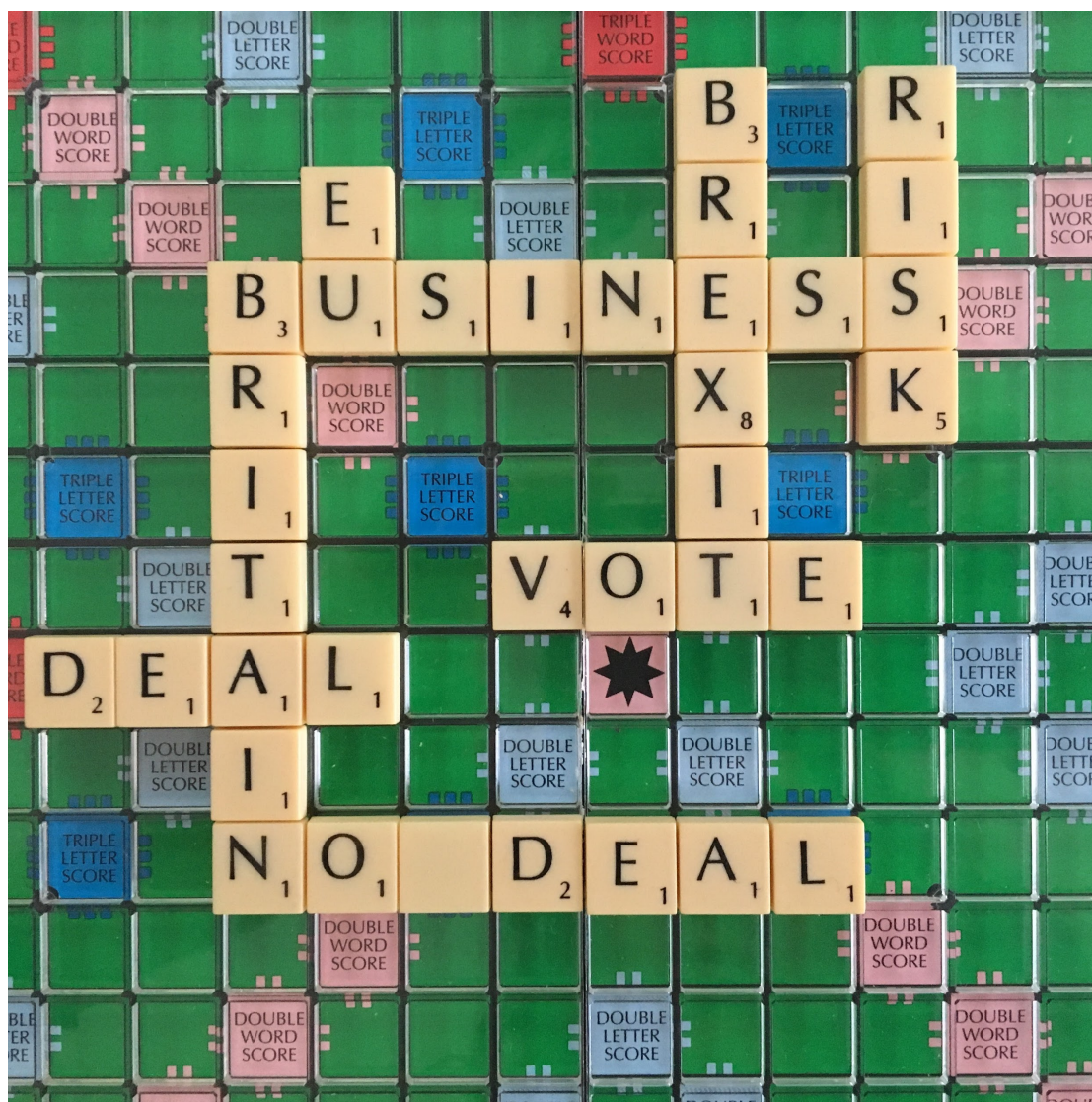


‘Deal or No Deal?’ Businesses’ Views on the Endgame of the Brexit Negotiations



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Abstract

Brexit presents profound changes for British businesses: from how they trade, to how they are regulated and how they employ people. This paper represents the fourth phase of a research project in a series examining the impact of Brexit on small and medium-sized British businesses, examining their views as we reach the endgame in the Brexit negotiations, with the publication of the Government's Draft Withdrawal Agreement (“DWA”) and Draft Political Declaration (“DPD”). This research is primarily based on 180 interviews with over 120 small and medium-sized businesses, academics and trade association over the past two years, and draws on interviews and research from previous papers. The key conclusion from these interviews is unambiguous: the vast majority believe a “No Deal” outcome would be extremely damaging, and is a “worst-case scenario”. While preferable to “No Deal” the “Blind Brexit” that would result from the combination of the DWA/DPD would mean continued and damaging uncertainty, which is already having a negative impact for many businesses. While the DPD still leaves the shape of the post EU transition unresolved, most businesses would prefer a closer relationship with the EU than it currently envisages.

Acknowledgements

We would like to thank all the companies, trade associations, and experts we interviewed over the course of this research for making the time to share their perspectives with us. These are listed in Appendix 1. We would also like to thank the Members of Parliament who helped us during this research project, not least by helping identify companies to interview, as well as the individuals from various academic institutions and think tanks who gave us their insights. These are listed in Appendix 2. Finally, we would like to thank those who took the time to review the draft report and provide us with comments. The authors take full responsibility for the content and conclusions of this report, including any errors and omissions.

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Executive Summary

In October and November 2018, the Brexit team at Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government returned to the small and medium-sized businesses ("SMEs") that we consulted over the past two years to get an update on their views on Brexit and the UK Government's negotiations with the European Union.

Most of the businesses we spoke to have not changed their underlying positions on Brexit: the vast majority of businesses want to remain in the EU, or to see the Brexit negotiations result in a future relationship that facilitates frictionless trade, access to skilled and unskilled labour, and aligned regulation.

A majority of respondents would be inclined to support the Government's proposed Draft Withdrawal Agreement ("DWA") and Draft Political Declaration ("DPD") if the only alternative is a "No Deal" scenario. However, many expressed deep concern about the continuing uncertainty created by the Government's plans - a "Blind Brexit" under which the future UK-EU relationship is negotiated only after the UK has left the EU. Most companies want more detail, less uncertainty, and a greater guarantee of future proximity to the EU than the Government's proposals offer.

Most Businesses Would Prefer the Closest Possible Relationship with the EU

It was clear from responses that most businesses and trade associations we consulted have not changed in their views and retain a clear preference for the UK maintaining the closest relationship possible with the EU: in effect, remaining in the EU over any Brexit option; "Norway plus" over the DWA/DPD; the DWA/DPD over "Canada plus"; anything over "No Deal". Although a majority preferred "Norway Plus", which would keep the UK in the Customs Union and the Single Market, there was recognition that such an arrangement would leave the UK as rule takers, subject to EU regulations, without a voice in deciding them, and thus in a worse position than as members of the EU. Moreover, "Norway Plus" would entail acceptance of Freedom of Movement, continuing payments to the EU and de facto acceptance of European Court of Justice jurisdiction. From the perspective of the majority of business who want the closest possible relationship with the EU, the logic of Brexit remains flimsy at best.

However, a perhaps surprising number of businesses – around two-fifths – do not have a clearly preferred deal option. Many of the SMEs interviewed were not familiar enough with the details of the different options to understand precisely the effect of each option on their business. Others had given up trying to analyse the impact on their business because the uncertainty is too great to make such analysis worthwhile. For most businesses, focused on navigating day-to-day business challenges, the key priority is to avoid the potentially catastrophic consequences of a "No Deal" scenario.

Avoidable Uncertainty Has Had a Large Impact on Businesses

Two and a half years after the 2016 Referendum, we found our respondents increasingly concerned about the prolonged uncertainties arising from the Brexit process, which many noted had already begun to affect their businesses. According to our interviews, this uncertainty derives from three failures:

1. **A failure to narrow the range of possible options for a future relationship with the EU.** Businesses had expected to know at least the broad shape of the future relationship with the EU by this stage of the negotiations. Such an expectation is not unreasonable given that in her Lancaster House speech in January 2017, the Prime Minister declared the intent of reaching “an agreement about our future partnership by the time the 2-year Article 50 process has concluded”. Yet the DWA published on 14 November and the DPD published on 22 November fall far short of this aspiration. While the DWA makes clear the basis of the UK’s withdrawal from the EU, and how the transition period will work, the 26-page DPD leaves open a broad spectrum of options for the eventual shape of the UK’s relationship with the EU.
2. **A failure to resolve specific issues essential to a wide range of industries.** Most businesses felt that the Government had not made enough progress in the negotiation of essential sector-specific issues such as the continuity of outstanding cross-border financial contracts. In the few areas where there is clarity, most businesses were unhappy with the Government’s direction of travel – a striking example was the dissatisfaction businesses expressed with migration policy proposals following the Migration Advisory Committee (“MAC”) Report and Recommendations.
3. **A failure to engage with businesses and their trade associations to understand their views and industry needs.** The vast majority of businesses we spoke to feel ignored and unrepresented and have lost faith that their views are informing the Government’s position in the negotiations - either directly or through their trade associations.

Businesses remarked that these uncertainties have already translated into problems for their companies, for example dampening investment and consumer demand. Moreover, these failures underpin widespread dissatisfaction with how the Government has conducted the Brexit negotiations. That dissatisfaction is shared by those who are both in favour of and opposed to Brexit - the vast majority of the firms we interviewed now believe that, at least from a business perspective, UK will be in a worse position following the UK’s departure from the EU.

There is Consensus that “No Deal” Would be Extremely Damaging

Almost all businesses view “No Deal” as an extremely damaging prospect and are astounded that it remains a possibility. Respondents fear tariffs, border delays, the loss of mutual recognition, staff shortages and travel restrictions with severe impact for supply chains and a complete lack of clarity around many facets of businesses operations. Some fear short-term panic and societal breakdown. Only a very small number of businesses – primarily firms that conduct most of their business outside the EU and who would benefit from a weaker currency – are relatively unconcerned by “No Deal”.

Though Better than “No Deal”, the “Blind Brexit” Offered by the DWA/DPD Would Prolong Damaging Uncertainty

The combination of the Draft Withdrawal Agreement and the Draft Political Declaration (henceforth referred to as the DWA/DPD) provides a process by which the UK leaves the EU into transitional arrangements without settling the parameters of the future relationship, in other words a “Blind Brexit”. Almost all respondents preferred a “Blind Brexit” to “No Deal”, a finding consistent with the stance taken by the CBI in response to the DWA/DPD. But for many businesses, the continued uncertainty created by such a “Blind Brexit” represents a significant downside. There were widespread concerns that uncertainty was already affecting investment and would do so even more under a protracted “Blind Brexit”. Many were concerned that “Blind Brexit” was a prelude to “No Deal”, while respondents who supported Brexit were equally nervous that it was a gateway to no Brexit at all.

The Draft Withdrawal Agreement & Draft Political Declaration Fails to Meet Both Businesses’ Requirements and the Government’s Promises

Our work has involved over 180 interviews with over 120 businesses, academics and trade association over the past two years. British businesses have been clear from the start about their key requirements: frictionless trade, access to skills and talent, streamlined regulation and minimal uncertainty. The Government’s initial stated negotiation priorities indicated that it had taken these requirements on board. At her January 2017 Lancaster House speech, the Prime Minister set out priorities including: “the freest possible trade in goods and services” and a “smooth, orderly Brexit”, reaching “an agreement about our future partnership by the time the 2-year Article 50 process has concluded”.

The DWA/DPD have not delivered on these commitments. While the DWA lays out in some detail the basis on which businesses will operate under during the transition period, the DPD leaves most of the shape of the post transition relationship with the EU unresolved. Arguably, the only option for the future relationship following the transition period that is completely taken off the table is that of remaining in the EU since the UK will already have left on 29 March 2019.

