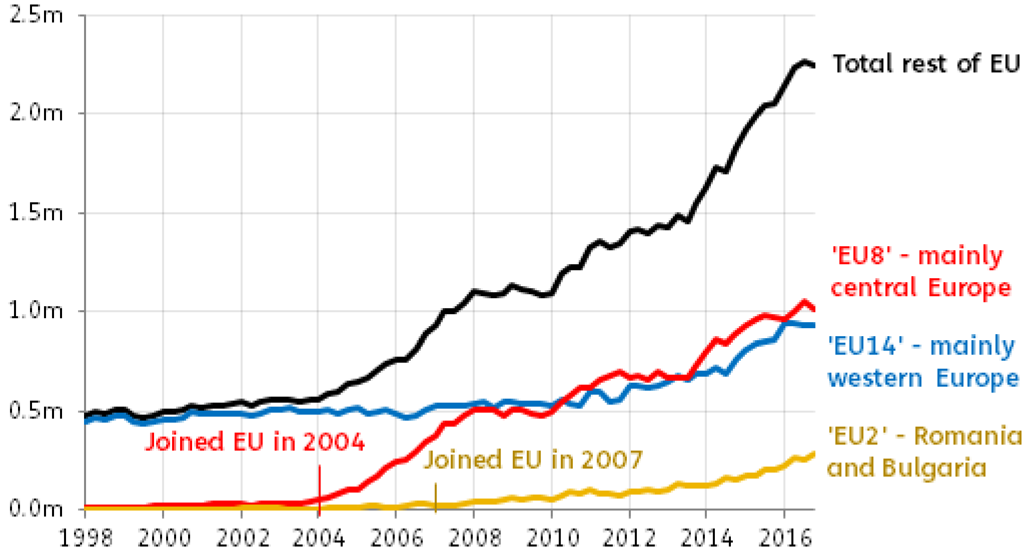


Table 2

EU citizens working in the UK

Employment by nationality groupings within the EU



EU14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden.