All the other options remain broadly as they are now. The Government’s commitment to end Freedom of Movement, now given expression in the DPD, would suggest any deal involving continued participation in the Single Market, such as “Norway Plus”, is unachievable, at least without a significant concession from the EU which so far has not been on the table. At the other end of the spectrum, a “No Deal” Brexit is still conceivable, although given the legally binding nature of the “backstop”, this would inevitably require some change to the relationship between Northern Ireland and the rest of the UK. In between, the options remain broadly unchanged – with the likely outcome somewhere in the spectrum between “No Deal”, “Canada Plus”, and indefinite continuation of the transition period, unless one or other side’s red lines are somehow relaxed.

Perhaps the biggest shift is that the UK's negotiating power will have unambiguously diminished. After 29 March 2019, the UK will be negotiating as a third party, having settled its outstanding financial liabilities. Moreover, unlike with the DWA, which will be agreed on the basis of a Qualified Majority Vote, decisions that translate the DPD into a future deal require unanimity among the other 27 member states. This raises the possibility of individual member states holding to hostage the overall deal to achieve specific objectives (a prospect that has already been signalled with respect to Gibraltar and fishing rights).

Most of the businesses we interviewed had not seen or had the opportunity to think through all of the potential scenarios offered by the DWA/DPD when we spoke, but most are deeply concerned about what such a "Blind Brexit" would mean, both in terms of the continuing uncertainty and the more distant relationship with the EU it implies. While many businesses' first reaction was to share the CBI's muted support¹ for the DWA/DPD as a way of minimising the risk of a "No Deal" scenario, most were also deeply dissatisfied that this was the choice they were being offered.

The DWA/DPD does not provide the detail, certainty, and guaranteed future proximity to the EU that most businesses want. Through our interviews, we got the sense that the more businesses focused on what might happen over the longer term under the DWA/DPD, the less they liked it. While their near-term priority is to avoid a "No Deal" Brexit, the cumulative effect of such a "Blind Brexit" on uncertainty and thus investment would also be highly damaging. Many businesses, therefore, found themselves trapped in a dilemma. If the only choice is between the DWA/DPD and the disaster of "No Deal", which is how the Prime Minister has portrayed the decision, then most businesses would take the DWA/DPD. But what most of the businesses we spoke to really want is a different choice. The DWA/DPA may be better than "No Deal", but for most companies it is inferior to remaining in the EU or moving more decisively to a much closer relationship with the EU that includes continued participation in the Single Market and flexible access to EU skills and labour.

Following the European Council's approval of the DWA/DPD,² and the Government's move to bring the deal to a vote in Parliament, we asked businesses the extra open-ended question: "given the situation we are now faced with, what is your preferred course of action?" The answers from those who responded illustrate how torn the business community is. Many businesses appear to be losing patience with the political process and want to see Brexit concluded, but realise the DWA/DPD extends the discussion, and the uncertainty, for years to come without any sign of an emerging political consensus on the right future trading arrangement. Although the small number of businesses able or inclined to respond to this extra question given the short notice overwhelmingly agreed that "No Deal" should be avoided, opinion was divided on the best route forward. Some called for a second referendum, others were more supportive of the DWA/DPD, whilst only a tiny minority argued for "No Deal".

¹ Confederation of British Industry, [Our response on progress on draft Withdrawal Agreement](#), 14 November 2018

² European Union Council, [Special Meeting of the European Council \(Art. 50\) – Conclusions](#), 25 November 2018

The clear consensus from all our interviews conducted over the past three months is that if the DWA/DPD is voted down by Parliament, “No Deal” must be avoided. Although there is a diversity of views on the best way forward in such a circumstance, a clear majority believe that the Government should negotiate an extension to the two-year withdrawal period under Article 50 of the Treaty of the European Union. This would gain time to secure a different way forward that establishes a definitive framework for the future relationship, one which would better-safeguard the interests of British businesses, and thus, jobs and prosperity in the UK.

1. Introduction

This paper's objective is to give voice to British SMEs

The objective of this fourth paper in our series on Brexit is to explore how British businesses' views on Brexit have evolved over the nearly 28 months since the Referendum. As with our previous papers, our goal was to discover through interviews with the owners and managers of SMEs across the UK, the key concerns and priorities for this important segment of the British economy. For this round of interviews, we focused our attention on SMEs' perspectives on the progress in the negotiations, and their views on the specific options now being put forward by the Government (although most of the interviews were conducted before the DPD was published).

Our approach is based on extensive interviews

Consistent with our approach across the three previous papers, we focused our research on SMEs and their trade associations across the UK, revisiting companies we have already interviewed for the earlier papers. Our sample of companies covered a broad range of sectors, different regions, and the full range of political perspectives. Our interviews followed a common set of questions shared prior to each interview with each of those we consulted. Nevertheless, since our objective was to capture the views of those we interviewed, we did not stick rigidly to these questions, but allowed the interviews to take a natural course, often reflecting our respondents' reactions to the rapidly changing political circumstances.

We do not claim that the findings of these interviews have statistical significance, nor that our sample is perfectly representative of the business community as a whole. Nevertheless, on many issues, we encountered a wide range of views. In addition, on some topics, those we interviewed held different perspectives when talking about the priorities for the UK as a whole versus when talking about the priorities for their own company. However, there were also many issues where there was strong consensus among the vast majority of the companies, from which we are able to draw our conclusions.

We have sought to put the interviews in the context of the rapidly evolving political and policy context, most notably the recently published DWA and DPD, and numerous supporting documents and commentaries. However, much like the businesses we interviewed, we do not claim to have taken comprehensive account of everything published by the Government, its supporters or its critics. Moreover, this paper, like our previous papers, does not attempt to analyse or derive economic projections on any aspect of Brexit.

Structure of the Paper

The remainder of this paper is divided into six broad sections:

- **Chapter 2** provides a brief overview where we stand now, including a very brief summary of key aspects of the Government's proposed deal as expressed in the DWA/DPD
- **Chapter 3** explores the impact and drivers of increased uncertainty
- **Chapter 4** highlights the consensus among businesses that "No Deal" would be extremely damaging
- **Chapter 5** explores businesses' reactions to the broad outlines of the Government's DWA and DPD, focusing in particular on their preference for almost any deal versus "No Deal", and their concerns about a "Blind Brexit" that fails to resolve many of their key concerns and prolongs damaging uncertainty
- **Chapter 6** discusses businesses' urgent desire for greater clarity and their overwhelming preference for an even closer relationship with the EU than envisaged in the DWA/DPD

2. Where We Stand Now

The 585-page Draft Withdrawal Agreement (“DWA”),³ published on 14 November 2018, sets out agreements between the UK and the EU in a number of key areas. It defines the terms of withdrawal including the financial settlement and a transition period that will last until at 2020. It sets out arrangements for the protection of citizens’ rights, and legal arrangements establishing an independent dispute settlement mechanism with independent arbitration. The DWA offers temporary resolutions to some of the most contentious issues that arose during the negotiations including a UK-wide temporary customs union, continued commitment to the Northern Ireland backstop, and specific agreements on Gibraltar and Cyprus. The 26-page Draft Political Declaration (“DPD”),⁴ published on the 22 November 2018, sets out the framework for the parameters of the partnership between the EU and UK across a range of areas, including the future trading partnership in goods and services, participation in EU programmes and immigration.

Both the DWA and the DPD tackle topics around the future of UK-EU trade and economic cooperation that are crucial for UK businesses. In chapter 6, we assess to what extent the businesses we interviewed feel the DWA and DPD have taken on board and resolved their many concerns about both the Brexit process and end-state. We should note that the interviews reveal very different levels of knowledge amongst business about both the content of the DWA/DPD and their implications for different sectors. While many of our respondents had read press coverage of the DWA, few had had the opportunity to delve into the detail at the time we spoke to them. Moreover, many interviews were conducted before the publication of the DPD or so shortly afterwards that few had had time to absorb more than the headlines. These discussions therefore focused more on the issues arising from such a “Blind Brexit” rather than on the specific details of what was eventually published in the DPD. That said, some interviewees subsequently provided us with their considered thoughts on the DWA/DPD.

The Deal Options

In our first paper, we laid out the spectrum of various Brexit deal options, from remaining in the Single Market at one end to relying on WTO rules at the other. We have added to our original table the possible shape of the eventual deal emerging from the Government’s DWA/DPD (see table 1). What is striking is how little has been resolved – which is why many have described the DWA/DPD combination as constituting a “Blind Brexit”. Contrary to the Prime Minister’s commitment in her Lancaster House speech,⁵ there remains remarkably little clarity on what the future trading and economic relationship between the UK and the EU will be after the transition period.

³ UK Government, [Withdrawal Agreement](#), 14 November 2017

⁴ UK Government, [Political Declaration](#), 22 November 2018

⁵ UK Government, [The Government’s Negotiating Objectives for Leaving the EU: PM’s Speech](#), 17 January 2017

The one unambiguous conclusion is that post 29 March 2019, the option of full EU membership will be off the table, since the UK will already have left the EU. All the other options and dilemmas will be broadly as they are now. Unless the EU changes its stance significantly, the options that provide the most seamless interaction with the Single Market entail acceptance of Freedom of Movement, significant acceptance of ECJ jurisdiction, becoming a rule-taker on large swathes of regulation and continued contributions to the EU budget, plus – through being part of or shadowing the Customs Union – severe limitations on the ability to strike independent trade deals. On the other hand, the options that enable ending Freedom of Movement, avoidance of ECJ jurisdiction and release from continued contributions to the EU budget, imply much greater barriers to trade in both goods and services, and requires the UK to confront the as yet unresolved question of how to reconcile the UK’s binding legal commitment to preserve the Good Friday Agreement with the political imperative of maintaining the seamless integrity of the UK as a whole. The tone of the DPD would suggest that “No Deal” (described in the table as WTO MFN status) has been ruled out as the conclusion of the UK’s relationship with the EU. But given the difficulty of negotiating any other landing point for the relationship with the EU, “No Deal” would seem still possible as an eventual outcome.

Although the options for the eventual outcome for the future relationship remain much as they are now, one thing that will change is the UK’s negotiating position. It is hard not to conclude that after March 30 2019 the UK’s bargaining power will diminish, since the UK will be a third-party state, having settled its financial liabilities and having made various binding commitments (e.g. on Northern Ireland, Gibraltar). Unless there is a fundamental change in the EU’s negotiating position, or the UK shifts from the red lines expressed in the DPD, such as the abandonment of Freedom of Movement, there are two likely outcomes. The UK will either be squeezed into a Canada-like FTA, accepting that this entails the imposition of some controls between Northern Ireland and the rest of the UK, and will create significant impediments to trade in both goods and services; or it will be stuck in an indefinite continuation of the transitional arrangement of a UK-wide Customs Agreement with the UK being a rule-taker for significant swathes of EU regulation and unable to negotiate its own trade deals.⁶

⁶ Figure 1 provides a simplified summary of the deal options across the trade and economic relationship. The complexity of the individual arrangements means that the “yes/no/some/TBC” characterisation may miss some of the nuances, but it gives a flavour.

Figure 1: Brexit Deal Options

	DWA/DPD	Full EU Membership	EFTA (EEA)	EFTA (e.g. Switzerland)	Customs Union	FTA Canada	WTO MFN Status
Duty-Free access to the Single Market for Goods	TBC	Yes	Yes	Yes	Yes	Yes	No
Duty-Free access to the Single Market for Services	TBC	Yes	Yes	Some	No	Limited	No
Free movement of capital	TBC	Some	Some	Some	No	No	No
Free movement of people	No	Yes	Yes	Largely	No	No	No
Acceptance of Single Market Rules	Some	Yes	Yes	Some	Some	No	No
Input to Single Market Rulemaking	No	Yes	No	No	No	No	No
Preserves GFA Commitments on Northern Ireland	TBC	Yes	No	No	Possibly	No	No
Avoids any form of border in Irish Sea	TBC	Yes	Yes	Yes	Yes	Yes	Yes
Bound by ECJ decisions	Some	Yes	Yes	Some	No	No	No
Bound by Common Commercial Policy	No	Yes	No	No	Yes	No	No
Bound by Common Agricultural Policy	No	Yes	No	No	No	No	No
Contribution to EU Budget	TBC	Yes	Yes	Yes	No	No	No
Participation in Regulatory Agencies	TBC	Yes	Yes	Yes	Some	Some	No
Member of the EU VAT area	No	Yes	Yes	Yes	No	No	No

3. The Impact of Uncertainty

Uncertainty Has Increased Though Business Had Expected it to Reduce

Two and a half years after the 2016 Referendum, we found our respondents increasingly concerned about the prolonged uncertainties arising from the Brexit process, which many noted had already begun to affect their businesses. Firms detailed numerous gaps in knowledge about the future policy and regulatory environment that could have important effects on their operations.

The majority of respondents talked of increasing nervousness as the 29 March 2019 deadline approaches ever-closer:

Alicia Navarro, Skimlinks - a data company specialising in marketing solutions for publishers, merchants and agencies, based in London

“There’s a lot of confusion and uncertainty which is one of the worst things, as it becomes more likely that a bad outcome might result.”

Isaac Occhipinti, Engineering and Utilities Alliance – the trade association for the energy industry, that helps shape the future policy direction within the energy sector

“Firms experience a growing discomfort with where everything is headed when things are clouded in uncertainty.”

Johnnie Ball, Fluidly - a fintech company providing automated cash flow analysis and forecast generation using machine learning, based in London

“We’re possibly more worried than previously, because Brexit is imminent. I was more annoyed before, but it wasn’t going to impact us immediately, but now it is.”

That said, a small number of business leaders expressed the view that their sector or business had got used to dealing with the ever-present uncertainty:

David Spinks, Ladbrook Manufacturing - a metal engineering business, based in North Walsham

“[The outcome is] no more or no less uncertain than before.”

Lorenz Fischer, Founder within Zinc Mission 2 program - a VC funding new commercial tech companies that tackle the biggest social challenges, based in London

“[Our] feelings are broadly the same.”

Failures of the Negotiating Process are Largely Responsible for Uncertainty

In discussing the drivers of the uncertainties confronting British businesses, the majority of business leaders we spoke to pointed to three failures on the part of the Government and its negotiating approach.

1. A failure to narrow the range of possible options for a future relationship with the EU

Businesses had expected to know much more about the shape of the deal by this stage of the negotiations, and there was a notable sense of frustration that now - some two and a half years after the Referendum - there remains an absence of hard detail on how long the UK will be in a customs union, or subject to single market rules that they can use for planning and to inform investment decisions. This lack of clarity has not been resolved by the DWA/DPD.

Tim Hames, British Venture Capital Association - the industry body and public policy advocate for private equity and venture capital industry in the UK, based in London

"[Members are] frustrated, as they assumed the range of uncertainty would have narrowed by now"

Freelancer / Partner in an Animation Company - based in London

"I do not think the proposed deal answers my concerns about Brexit at all."

2. A failure to resolve specific issues essential to a wide range of industries

Business leaders across a variety of sectors feel that the Government has not made enough progress on specific issues they consider essential for their businesses. The lack of certainty on such sector-specific issues has impacted their ability to make investments or plan effectively.

Katie Doherty, International Meat Traders Association - representatives of meat importers, exporters and wholesalers, based in London

"Particularly in terms of tariff policy, it is impossible for companies to make contracts beyond 29 March 2019. In a sector with exceedingly tight margins a potential duty differential of either zero as it is now for EU imports or 62% for beef if WTO tariffs were faced it is impossible to price for in contracts."

Barrie Deas, National Federation of Fishermen's Organisations – the National Federation for fishing industry

"The stated intention is to complete the UK/EU fisheries agreement by July 2020, to allow the UK to negotiate as an independent coastal state for arrangements in 2019, after the conclusion of the 21-month transition period. Any delay after that would raise concerns."

The nature of such issues varies by sector. In the financial sector, one specific concern is the continuity of outstanding cross-border financial contracts. Manufacturing businesses expressed repeated concerns about tariff and non-tariff barriers, given their reliance on "just in time" delivery and supply models. In publishing, the future of copyright policy is essential to the industry; yet there has been no satisfactory clarity provided by the Government about this will work in the future.

Catherine Mc Guinness, City of London Corporation - the governing body of the City of London

“We have real concerns about the cleared derivatives space. There could be a real problem because the clearing houses may lack the permission to clear derivatives where there is a cross border position.”

Ian Cranshaw, Chemical Industries Association - a trade association representing the chemical and pharmaceutical industry, based in London

“The biggest concern are any potential non-tariff barriers. It is not just the auto sector that do just-in-time delivery - it is all of manufacturing industry. We have to be confident we can delivering imports and exports as 60% of our exports are to the EU and 75% of our raw materials come from the EU.”

Herwig Vennekens, Haribo - a German confectionery company with its UK headquarters in Pontefract, Castleford

“As a food company, we can't keep endless stocks, so we rely on timing for delivery, so customs checks would have a significant impact on how we operate.”

Will Atkinson, Atlantic Books - an independent British publishing house, based in London

“It depends if we do stay. Under European auspices of international exhaustion of copyright, when you sell something once, it's still yours. Whereas national exhaustion means once it's sold to one country, they can sell on to the rest of the world. So it's been very good for us being part of the EU and having international exhaustion rather than national exhaustion. That's very important to us. If the Government go for national exhaustion of rights, then they can buy cheap pills from India for the NHS but it will mean we won't be protected. Government haven't decided on that but it's freaking us all out.”

However, in some areas, the businesses we interviewed feel that the Government had done enough to mitigate concerns about the future, having made specific announcements that gave them at least a semblance of more clarity and direction, even if questions still remain. This was most obvious in responses from the fishing industry. There were also a very small minority of SME respondents who operated in sectors where the regulations were largely unconnected to EU membership.

Barrie Deas, National Federation of Fishermen's Organisations

“[The] Government's white paper has solidified and reinforced the impression that the UK will outside the CFP as an independent coastal state and there will be new arrangements. Yes, there remain concerns in parts of our industry about the market dimensions but these focus more on the potential short-term impact on non-tariff barriers than on tariffs per se. But on the rights side, our perception is that the political alignments, the Government's position and public feeling – that fishing is very high up the list of priorities.”

Jacob Hayler, Environmental Services Association - the trade association for companies providing waste management and related environmental services

“We are sanguine as DEFRA has committed to matching EU policy for waste industry in medium term.”

David Holland, Carpmaels and Ransford - specialist patent law firm based in London

“Specifically, membership of the European Patent Office (EPO) cannot be affected by any Brexit-related scenarios, as it is a non-EU organisation that already has a number of non-EU members (as confirmed by the EPO here).”

However, these were the exceptions. In most cases where the Government had made clear the policy position, the vast majority of the businesses we talked to were unhappy with the direction of travel. Most striking was the dissatisfaction businesses expressed with migration policy proposals following the MAC Report and Recommendations. A large number of businesses told us that this was their number one issue. Uncertainty and concern over their access to skilled and unskilled labour, and challenges in being able to attract and retain key talent, were already having an impact on their businesses.

Martin Darbyshire, Tangerine - a design consultancy based in London

“Migration is still the most important issue for us and I am particular worried about our talent after Brexit. We have many employees from overseas from both from inside and outside the EU. The draconian policy for non-EU citizens affects our business for the worse – extending this to EU citizens will make things harder.”

Kim Conchie, Cornwall Chamber of Commerce - chamber of commerce for Cornwall, based in Redruth

“Our first worry is access to people.”

Nicholas Northam, Interstate Hotels - UK division of an international hotel management company, based in Birmingham

“Employees are critical. We outsource a lot of our housekeeping. Specialist companies provide those services and labour. I heard for the first time that they’re now having to buy houses to be able to encourage people to come over, as it’s so difficult to recruit staff. People are no longer willing to come over and work. Prices are therefore going up due to the labour shortage and the need to pay people more.”

3. A failure to engage with businesses and their trade associations to understand their views and industry needs.

The vast majority of businesses we spoke to feel ignored or unrepresented, and have lost faith that their views are informing the Government's position in the negotiations - either directly or through their trade associations. This frustration manifested itself in: concerns around the "secretive nature" of the negotiations (at least until the draft agreements were published); a sense that Westminster was not responsive to the priorities of the regions; and a perception that economic and business considerations had taken a distant back seat to political priorities. Such criticism echoes a recent report by the Institute for Government, which found that "those outside government with a legitimate reason to be kept informed, such as Parliament and business, are being kept in the dark".⁷

Professor Fitt, Oxford Brookes University – a university, based in Oxfordshire

"It is very hard to have a Brexit plan because there is no information!"

Ed Daley, Munro Instruments - business specialising in meteorological equipment, air sampling equipment and forensic instruments, based in Harlow

"The way the Government has gone about negotiating has been problematic for businesses because they seem to be very secretive, which for businesses creates uncertainty and panic."

Peter Moody, St Austell Printing Company - a printing company, based in St Austell

"How could you tell what is going on? There is not enough feedback as it is a secret negotiation."

There were a significant number of respondents who actively feel that their industries had not been listened to by the Government and, as a result, that their concerns had not been taken into account. This was particularly the case for companies in the service sector, and those in "fragmented" industries with a large number of small players, who feel they have no effective national voice. Some business leaders indicated that they thought that those in more politically sensitive industries had been given precedence.

Some also commented on a disconnect between the responsiveness of officials, who would typically try to be helpful, versus political decision makers.

Nicholas Northam, Interstate Hotels

"The Government is certainly not listening to the demands of our industry."

Tom Shutes, Wakefield Ltd - Property Developers, based in London

"There's been basically no convening of business for the purposes of checking the deal, they just haven't properly conferred with most people outside a very small group of leaders of industry"

⁷ Institute for Government, [Preparing Brexit: How ready is Whitehall?](#), 10 June 2018

Rob Driscoll, Electrical Contractors Association – the trade association for organisations involved in electrotechnical and engineering services

“Neither the ECA nor our members feel like we’re being listened to. At the outset the Government clearly set out that Brexit negotiations would be difficult and consultation could not necessarily take place at every stage of the negotiating process. We have consistently tried to make our residual concerns regarding availability of project finance, goods and skills, clear to Government.”

Marc Bailey, Business and General Aviation Association – the trade body representing companies operating and trading in the general and business aviation industry, based in Aylesbury

“The major decisions are all being taken for political reasons and aviation is not even a poker chip on the table”

Freelancer / Partner in an Animation Company

“The needs of my sector are poorly understood by the Government.”

Stephen Howarth, Agricultural Engineers Association – the trade association representing agricultural engineers, based in Peterborough

“We’ve had good engagement with officials, though this has been better with DEFRA and BEIS; it has been hard to get through to DexEU. Our DIT engagement is improving. Yet we haven’t necessarily seen that feeding through to ministers. Agriculture is at risk of getting sold down the river in the interests of cheap food.”

While many businesses said they had drawn on the work of their trade associations, or chambers of commerce, we did encounter at least one company that feels their own trade association is insufficiently pro-Brexit.

Simon Boyd, Reid Steel - a steel construction company, based in Christchurch

“We’re leaving our Trade Association - they haven’t listened. The CBI simply reflects the view of big business. It’s difficult as an SME to get your voice heard. Government hasn’t listened. But some ministers have listened. But this tends to be people who are more leave orientated.”

Chambers of commerce outside of London are consistently critical of the Government’s responsiveness to regional needs;

Tom Riordan, Leeds City Council – the local authority for the City of Leeds

“Whitehall doesn’t always understand geography well and include it in their considerations.”

Kim Conchie, Cornwall Chamber of Commerce

“Cornwall doesn’t feature in the negotiators thoughts at all. The truth is that the EU has been a better mechanism for getting funds from wealthy parts of the UK, than the domestic Government itself.”