EU8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

Source: ONS UK labour market, February 2017, table EMP06

Full Fact

Table 3

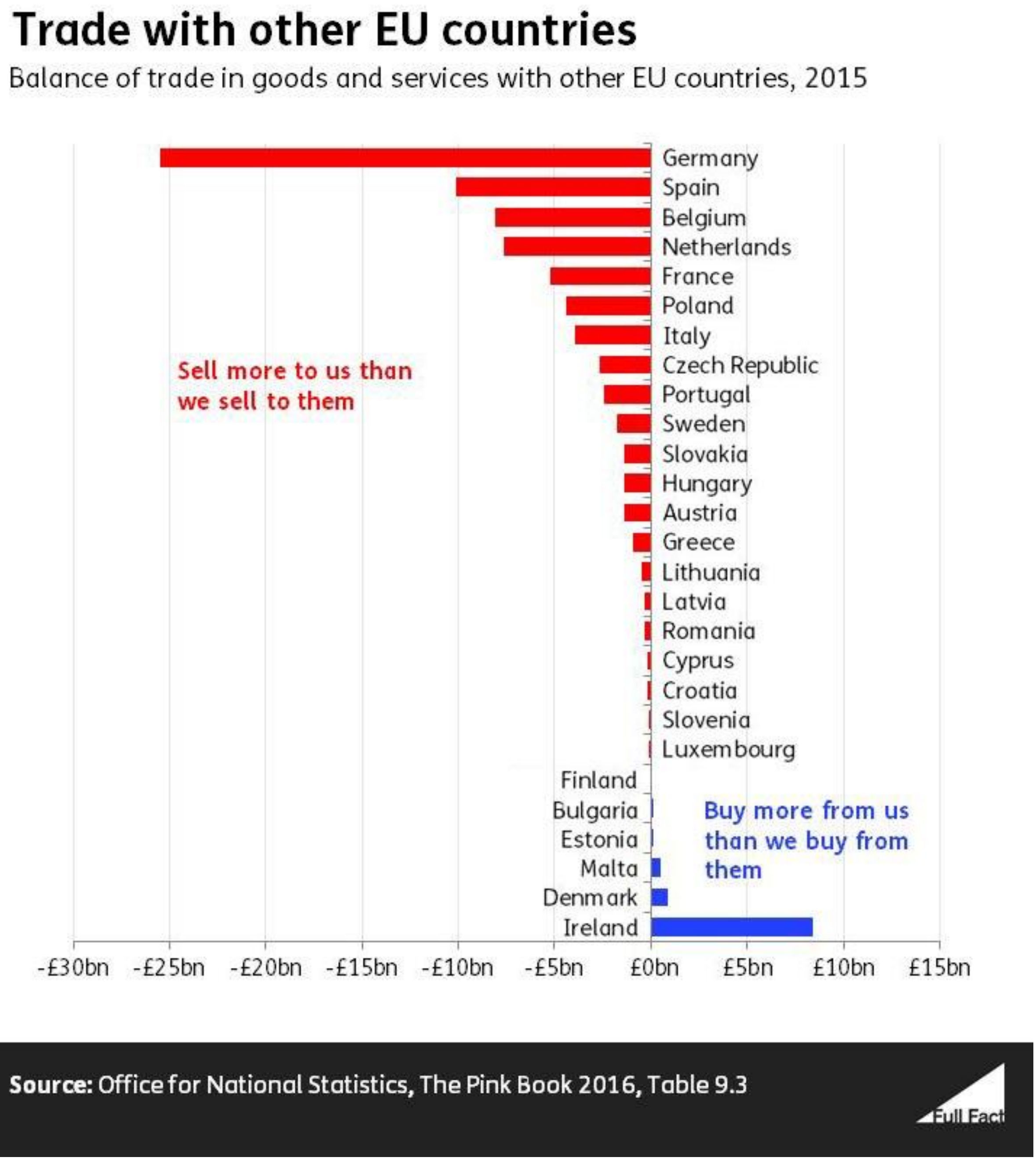
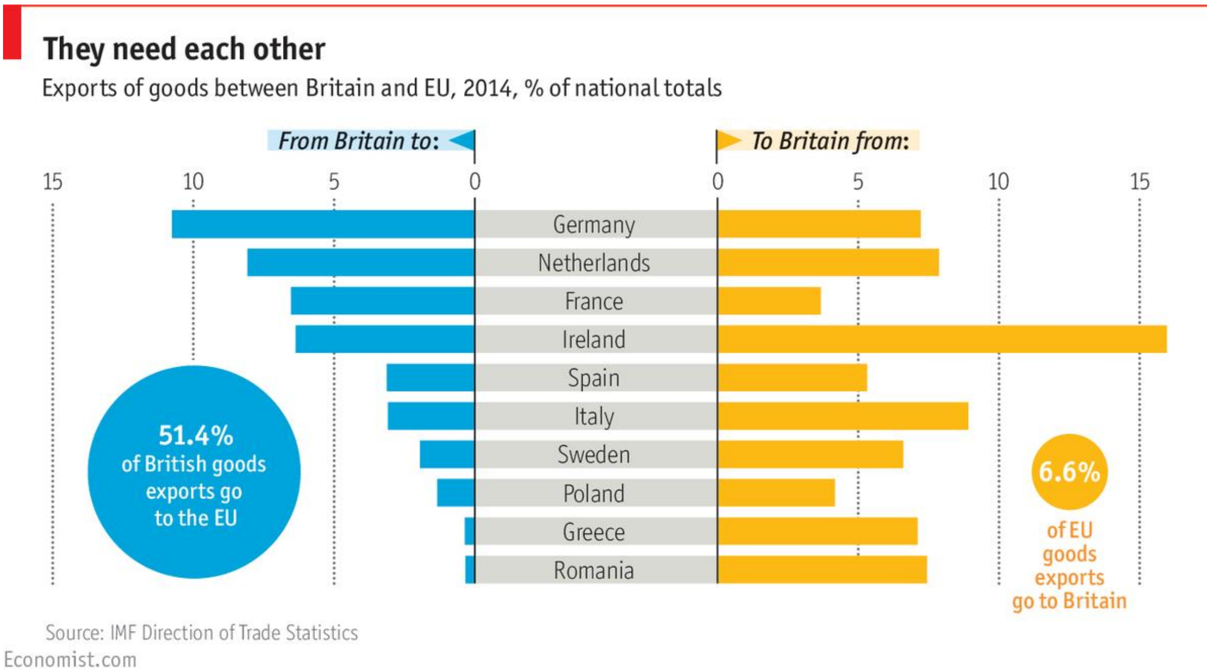

Trade with other EU countries
Balance of trade in goods and services with other EU countries, 2015
Germany
Spain
Belgium
Netherlands
France
Poland
Italy
Czech Republic
Portugal
Sweden
Slovakia
Hungary
Austria
Greece
Lithuania
Latvia
Romania
Cyprus
Croatia
Slovenia
Luxembourg
Finland
Bulgaria
Estonia
Malta
Denmark
Ireland
Sell more to us than we sell to them
Buy more from us than we buy from them
-£30bn
-£25bn
-£20bn
-£15bn
-£10bn
-£5bn
£0bn
£5bn
£10bn
£15bn
Source: Office for National Statistics, The Pink Book 2016, Table 9.3
Full Fact

Table 4


They need each other
Exports of goods between Britain and EU, 2014, % of national totals
From Britain to:
To Britain from:
15
10
5
0
0
5
10
15
Germany
Netherlands
France
Ireland
Spain
Italy
Sweden
Poland
Greece
Romania
51.4% of British goods exports go to the EU
6.6% of EU goods exports go to Britain
Source: IMF Direction of Trade Statistics
Economist.com