Yet some industry associations feel that the Government had been responsive to at least some degree to the concerns of their business and sectors. These more positive responses tended to be from strategically critical manufacturing sectors with major flagship employers, such as defence, or obviously politically sensitive sectors, such as fishing.

Barrie Deas, National Federation of Fishermen’s Organisations

“Yes, there remain great concerns about the market dimensions. But on the rights side, our perception is that the political alignments and the Government’s position indicate that fishing is high up the list of priority.”

Ian Cranshaw, Chemical Industries Association

“In fairness to the Government, from our engagement with DexEU, DEFRA, BEIS, the Environment Agency and HSA, it is clear they do understand what industry need and what the issues are”

Jeegar Kakkad, Aerospace, Defence and Security Group – the trade organisation for companies in the UK aerospace, defence, security and space sectors, based in London

“We have had meetings with some departments with officials to talk through these issues. BEIS had been tasked to set up sector panels, we have one for aerospace and defence. I am confident we have been able to express all these issues at highest level of government.”

Those we spoke to also expressed frustration that the Government and political leaders had been so consumed by the Brexit that there was no bandwidth to press ahead with other urgent priorities. Recent research from the Institute for Government confirms that Brexit has consumed an enormous amount of Government and Parliamentary time.⁸ For example, the EU Withdrawal Act took nearly a year and more than 273 hours of debate to become law – almost four times as long as the second-most debated piece of legislation.

Sarah Weir, The Design Council - an independent national charity and the Government’s advisor on design, based in London

“There is little sign of anything happening unless it is directly related to Brexit: Everyone so heads down on what’s happening right now. We need to look past this into the post Brexit period. Design is part of the post-Brexit solution and we should be focused on showing the value of design to the economy now - otherwise we will be catapulted into that post Brexit landscape without enough planning”

⁸ Institute for Government, [Parliamentary Monitor 2018](#), 3 September 2018

Uncertainty is Already Having a Negative Impact on Business

Many businesses confirmed that the persistent uncertainty was already creating problems for their companies, including reduced investment and weaker consumer demand. This impact was noted across a range of industries, including those in heavy manufacturing, which had seen specific major investments delayed. Firms also reported that previously accessible sources of European funding had dried up.

Nick Revell, Ledwood Mechanical Engineering - engineering services and project management and firm for the oil and gas sector, based in Pembrokeshire

“Some of the projects that were pencilled in and had design consent are on hold (not cancelled), thanks to Brexit: That may impact members of the supply chain.”

Andrew Osborne, Osborne Construction and Contractors - a construction firm, based in Reigate

“The biggest risk to our business remains the current uncertainty and the potential damage to the economy. We have commercial clients who have deferred investment in the UK and are looking at moving funds overseas.”

Professor Fitt, Oxford Brookes University

“We are already seeing an impact from Brexit because we have seen number of EU student applications go down a lot for us and across the sector”

Alicia Navarro, Skimlinks

“I’ve heard from some VCs that used to rely on European funding that it has massively onerous terms, or dried up. It’s having an impact on the companies and the ability to get funded, and fuelling massive nervousness.”

In some cases, businesses have been forced to take measures to stockpile essential materials given the uncertainty over future terms of trade and the risk of a “No Deal” outcome. This appears particularly the case for those that rely on just in time models of delivery, and immediate access to materials. The Government itself, in one of its technical notices on preparing for a “No Deal”, suggested it may be prudent for some firms to investigate engaging a customs broker, freight forwarder or logistics provider to mitigate any new customs checks.

Peter Moody, St Austell Printing Company

“We’re starting to stockpile as the biggest worry is our ability to get supplies through”

In some cases, we heard real concern that firms in other countries had moved to take advantage of the uncertainties surrounding British business, particularly in fast-moving service sectors, such as design and animation. Some expressed anxiety that as the rest of the world had moved on, Britain was falling behind.

Sarah Weir, The Design Council

“Construction industry: there is evidence already that some councils, developers or people with land are holding back on developments, which we think is because of the current uncertainty on Brexit. The longer we go on with uncertainty, the longer the investment delay. The Aerospace sector is also concerned, as other parts of the world are moving ahead with designing the next generation of aircraft, while the Brexit uncertainty is slowing things down for the UK.”

Freelancer / Partner in an Animation Company

“Senior people reluctant to move to London now - uncertain of their status. We are already seeing competitors in Berlin/Spain seeing this as an opportunity - and real boost to their business. “

The impact of exchange rate fluctuations, thanks to the uncertainty, has also caused issues for industries heavily exposed to foreign exchange risks. Given the devaluation of sterling, some domestic manufacturers had benefited. In other cases, foreign competitors have taken the opportunity to acquire UK assets more cheaply, or foreign suppliers has raised prices.

John Thorpe, Millennia Computer Services – a cloud-enabled hosting provider and platform, based in Yorkshire

“It’s the uncertainty causing damage to the economy, and those in charge still haven’t really made any plans. The change in the exchange rate has allowed firms like Microsoft to put prices up more than they should have. They’ve blamed Brexit even though the numbers don’t actually add up. We haven’t put our prices up to our customers - we’ve just had to absorb increases in our costs. A lot of problems from the exchange rate is due to the instability of people not knowing.”

Christopher Nieper, David Nieper - a clothes manufacturer as well as online and mail order retailer, based in Derbyshire

“Something major has changed since the referendum – GBP is around 10% more competitive against the EUR and this has made a significant difference. It’s made British manufacturing more attractive and offshore manufacturing less attractive”

Tom Shutes, Wakefield Ltd

“All the uncertainty means that US billionaires are taking advantage of the fall in the pound to pick up UK real estate. It’s like Rockefeller during the depression”

Many business leaders across a wide range of industries emphasise that uncertainty about future immigration arrangements is already having a negative impact, with some firms experiencing skills and labour shortages, particularly outside London.

Nicholas Northam, Interstate Hotels

“A lack of availability of labour is a day-to-day issue we are seeing. The roles we must fill in hotels - on reception, in cleaning services and at the bar - are becoming very difficult to recruit for.”

Kim Conchie, Cornwall Chamber of Commerce

“Our quarterly economic survey showed us firms are struggling to recruit. When they can't get staff, businesses are closing. We have seen restaurants that are not opening from Monday to Wednesday because they can't get the staff, vegetables that remain unpicked in the field and care organisations stretching staff to breaking point because they can't get enough people.”

Sarah Weir, The Design Council

“Concerns about a lack of labour is pretty high. People working in design certainly come from across Europe. The numbers coming here are already dropping and we are therefore not necessarily getting the best talent coming to the UK.”

Many SMEs Lack the Capacity to Conduct Detailed Scenario Planning

One particularly striking (if perhaps unsurprising) finding from our interviews was the sense of powerlessness expressed by the majority of respondents. Both businesses and their trade associations remarked that SMEs simply do not have the capacity to study the details of the different Brexit options, let alone conduct detailed contingency planning, or comprehensive assessments on how potential deals would affect their business. Indeed, many remarked that, in the absence of any certainty or ability to influence the outcomes, they just had to “get on with the day job”. And unlike multinationals, SMEs do not have the ability or capacity to move operations, staff or investments abroad.

Ed Daley, Munro Instruments

“We haven't spent much time worrying about Brexit over the past two years. One reason is resources - we don't have the manpower to form a committee or come up with contingency plans. We cannot move our operations abroad because all our people and capital are in the UK. Another reasons is that there is so much uncertainty that we don't know what we are responding too. Perhaps the main explanation is that we are so occupied with surviving and managing all our other challenges we don't have time to think about Brexit.

Will Atkinson, Atlantic Books

“We'll have to be quicker to react if and when things happen but, for businesses of my size spending huge amounts of management time working out every scenario, we're simply not doing it. We have to wait and see.”

Nick Revell, Ledwood Mechanical Engineering

“We need to “get over it”, get on with it, get it behind us and move on...See what happens and take what comes our way”

Trade associations and business groups across a number of sectors expressed concern that the lack of contingency planning, particularly around “No Deal”, left many SMEs quite exposed. Some indicated that they had proactively gone to their membership to encourage them to kick-start their planning process.

Ian Cranshaw, Chemical Industries Association

“Many Companies find it hard to model with such uncertainties - they are busy doing their job. Our SMEs often don’t have the opportunity to transplant themselves; their operations are in the UK, they can’t model or make detailed contingency plans. They have to sit tight, and then react and comply. Not much they can do except wait.”

Rob Driscoll, Electrical Contractors Association

“There are 280,000 businesses in the sector, 99% of which are SMEs. Some of those businesses may not have bandwidth to assess how each future scenario would affect their operating and delivery model. We’re now encouraging businesses to do a risk analysis on the contracts they are entering which will span both sides of the Brexit period and the risk to their goods/labour/services etc and where they come from and how they would source these during the negotiations or after Brexit.”

Other respondents explained how they had been asked by their major multinational clients to carry out analyses of their vulnerability to different Brexit scenarios. For some SMEs, the pressure is clearly on to demonstrate that they have modelled scenarios to be able to continue trading, in the event of any of the potential outcomes becoming a reality.

Adam Hooper, Martin’s Rubber Company – a rubber manufacturer who specialise in the production and supply of elastomeric products, based in Southampton

“We still can’t make any sensible plans. We’ve had to do a number of surveys with global multi-nationals on our compliance and plans. While we can do some defensive stock holdings but that may be an overreaction”

Peter Moody, St Austell Printing Company

“Our clients have asked us what we will do if there is “No Deal”. What are our contingency plans? ... Everyone has left it to the last 6 months.”

Yet some companies, particularly those with a focus on trade with countries outside the EU, have used this opportunity to undertake more vigorous analysis of new opportunities in such markets.

Simon Boyd, Reid Steel

“After the referendum- we put into place plans for a post-Brexit trading arrangements - and went public with biggest ever investment on new state of the art manufacturing facility. This positioned the businesses to take advantage of increase in trade outside the EU.”

Conclusion: Both Remainers and Leavers Believe Government Mishandling of Negotiations Has Created Harmful Uncertainty

The prolonged uncertainties arising from the Brexit process are having an increasing impact on British businesses. Our interviews suggest this uncertainty derives primarily from three failures: the failure to narrow the range of possible options for a future relationship with the EU; the failure to resolve specific issues essential to a wide range of industries; and the failure to engage with businesses and their trade associations to understand their views and industry needs.

These uncertainties have already translated into problems for their companies, for example dampening investment and consumer demand. Moreover, these failures underpin widespread dissatisfaction with how the Government has conducted the Brexit negotiations. That dissatisfaction is shared by those who are both in favour of and opposed to Brexit -the vast majority of the firms we interviewed now believe that, at least from a business perspective, UK will be in a worse position following the UK's departure from the EU.

4. There is Consensus that “No Deal” Would Be Extremely Damaging

Almost all of the businesses we interviewed have “No Deal” front of mind. The majority mentioned their fear of “No Deal” even before we raised it. This is in stark contrast to the prior rounds of interviews, where businesses very rarely mentioned “No Deal” as a prospect or concern. Indeed, in these earlier interviews “No Deal” was typically not even mentioned.

Most Businesses Have Major Sector-Specific Policy, Legal and Regulatory Concerns

Businesses expressed numerous concerns about a “No Deal” scenario, ranging from structural issues, such as tariffs, to immediate challenges, such as authorisations and contract continuity. We heard from many firms across a number of key sectors that losing EU authorisations would mean an immediate hard stop for business-critical cross-border activities.

Katie Doherty, International Meat Traders Association

“In the event of “No Deal”, UK meat exports to the EU would stop dead as we would not have approval as a third country to export to the EU.”

Jacob Hayler, Environmental Services Association

“3.5 million tonnes of rubbish is currently shipped to the EU to be used as a fuel. Special notifications are required and may need to be recompleted. There could be delays at ports. There is little landfill capacity in SE England, so we would have to truck it to the North.”

Nick Von Westenholz, National Farmers Union - the union for British farmers, based in London

“Exports could stop. For example, we have big concerns about our ability to export animal products into the EU as we won't have authorisation as a third country.”

Respondents have similar concerns regarding contract continuity. In the financial sector, these concerns are consistent with the threats to financial stability outlined by the Bank of England.⁹

Catherine McGuinness, City of London Corporation

“A major concern is contract continuity, especially in relation to insurance contracts and non-cleared derivatives. We worry people won't be able to continue to perform under these contracts. This would have widespread consequences. UK pensioners living in Spain may be unable to access their bank accounts, while factory owners may not be able to receive an insurance pay out if their factory burns down.”

⁹ Bank of England, [‘Financial Stability Report’](#), June 2018, p.8

Ian Cranshaw, Chemical Industries Association

“No Deal would be quite difficult. Contracts now have clauses that if tariffs are introduced or delays are introduced then force majeure can be called to reassess!”

Concerns about the continuation of cross-border data flows are common to a number of sectors.

Catherine McGuinness, City of London Corporation

“We are particularly worried about cross border data flows and whether they would be allowed following a crash out.”

John McVay, The Producers Alliance for Cinema and Television – the trade association for UK independent television, film, digital, children’s and animation media companies

“Data may be a problem but it isn’t such a big problem for us as perhaps games companies.”

Consistent with UK businesses’ emphasis on the imperative to maintain frictionless trade, particularly in manufacturing, many respondents remain very concerned with the logistical impact of sudden trade restrictions:

Isaac Occhipinti, Engineering and Utilities Alliance

“Approximately 50% of total units are boilers manufactured in the UK - of that, 60-70% have components from the EU. These components are very cost sensitive as they are sourcing from single suppliers as pan-European, and the components can’t be found in the UK.”

Stephen Howarth, Agricultural Engineers Association

"In a “No Deal” scenario, we’d expect a specific agreement will be struck on haulage and logistical issues, but there could be a few months of chaos before that happens. People are stockpiling inventory to deal with the issue, or bringing forward export orders for the UK market to get them into the country before the end of March.”

Businesses are anxious about the ability to get the skills they require in the case of “No Deal”, as well as their ability to travel to win business, support clients, and manage their operations.

Johnnie Ball, Fluidly

“Not being able to hire from the EU would be a massive pain. Our business is all about helping small businesses and accountants, so if the SME sector took a massive hit that would not be good for us at all. Equally, if the economy started tearing up, that would be terrible for us.”

Lorenz Fischer, Zinc Mission 2

“It is mostly about travel restrictions, because it’s unclear if I can go and travel home to Switzerland. I assume that many other people would be in a similar situation and then they would either decide not to come here or to leave. So it’s not really a good option.”

In Addition to Short-Run Disruption, Most Respondents Worry About the Long-Run Impact of Moving to WTO Terms

While most discussion of the impact of “No Deal” was focused on the potential for immediate disruption, some respondents emphasised the longer term impact on their sector. While a few of the firms we talked to believe that relying on WTO arrangements could constitute an adequate basis for the UK’s future trading arrangements, the vast majority of the companies we interviewed think such an outcome would do great harm to UK business.

Amongst the very small number of businesses that are sanguine about “No Deal”, one argued that holding greater inventories of components would substitute for just-in-time manufacturing processes (a perspective that seems to overlook the fact that the major benefit of just-in-time is to reduce inventories and the associated carrying costs).

John Elliott, EBAC - Designer and Manufacturer of dehumidifiers, water coolers, based in Durham

“Just in time is vital on specific production lines but is not practical between production lines. Also, component manufacturers will need a forecast from their customers to enable them to optimise their production lines and minimise their stock hold including from their suppliers. In any event, the car manufacturers will have a good handle on their own requirements for the future and the implication that they need to choose what needs supplying a few hours before it is required is their attempt to influence British democracy.”

But nearly all the business leaders we interviewed think that relying on WTO terms would have a significant negative impact on their current and potential future trading relationships with the EU.

Hedwig Vennekens, Haribo

“We have other European factories, so that increase in price would negatively affect the UK’s competition with those other European factories. It depends on the levels of tariff and checks.”

Ed Daley, Munro Instruments

“Sounds like it would be a bad thing for Munro resulting in increased costs as a result of tariffs and customs controls. WTO rules are less evolved and not as tailored to UK needs and interests, so there are likely to be more no-tariff barriers.”

Peter Moody, St Austell Printing Company

“Would our EU customers then print the EU stuff in Europe? I suspect that is what they will do long term. Just depends what tariffs we put in place.”

William Bain, British Retail Consortium - Trade association for the UK retail sector

“Defaulting to MFN tariffs would mean higher tariffs on imported goods, around 12% for clothing and significantly higher for foodstuffs - up to 42% for beef, and 28% on tomatoes. These would impose cost pressures that it would be difficult for retailers to contain without passing these on in terms of higher prices for consumers.”

Nick Von Westenholz, National Farmers Union

“We would face large tariffs to export to other markets and once we are members of the WTO, MFN means the UK couldn't drop tariffs just for the EU, but would have to drop them globally. Low cost competition in this scenario would start to kill the UK agricultural market.”

Consistent with our findings over the papers, the absence of frictionless trade was seen as a key downside of WTO-terms by many businesses.

Will Atkinson, Atlantic Books

“Publishing is at the end of the day a manufacturing business. We make little things every day. And we need paper, which comes from Sweden on trucks mainly. If the ports get snarled up, then we'll have no paper. The printer will also charge us for extra costs of transport if lorries are waiting for 24 hours at Calais. We've already had a 7% increase on currencies, which is partly due to the change in exchange rate. [...] The main advantage we currently have is speed of delivery and if that's compromised the US competition would be much more real. EU is currently an open market for books where we compete.”

Isaac Occhipinti, Engineering and Utilities Alliance

“Wouldn't be able to sell in the UK as merchants also don't have warehousing, they buy on a weekly to monthly lead time. This is a hugely commercially sensitive issue but rarely discussed because it could have impacts for investors and companies don't want to undermine investor and employee security.”

Across all Sectors, Business Leaders are Concerned About the Wider Social and Macroeconomic Fall-Out from “No Deal”

Almost all the business leaders we interviewed expressed concerns about the wider social and macroeconomic impact from “No Deal”, including those not themselves directly impacted. Many expected that “No Deal” would lead to recession, mass unemployment, and currency volatility, plus potentially, social chaos. Their perceptions are consistent with the scenario analysis produced by the Bank of England, in which “No Deal” will lead to falls in GDP of 7.75 and 10.5 percent, compared with the pre-Referendum trend.¹⁰

Richard Flint, Sky Bet – a British-based gambling company, headquartered in Leeds

“Whilst it wouldn’t immediately impact our business directly, “No Deal” would have implications for life in general, with a big impact expected in areas such as medicine, food and transport. Chaos would likely follow in the short term. It would certainly affect consumer sentiment and the macroeconomy, which is worrying for Sky Bet.”

Andrew Osborne, Osborne Construction and Contractors

“This is likely to be disastrous to the economy and so would have a severe impact on our business. Businesses would reduce investment in capital projects, with the possible exception of the Government, but the Government increase is unlikely to replace the private sector decrease.”

John Thorpe, Millennia Computer Services

“I don’t think anything directly would affect us. It would all be about the economy.”

Tom Riordan, Leeds County Council

“Biggest thing could be the human reaction to any shortages, which could be like the fuel crisis and happen at some point before 29 March. Greater engagement is needed with local government to plan for all scenarios.”

Many Feel the Government Has Not Taken Adequate Steps to Prepare for “No-Deal”

Many of those we interviewed believed the Government has not done enough to prepare the country for “No Deal”. Respondents felt the Government’s lack of transparency over its approach to negotiations and their progress had obscured the true risk of “No Deal” from public view, denying businesses the required time to make robust contingency plans.

Katie Doherty, International Meat Traders Association

“The Government seems to think that notifying industry that there will be “No Deal” will be fine as long as there is time for ratification of legislation...meaning end of December. For industry it is too late already, ...it is about making contracts now.”

¹⁰ Bank of England, ‘[EU withdrawal scenarios and monetary and financial stability](#)’, November 2018

Sue Davies, Which? - UK's Largest consumer body, based in London

“No Deal” technical notices try to mitigate the impact but reinforce how without a deal, consumers are going to be impacted in many aspects of their lives... Our consumer engagement shows that many people are not aware of the complexity, but when we explain the issues, they are concerned about the seriousness of them – whether it involves travel disruption, access to consumer goods, energy or food supplies.”

This lack of information may partly explain why the risk of “No Deal” has already had an impact on investment and consumer confidence.

Tim Hames, British Venture Capital Association

“The big impact for members is that it has complicated investment choices, particularly for businesses with: 1) a labour force from EU27, especially a low skilled labour force; 2) the need to manufacture components; and 3) who are affected by short-term consumer sentiment.”

Fewer than a Tenth of Respondents are Sanguine About a “No Deal”

Only four out of the fifty respondents in this round of interviews are sanguine about the impact of “No Deal”. Typically, these are businesses that have the majority of their trade outside the EU and may benefit from a weaker currency.

Martin Darbyshire, Tangerine

“I don't think it would have a dramatic impact on us because of who we trade with.”

Christopher Nieper, David Nieper

“The likelihood is that GBP would weaken further and this would be even more advantageous for re-industrialising and re-balancing the British economy to value added jobs. Even without this the shift in GBP has already more than compensated for the tariffs we might face under WTO – therefore the Government has little to fear.”

John Mills, JML – a telesales company, based in London

“None of these outcomes would make much difference to us in trading terms because most of our supplies come from China and, in consequence, the vast majority of our trading is already on WTO terms.”

Conclusion: “No Deal” is the Worst Case Scenario for Most Businesses

Almost all businesses view “No Deal” as an extremely damaging prospect and are astounded that it remains a possibility. Respondents’ fear tariffs, border delays, the loss of mutual recognition, staff shortages and travel restrictions with severe impact for supply chains and a complete lack of clarity around many facets of businesses operations. Some fear short-term panic and societal breakdown. Only a small number of businesses – usually firms that trade primarily outside the EU who would benefit from a weaker currency – are relatively unconcerned by “No Deal”.

5. Though Better Than “No Deal”, The Government’s DWA/DPD Means Continuing Damaging Uncertainty

The Government’s DWA/DPD has been accurately described as a form of “Blind Brexit” in that it represents a process by which the UK leaves the EU into transitional arrangements without fully defining the parameters of the future relationship. In other words, the UK will leave the EU while being largely blind to the eventual outcome. With a lengthy and legally binding DWA defining the process of withdrawal from the EU and the operation of the transitional arrangements, combined with a much shorter political declaration setting the broad shape of the future relationship, but without binding either side legally and leaving much unresolved, the DWA/DPD clearly fits the description of “Blind Brexit”.

Most of our interviews were conducted in October and November 2018, before the publication of the DWA/DPD, and so respondents were asked about their thoughts on a “Blind Brexit” under which the UK left the EU into transitional arrangements without settling the parameters of the future relationship. After the DWA/DPD was published, we followed up with our respondents for any further reflections on those documents.

Almost all Respondents Prefer the Draft Withdrawal Agreement & Draft Political Declaration’s “Blind Brexit” to “No Deal”

Consistent with the position adopted by the CBI in its 14 November 2018 announcement of support of the DWA¹¹ as a way of avoiding the “nightmare precipice of “No Deal””, the vast majority of the business leaders we interviewed prefer the “Blind Brexit” offered by the DWA/DPD to a “No Deal” Brexit.

William Bain, British Retail Consortium

“Any deal which avoids a disorderly “No Deal” Brexit is better than leaving without a deal. The experiences of our members and the various economic impact assessments published by a range of bodies all reach that same inexorable conclusion.”

Johnnie Ball, Fluidly

““Blind Brexit” would be much better than “No Deal” or a cliff edge. Any kind of cliff edge option is to be avoided. Dragging on negotiations may be a bit of a pain but nowhere near as bad as a cliff edge. Uncertainty is annoying but, again, nowhere near as bad.”

Sue Davies, Which?

“The worst thing is “No Deal”. We recognise the need for a transition period to sort out these issues so this is preferable to “No Deal” to arrange cooperation and arrangements that we need.”

¹¹ CBI Statement “[Our response on progress on draft Withdrawal Agreement](#)”, 14 November 2018

Stephen Howarth, Agricultural Engineers Association

“There are lots of potential disruptions which a “No Deal” would bring and businesses have not had adequate time to prepare for them. While we would no doubt cope with them, a transition period and orderly withdrawal would be distinctly preferable, even if the final outcome is sub-optimal.”

Freelancer / Partner in an Animation Company

"I am persuaded by what I have read and heard that “No Deal” would be substantially more damaging than the proposed deal (though I think the proposed deal is itself much worse than remaining in the EU)."

Nick Von Westenholz, National Farmers Union

“This would be better than “No Deal”. It means you would have an implementation phase rather than falling off a cliff, so it’s better because even if we end up not reaching a deal, we will have time to prepare for “No Deal”.”

Peter Moody, St Austell Printing Company

“Much rather have that than “No Deal” by a million miles! We need another couple of years to sort it out. We have got to have a transition - if we don’t then that is just frigging barmy. No businessman would do it.”

Dr Laura Cohen, Ceramfed – the UK’s Ceramics Association, based in Stoke-on-Trent

“The status quo in place even for a short time after 29th March is better than a hard Brexit. However, a “Blind Brexit” is certainly not optimal - I’d certainly prefer an extension of Article 50 – but it’s better than “No Deal”.”

Andrew Osborne, Osborne Construction and Contractors

“While this would be better than “No Deal” it would prolong the uncertainty.”

“Blind Brexit” Offers Some Short-Term Certainty

Many businesses were encouraged by the certainty that “Blind Brexit” would offer for the duration of the transition period – but many acknowledged that any certainty would be short-lived, with significant issues still to be resolved.

Herwig Vennekens, Haribo

“The advantage is that it would give some certainty over the transitional period. Two years is significant to our supply chain decisions so this would be very welcome, but the uncertainty would just be delayed.”

Dr Laura Cohen, Ceramfed

“The withdrawal agreement negotiated by the Prime Minister delivers much of what we have been asking for in terms of continuity on energy and trade policy for an implementation period at least. This provides a period of much needed certainty for ceramic manufacturers.”

Jacob Hayler, Environmental Services Association

“The proposed deal would prevent short-term no-deal disruption to exports and would give us certainty over direction of travel for future policy direction.”

William Bain, British Retail Consortium

“The one advantage of “Blind Brexit” is that at least retailers will know the position until the end of 2020 or possibly until the end of 2022 if it were extended – through the withdrawal agreement and transition. This is the overwhelming priority: being able to have the additional 2 years or so of predictability now in trading conditions.”

Katie Doherty, International Meat Traders Association

“If it is secured the deal would mean the UK is treated as a member state (without the same representation in Brussels) so that, for at least the period to December 2020, it would be clear what the UK-EU trading relationship is.”

David Holland, Carpmaels and Ransford

“We’re less worried about “Blind Brexit”. The guidance from the UK Government suggests that the transitional provisions will mean that no rights are lost and the system remains essentially unchanged.”

Tim Hames, British Venture Capital Association

““Blind Brexit” would be more of a “blurred”, rather than a “blind” Brexit, as the range of uncertainty would narrow.”

Will Atkinson, Atlantic Books

“We would know what we were doing. Yes, there’d be uncertainty going forward but there would at least be some stability in that regard. It wouldn’t help investment but in terms of business as usual that would suit us as we feel we have the perfect arrangement already. It may affect the medium-term economy but we’d be ok. It’s sort of what we’re expecting. And that Brexit would then be fought out in the next General Election.”

But Continued Uncertainty About the UK’s Long-Term Future Relationship with the EU is a Significant Downside to Such a “Blind Brexit”

The DWA offers some short-term certainty during the transition period. However, the lack of certainty and clarity about the UK’s long-term future relationship with the EU provided by the DPD creates a significant downside for many businesses, as highlighted by the TUC’s recent position on “Blindfold Brexit”.¹²

¹² TUC, [Blindfold Brexit deal doesn’t guarantee jobs or rights, warns TUC](#), 15 November 2018

Herwig Vennekens, Haribo

“Certainty has been the thing we’ve wanted for the last few years. If we know what will happen, we can really shape our future and make sure we make the right decision globally and for the UK business. Everything that is an extension of the delay is only useful if it’s clear what will happen at the end of the extension, so we can prepare for it.”

Simon Boyd, Reid Steel

“It’s just more uncertainty - whichever side of the argument you’re on we need certainty. Business will adapt but it leaves lots of things up in the air. We’ve already had two years. It’s been really bad and the Government has done an appalling job. “Blind Brexit” will leave everything up in the air. It’s kicking the can down the road.”

William Bain, British Retail Consortium

“For long-term planning, it is not optimal. We can’t look ahead beyond the next few years and know with much certainty about what our trading conditions would be on the regulatory and indirect taxation side, nor what the precise rules on customs our members would have to follow in Great Britain. There is much greater certainty for retailers in Northern Ireland due to the backstop.”

Nicholas Northam, Interstate Hotels

“The issues will remain the issues - but they just become exacerbated, as people don’t know what will happen.”

John Elliott, EBAC

“I believe the proposed deal is a halfway house which may be softer in the short term but reduces the possibility of improving our medium and long term prosperity.”

John Mills, JML

“The current deal falls well short of what I hoped would be accomplished, in particular entailing the UK paying £39bn with no clear idea what this will pay for; leaving the UK as a rule taker rather than an rule maker; providing us with no clear exit from the Irish border backstop; creating internal borders within the UK – between Northern Ireland and the mainland; and leaving us under the control of the European Court of Justice.”

Ben Twist, Creative Carbon Scotland - a charity that works to embed environmental sustainability within the arts and cultural sector, based in Edinburgh

“I think this will go on and on. I would be surprised if we have a deal before five years are up (2023) or even more. I find it impossible to work out what the final outcome will be.”

Andrew Osborne, Osborne Construction and Contractors

“The proposed deal is better than I had feared, but it leaves neither Leave nor Remain side happy (which I suspect is an impossible task). There is still a high degree of uncertainty as to the final outcome.”

For some respondents this long-term uncertainty was so damaging that they would prefer the certainty of even a bad deal to “Blind Brexit”.

Stephen Howarth, Agricultural Engineers Association

“Probably the one thing that people want now is clarity and certainty. We’d rather have a less favourable deal that we know the details of than something perfect three years down the line.”

Adam Hooper, Martin’s Rubber Company

“If we just carry on with the status quo that would avert an immediate financial crisis, but it would also mean you would still not have clarity about the long-term future and that would keep compromising investment decisions around the UK, which would impact us. In a way, black and white is probably better than not.”

On the other hand, some businesses claim to be less worried about the uncertainty of “Blind Brexit”, because their industries had got used to the “certainty of uncertainty”.

Rob Driscoll, Electrical Contractors Association

“During the Brexit period so far there has only been a temporary dip in the construction market, but confidence has since come back as the industry has got used to the certainty of uncertainty. According to Government statistics only 6% of UK contractors export outside the UK, so there isn’t a huge need for certainty of exports and the market adapts to the uncertainty.”

Isaac Occhipinti, Engineering and Utilities Alliance

“The political uncertainty is something that we’ve been living with anyway so another two years wouldn’t matter that much. Companies have tried to operate as usual. The general approach is to stand back and wait to see what happens.”

Many Businesses Were Concerned that the Uncertainty Around Brexit Has Already Started to Affect Investment

Many companies expressed anxiety that investment had already been delayed or diminished by the uncertainty around the Brexit negotiations.

Herwig Vennekens, Haribo

“People’s political positions may affect their positions on this – those who want Brexit not to happen at all will want to hope that it never does – but businesses are not built on hope, they are built on business plans and strategies.”

Stephen Howarth, Agricultural Engineers Association

“Everybody’s a bit in limbo - investment decisions that are probably being delayed and people are making plans about how to operate in the future that might turn out to be wrong because their assumptions about the future aren’t right. There are things that people really start to need doing now if they’re going to be ready for the 30 March 2019.”

Kim Conchie, Cornwall Chamber of Commerce

“I fear money markets could be affected badly by a “Blind Brexit” and it could kick us into the next recession. Hopefully human resilience will overcome these bumps, but it’s not ideal. None of us know how it will turn out.”

Alicia Navarro, Skimlinks

“The situation is bad either way because of the uncertainty. Prominent venture capital funds have come close to collapse because their European funding support was pulled out or was only given on restrictive terms.”

Lorenz Fischer, Zinc Mission 2

“The disadvantage is that it prolongs the insecurity, which is not good for business. And in the world of start-ups, you need to attract venture capital investment. UK money is fine but if you’re an American investor looking at a country with uncertainty, you’d hold off on your investment. So the longer this goes on, the worse it is for investment.”

Reductions in investment would affect some SMEs directly. Others would be affected more indirectly through the supply chains they participate in, or consumer demand.

Adam Hooper, Martin’s Rubber Company

“We’ve been working hard to improve our business and have been doing work around our business agility to make sure we can respond in whatever way necessary, but I think that uncertainty has also played an effect with some of the larger UK manufacturers like automotive companies. Although we’re not an automotive supplier, they do drive the subsidiary sector which has a cascading impact on businesses like ours. Aerospace businesses are more significant for us - what will Airbus do? Macron is being active about attracting business from the UK to France. Likewise, Formula 1 seem pretty happy about staying in the UK but that could all change depending on what Brexit looks like. They have a lot of non-UK workers and needs lots of transport across borders, but they appear to be investing in the UK. I can see those businesses heading out of the UK and into Europe, which would have an impact on us.”

Martin Darbyshire, Tangerine

“My only concern is that it continues the uncertainty, so from our business perspective it probably doesn't make a huge difference but for other business it poses a big challenge. How can businesses plan for these events and what can they do? What I am hearing from the large manufacturing companies is that they are really at risk.”

Sarah Weir, The Design Council

“Prolonging the uncertainty is not a good thing. Design investment in the automotive business has already started dropping. This industry uses design intensively but when you have got this situation of an unknown or “Blind Brexit”, there is uncertainty about how fast future investment will keep coming into the UK.”

Many Respondents saw “Blind Brexit” as a Prelude to Their Least-Preferred outcome to the Negotiations

Companies that voiced significant concerns about “Blind Brexit” often highlighted their worry that this would prove to be a route to “No Deal” Brexit.

Tim Lang, City University - University based in London

“This is just wordplay. It's a version of “No Deal” and will become a power game. It means uncertainties about food prices. This will hit the poor most.”

Ben Twist, Creative Carbon Scotland

“I inherently worry it is a thin end of a wedge that would take us to a worse situation later down the line.”

Catherine McGuinness, City of London Corporation

“There is a lot of work to be done in the longer term. I am concerned that blind Brexit will lead to another cliff edge with Europe.”

Others who were supportive of Brexit saw “Blind Brexit” as opening up the possibility of no Brexit at all.

John Mills, JML

“This means more uncertainty and the likelihood that what are supposed to be temporary arrangements morph into permanent arrangements.”

John Thorpe, Millennia Computer Services

“The deal is the worst of all possible worlds, tying us to the EU as a vassal state in a Brexit in name only scenario in which we could see ourselves perpetually locked into the Northern Ireland backstop with the EU calling all the shots as we try to get out. It's worse than Remain, which I still think is the end goal, and now I'm more sure than ever as they put a deal forward so bad that even Leavers are wondering if Remain is better. It's treachery.”

Christopher Nieper, David Nieper

“The proposed deal would offer more certainty and more continuity for business in the short term, however, it’s the worst deal in history over the long term. 90% of global growth is forecast to come from outside the EU so it’s essential that Britain can position itself to trade competitively and not be tied to EU regulations without a voice and subservient to the ECJ.”

Simon Boyd, Reid Steel

“The proposed deal is a con. It will leave us trapped in the EU obliged to follow their regulatory framework and standards. It will be very bad for the UK.”

John Thorpe, Millennia Computer Services

“It’s the ‘Chequers minus minus’. We would just lose all our bargaining power but we’d still have all of the EU controls - we’d have nothing. The ultimate goal would probably be to push it to a next general election and some party to get in on a remain ticket. And the intervening years will have just cost us. It would basically just be Remain and we’d go back in with no more power - a complete disaster.”

Jeremy Tozer, Tozer Consulting - leadership and strategy execution consultants, based in Henley

“It locks us in as “paying vassals” to the EU superstate for evermore. While in theory free to negotiate trade deals, we will never strike any because we are locked into EU rules. We will continue to pay the EU and be subject to it and cannot leave without its blessing. We will be helpless, trapped, unable to compete or seize opportunities and further humiliated as a nation... The backstop straight jacket will become permanent.”

A few respondents remained more optimistic that “Blind Brexit” would in fact lead to a better final outcome to the negotiations.

Will Atkinson, Atlantic Books

““Blind Brexit” would be fine. I think the act of doing it would bash some heads together. But I think we’d then slide into a general election fought on Brexit terms.”

Ed Daley, Munro Instruments

“It sounds risky, it prolongs the uncertainty. My gut feeling is that the EU would not leave the UK totally in the lurch, maybe more time is needed to reach a deal acceptable to both parties.”

Conclusion: The Draft Agreements Avoid “No Deal”, But Create Long Term, Damaging Uncertainty

The DWA/DPD provides a process by which the UK leaves the EU into transitional arrangements without settling the parameters of the future relationship, in other words, a “Blind Brexit”. Almost all respondents preferred a “Blind Brexit” to “No Deal”, a finding consistent with the stance taken by the CBI in response to the DWA/DPD. But for many businesses, the continued uncertainty created by such a “Blind Brexit” represents a significant downside. Business voiced widespread concerns that uncertainty was already affecting investment and will likely do so even more under a protracted “Blind Brexit”. Many were concerned that “Blind Brexit” was a prelude to “No Deal”, while respondents who supported Brexit were nervous that it was a gateway to no Brexit at all.

6. Most Businesses Would Prefer a Closer Relationship with the EU than That Envisaged in the DWA/DPD

In this section, we take stock of what the SMEs we interviewed have told us in the various rounds of interviews we have conducted about their views on trade, regulation, access to skill and talents, and compare their perspectives to what is being set forward in the DWA/DPD.

The Draft Withdrawal Agreement & Draft Political Declaration Fails to Guarantee Frictionless Trade and Thus Will Likely Reduce Trade with the EU

The vast majority of the businesses we interviewed consistently expressed a strong preference for maintaining the closest possible relationship with the EU, preserving frictionless trade in goods and services as far as possible. It should therefore be no surprise that for many businesses, the top priority in assessing the DWA/DPD is whether the Government's proposals deliver such a close and frictionless relationship.

Andrew Osborne, Osborne Construction and Contractors

"If trade is frictionless, fine, because of its importance to the overall economy.

Martin Darbyshire, Tangerine

"Frictionless trade seems so fundamental we really can't let that go"

Herwig Vennekens, Haribo

"The biggest issue hasn't changed – it's still the same question about departing from frictionless trade for raw materials and finished products"

Sue Davies, Which?

"For food and consumer goods, the introduction of customs controls and border checks could result in severe disruptions at borders because of a lack of capacity and experience in doing this."

Katie Doherty, International Meat Traders Association

"The political declaration is extremely vague but positive in that it aims to avoid tariffs or quantitative restrictions across all sectors."

Jeegar Kakkad, Aerospace, Defence and Security Trade Association

"Issues we are worried about remain the same: ensuring trade is frictionless, minimum customs checks at border."

William Bain, British Retail Consortium

"We strongly welcome the commitment to zero-tariff trade in goods. However the outline end status relationship provides no guarantee of avoiding significant new non-tariff barriers on traded goods."

Given the UK is the 2nd largest exporter of services in the world, the impact of Brexit on UK services has received remarkably little attention, relative to trade in goods, or agriculture and fishing. Firms we interviewed in the service sectors highlighted harmonised standards and regulation, and mutual recognition of credentials as crucial components underpinning the UK's export success.

Kim Conchie, Cornwall Chamber of Commerce

"If we lost the key freedoms to provide cross border services, it would be disastrous for Cornwall. People haven't contemplated the potential impact of this yet."

Martin Darbyshire, Tangerine

"I really struggle to think of an advantage of having no agreement on services"

The DPD does espouse the sentiment that the trading relationship should be close, at least for trade in goods, setting out that "the parties envisage having a trading relationship on goods that is as close as possible, with a view to facilitating the ease of legitimate trade", with an economic partnership that should include "no tariffs".¹³

However, businesses recognise that commitments and aspirations in the DPA fall far short of participation in the Single Market and Customs Union, despite Government promises to "do everything we can to avoid friction at the border". On the one hand, the DPD envisages "having a trading relationship on goods that is as close as possible, with a view to facilitating the ease of legitimate trade."¹⁴ Yet at the same time the DPD stresses "the Parties will form separate markets and distinct legal orders"¹⁵ and concedes that "Moving goods across borders can pose risks to the integrity and proper functioning of these markets, which are managed through customs procedures and checks."¹⁶

The DPD accepts that there will future deviation on services regulation and standards between the UK and the EU, but does not guarantee mutual recognition of professional qualifications, nor promise freedom of establishment or prohibition of discriminatory or unfair treatment of foreign companies participating in a local market.

The Threats posed by Draft Withdrawal Agreement & Draft Political Declaration to Non-EU Trade Are Greater than the Opportunities It Creates

As in the previous round of interviews, most of our interviewees emphasised the overwhelming importance of trade with the EU and of continued participation in existing EU trade deals with third countries as opposed to opening up deals with new countries. This is not surprising, since around 60% of UK exports go to the Single Market or countries with which the UK already has FTAs through the EU.¹⁷ To the extent that respondents commented on No-EU trade at all, they tended to focus on the threats to existing arrangements.

¹³ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 23

¹⁴ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 20

¹⁵ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 21

¹⁶ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 21

¹⁷ Office for National Statistics, [UK Balance of Payments, The Pink Book: 2018](#), 31 July 2018

Responses from previous rounds of interviews, detailed in Brexit papers two and three, demonstrate the importance of such existing arrangements.

Laura Cohen, Ceramfed (*Paper Two*)

“The UK is benefitting from the EU’s recent trade deals with countries such as South Korea and Canada – we’re already seeing the effects. Exports to South Korea have risen enormously since the trade deal came in, and it is now the 3rd largest export market after the EU and USA. The Japanese FTA is also going to be completed in the next year or so – that’s the fourth largest export market for Ceramics.”

Nikhil Datta, Centre for Economic Performance – London School of Economics (*Paper Three*)

“A US-UK FTA will in no way make up the economic losses from Brexit”

Tony Walker, Toyota Motor Europe - manufactures and sells Toyota and Lexus vehicles, parts, and accessories. Toyota has two UK manufacturing operations in the UK based in Deeside and Burnaston (*Paper Three*)

“The EU already has a trade arrangement with the US for a tariff on cars. It’s 2.5%. So, it could be difficult for the UK to get a better deal than the EU has already got. It may not be so realistic to get anything radically much better in the UK.”

Many companies are only beginning to recognise that while the DWA maintains the UK’s relationship with the EU during the transition period, and - through treating the UK as if it were still a member of the EU - preserves the UK’s position as a member of the Customs Union, this arrangement cannot be assumed to be binding on third parties. For UK companies to continue to take advantage of EU trade deals with third parties after 29 March 2019, it will require the UK to renegotiate existing trade agreements with over 40 countries that have deals with the EU to get them to accept this transition arrangement. Some trading partners have already indicated that it should not be assumed that they will automatically roll over existing arrangements, including the UK as if it were a member of the EU even if it has left. Some for example, may look to redefine rules of origin requirements to exclude the EU from the definition of UK ‘domestic production’, which would exclude many UK businesses from the benefits of the free trade deal altogether.

Looking beyond the transition period, the DPD leaves much unresolved about how the UK will determine trading relationships with the rest of the world. While the aspiration is the “development of [the UK’s] independent trade policy”¹⁸ the real scope for this will be determined by the ultimate definition of the overall trading and regulatory relationship with the EU. Moreover, the more freedom the UK secures to strike trade deals with the rest of the world, the more the Northern Ireland “backstop” will pose a challenge.

¹⁸ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 4

The Draft Political Declaration Leaves Much of the Future Regulatory Relationship Undefined

Throughout our rounds of interviews, the vast majority of the business leaders we spoke to expressed broad satisfaction with EU regulation, their desire for continued harmonization or alignment with EU regulations, and engagement in EU regulatory agencies, as well as their concerns about the additional burden of having to comply with UK regulations alongside EU regulations. Many also articulated concerns about the implications of the UK become an explicit or de facto rule-taker in industries where the UK was particularly strong, or where UK companies had particular needs. The overwhelming view from our previous interviews was the anxiety that Brexit would lead to more regulation.

Stephen Howarth, Agricultural Engineers Association

“Issues arising from regulatory divergence could become a big challenge for our members. It’s the technical standards that our businesses work to that are of most concern, if there’s some divergence or a lack of mutual recognition of standards we have a problem.”

Barrie Deas, National Federation of Fishermen’s Organisations

“Transition arrangements are a bit odd for fishing because we remain in the CFP subject to all the rules, but not in the decision-making fora – including the autumn negotiations when quotas are set. We will be “consulted” and we will be part of the EU delegation – in discussions with third countries like Europe – about how the transition would work.”

Catherine McGuinness, City of London Corporation

“Enhancing equivalence will be tricky. EU has shown no history of seeking to improve its equivalence regime.”

For many British businesses, the EU regulatory agencies that develop and administer EU regulations are as important, or more important, than the regulations themselves. Many businesses therefore expressed the view that the UK should seek to continue to be a member of the key regulatory agencies after Brexit.

Ian Cranshaw, Chemical Industries Association

“Membership of ECHA is critical. We produced a paper on how the UK is a massive contributor in the agency, with more than 6,000 registrations of chemical products.”

Jeegar Kakkad, Aerospace, Defence and Security Trade Association (*Paper Two*)

“The European Aviation Safety Agency (“EASA”) plays a critical role for the British aviation sector. If the UK leaves EASA, the UK Civil Aviation Authority (“CAA”) would need to take on the role. It could take 10 years for the CAA to develop in full the expertise to execute the role at a significantly higher cost to the UK taxpayer.”

The DPD leaves much of the future regulatory relationship undefined. To the extent that that the DPD is clear, the indications are that businesses will face much more regulatory divergence and duplication than they want.

For example, the DPD states that “while preserving regulatory autonomy, the Parties will put in place provisions to promote regulatory approaches that are transparent, efficient, promote avoidance of unnecessary barriers to trade in goods and are compatible to the extent possible.”¹⁹ Furthermore, it is clear from the DPD that the UK will not receive mutual recognition of goods standards. The DWA/DPD does nothing to dispel the concern that Brexit will lead to more regulation, not streamlined regulation.

And the ambition to remain a part of key agencies has proved almost impossible to reconcile with the Government’s desire to avoid ECJ jurisdiction, since this proves the legal framework under which the agencies operate. Indeed, the ‘Chequers’ proposal suggests the UK only attempted to join a small number of the 35 EU regulatory agencies, notably the European Medicines Agency (‘EMA’), the European Chemicals Agency (‘ECHA’), the European Aviation Safety Agency (‘EASA’), Eurojust and Europol.²⁰ The DPD falls significantly short of business aspirations in this respect: it does not confirm UK membership of even these agencies, merely promising to “explore the possibility of cooperation of United Kingdom authorities with Union agencies.”²¹

The Draft Withdrawal Agreement & Draft Political Declaration Will Create Skills-Shortages

Throughout all our interviews on Brexit, ensuring continued access to EU labour has been consistently been raised as the single most important aspect of Brexit to most businesses across most sectors. Businesses are desperate to see an immigration framework that enables British companies to continue access skilled, unskilled and seasonal EU labour in a flexible and cost-effective manner. Specific concerns include speed, since many UK businesses require the rapid assembly of a team to a tight timeframe; the impact on stringent salary or qualification criteria; and the incremental costs and bureaucracy of navigating immigration procedures. Many of the business we spoke to reported that concerns about Brexit were already having an impact on their ability to recruit or retain critical skills.

Lorenz Fischer, Zinc Mission 2

“We are worried about fewer exchange students coming to the UK”

John McVay, The Producers Alliance for Cinema and Television

“Our main concern is protecting easy and affordable access to global talent by a reformed visa system.”

¹⁹ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 24

²⁰ UK Government, [The Future Relationship between the United Kingdom and the European Union](#), July 2018

²¹ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 24

Nick Von Westenholz, National Farmers Union

“If we crash out and freedom of movement ends, there will be a big question over where labour in 2019 will come from, [...] the seasonal workers scheme is not enough”

Tim Lang, City University

“Migrant labour props up the food industry – there has been nothing done to deal with this issue, [...] seasonal agricultural workers scheme set up for 2,500 workers won't be able to cover the 15-20% of migrant labour in manufacturing.”

It is clear that the recent MAC report has stoked businesses' concerns. The report suggested that EU citizens should be treated on an equivalent basis to migrants from elsewhere in the world. This would mean EU citizens looking to work in the UK would have to apply for a Tier 2 visa, the same as citizens from ex-EU countries, earn a minimum of £30,000 a year and pay an immigration skills surcharge of £1,000.²² The proposed salary threshold is of particular concern to those businesses operating in the agriculture, hospitality, leisure and health and social care sectors, given average wages in these industries and the need for large supply of low skilled workers.

Kim Conchie, Cornwall Chamber of Commerce

“We can't be open just to high skilled, we need middle skills for hospitality, care, agriculture. These people would not be allowed into the country after Brexit based on latest Government policy proposals. But in the latest quarterly economic survey our businesses said they were struggling to recruit, and when they can't get staff, businesses are closing.”

Tim Hames, British Venture Capital Association

“Investors worry even more about labour restrictions for firms with low-skilled labour forces from the EU27.”

Martin Darbyshire, Tangerine

“Migration is still the most important issue for us and I am particular worried about our talent after Brexit. We have many employees from overseas from both from inside and outside the EU. The draconian policy for non-EU citizens affects our business for the worse – extending this to EU citizens will make things harder.”

Salary caps are seen a challenge in the education sector, where even highly-skilled post-doctoral and research salaries often fall below the threshold.

Professor Fitt, Oxford Brookes University

“The MAC was a big disappointment, as it did not recommend removing students from the immigration figures. We are also concerned about the salary thresholds that will apply to all those seeking to work in the UK post-Brexit. Our post-doctoral researchers are highly skilled but don't earn above the threshold so would be excluded. We have lobbied the Government and they seem to realize this is a problem and have promised us changes.”

²² Migration Advisory Committee, [EEA migration into the UK, Final Report](#), 18 September 2018

Many firms emphasised the shortage of advanced technical skills. Indeed, our interviews confirmed findings referenced in previous reports that the UK is facing severe shortages in STEM skills, often in key growth sectors.

Ian Cranshaw, Chemical Industries Association

“We have a shortage of skills in the UK, including in chemical research and development. Large multinationals expect to be able to move their people around in their sites in the UK at short notice and we hope that will be recognised.”

Neil Cooper, MLM Group - engineering, environmental and building control consultancies in the UK, based across Britain

“The biggest issue for us, after investor confidence, is the retention of the many skilled engineers required for the design process. Forty percent of our London workforce is European. How will they feel about staying in the UK [if EU immigration is restricted]?”

On skills, the final outcome of the DWA/DPD seems almost certain to disappoint. The Government has promoted the ending of Freedom of Movement as one of the principal achievements of the deal. While the DPD talks about the aim to provide “visa-free travel for short-term visits”,²³ the tone clearly points to a more restrictive regime. Moreover, the EU has put down a clear marker about “non-discrimination between the Union's Member States and full reciprocity”.²⁴ There is no detail about facilitating easier transfer of talent and workers from the EU to the UK.

Freelancer / Partner in an Animation Company

"I do not think the proposed deal answers my concerns about Brexit at all. For example, the Government seems to emphasise the fact that the proposed deal ends freedom of movement and sees that as a good thing. I think that that is one of the aspects of Brexit that will be most damaging to the sector I work in and to London as a centre of excellence."

The Government is expected to publish its proposals on immigration. If these follow the MAC recommendations, as current signals from the Government suggest, there will be a significant disconnect with what businesses want.

Conclusion: The Draft Political Agreement Leaves the Shape of the Post EU Transition Unresolved

Our work has involved over 180 interviews with over 120 businesses, academics and trade association over the past two years. British businesses have been clear from the start about their key requirements: frictionless trade, access to skills and talent, streamlined regulation and minimal uncertainty. The Government's initial stated negotiation priorities indicated that it had taken these requirements on board. At her January 2017 Lancaster House speech, the Prime Minister set out priorities including: “the freest possible trade in goods and services” and a “smooth, orderly Brexit”, reaching “an agreement about our future partnership by the time the 2-year Article 50 process has concluded”.

²³ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 52

²⁴ UK Government, [Political Declaration](#), 22 November 2018, Paragraph 51

The DWA/DPD have not delivered on these commitments. While the DWA lays out in some detail the basis on which businesses will operate under during the transition period, the DPD leaves most of the shape of the post transition relationship with the EU unresolved. Arguably, the only option for the future relationship following the transition period that is completely taken off the table is that of remaining in the EU since the UK will already have left on 29 March 2019.

7. Conclusion

Most of the businesses we spoke to have not changed their underlying positions on Brexit: the vast majority of businesses want to remain in the EU, or to see the Brexit negotiations result in a future relationship that facilitates frictionless trade, access to skilled and unskilled labour, and aligned regulation.

Two and a half years after the 2016 Referendum, we found our respondents increasingly concerned about the prolonged uncertainties arising from the Brexit process, which many noted had already begun to affect their businesses.

Although a majority preferred “Norway Plus”, which would keep the UK in the Customs Union and the Single Market, there was recognition that such an arrangement would leave the UK as rule takers, subject to EU regulations, without a voice in deciding them, and thus in a worse position than as members of the EU.

The DWA/DPD does not provide the detail, certainty, and guaranteed future proximity to the EU that most businesses want. Through our interviews, we got the sense that the more businesses focused on what might happen over the longer term under the DWA/DPD, the less they liked it. While their near-term priority is to avoid a “No Deal” Brexit, the cumulative effect of such a “Blind Brexit” on uncertainty and thus investment would also be highly damaging. Many businesses, therefore, found themselves trapped in a dilemma. If the only choice is between the DWA/DPD and the disaster of “No Deal”, which is how the Prime Minister has portrayed the decision, then most businesses would take the DWA/DPD. But what most of the businesses we spoke to really want is a different choice. The DWA/DPA may be better than “No Deal”, but for most companies it is inferior to remaining in the EU or moving more decisively to a much closer relationship with the EU that includes continued participation in the Single Market and flexible access to EU skills and labour.

Following the European Council’s approval of the DWA/DPD,²⁵ and the Government’s move to bring the deal to a vote in Parliament, we asked businesses the extra open-ended question: “given the situation we are now faced with, what is your preferred course of action?” The answers from those who responded illustrate how torn the business community is. Many businesses appear to be losing patience with the political process and want to see Brexit concluded, but realise the DWA/DPD extends the discussion, and the uncertainty, for years to come without any sign of an emerging political consensus on the right future trading arrangement. Although the small number of businesses able or inclined to respond to this extra question given the short notice overwhelmingly agreed that “No Deal” should be avoided, opinion was divided on the best route forward. Some called for a second referendum, others were more supportive of the DWA/DPD, whilst only a tiny minority argued for “No Deal”.

²⁵ European Union Council, [Special Meeting of the European Council \(Art. 50\) - Conclusions](#), 25 November 2018

Andrew Osborne, Osborne Construction and Contractors

“As Parliament seems unable to agree a course of action, I think a second referendum of some form – possibly with a run-off between the two most popular choices – will be required. I hope that there would be a sufficient majority to provide clarity one way or another. If the result is very close, we will just go round the loop again.”

Freelancer/Partner in an Animation Company

"I would like to have another popular vote with Remain as an option."

Ben Twist, Creative Carbon Scotland

“Withdrawal of Article 50. If necessary, a second referendum to get this.”

Neil Cooper, MLM Group

“The deal on the table is a deal of all sorts and of nothing. Perhaps the right thing to do is to have a vote on “No Deal” or staying in.”

Alicia Navarro, Skimlinks

“I think it is ludicrous that in a democracy we are scared of a vote because of what the result would be. A right course of action - especially a hugely impactful for generations course of action - needs to always be what people want for it to be the right action. If more people now - knowing what we know, and having judged our "leaders" behaviours after the referendum - want to Remain, this should be honoured.”

William Bain, British Retail Consortium

“We need a deal which preserves our members’ continuity of trading conditions, and which means consumers will be able to access the goods they want at prices they can afford, and with the availability and quality they have come to expect. A deal which ensures tariff-free trade across all goods, good access to labour with a basket of skills, and no new significant non-tariff barriers are the optimal outcomes for our industry. Decision-makers need to step up to the plate to make sure a “No Deal” Brexit is avoided for retailers and consumers.”

Barrie Deas, National Federation of Fishermen’s Organisations

“Given the wide public and political support for the UK fishing industry after being trapped for decades in an asymmetric and exploitative relationship, within the CFP, it is inconceivable that the British Government could, or would, sacrifice fishing again and survive. Fishing has become totemic for Brexit. Against this background and accepting that businesses need time to adjust, our preferred course of action is for the UK to ensure that its promises to the fishing industry are honoured at the end of a transition period. This means that the EU’s ambitions to retain the status quo will have to be faced down.”

John Mills, JML

“[I am looking] for the UK to negotiate with the EU27 a comprehensive free trade deal along the lines of Canada +++. This has been offered to the UK by the EU27 on several occasions and should therefore be achievable.; it would provide the UK Leavers with a good solution and one which should be tolerable for most Remainers.”

The clear consensus from all our interviews conducted over the past three months is that if the DWA/DPD is voted down by Parliament, “No Deal” must be avoided. Although there is a diversity of views on the best way forward in such a circumstance, a clear majority believe that the Government should negotiate an extension to the two-year withdrawal period under Article 50 of the Treaty of the European Union. This would gain time to secure a different way forward that establishes a definitive framework for the future relationship, one which would better-safeguard the interests of British businesses, and thus, jobs and prosperity in the UK.

Appendix

List of Interviewees

Academic publishing expert - Richard Fisher
ADS Group - Jeegar Kakkad
Agricultural Engineers Association - Stephen Howarth
Animator - Hugo Sands
Atlantic Books - Will Atkinson
British Business & General Aviation - Marc Bailey
British Retail Consortium - William Bain
British Private Equity and Venture Capital Association - Tim Hames
Carpmaels & Ransford - David Holland
CBI Northern Ireland - Iain Hoy
Ceramfed - Laura Cohen
Chemical Industry Association - Ian Cranshaw
City University - Tim Lang
City of London Corporation - Catherine McGuinness
Cornish Chamber of Commerce - Kim Conchie
Creative Carbon Scotland - Ben Twist
David Nieper - Christopher Nieper
Design Council - Sarah Weir OBE
EBAC - John Elliott
Electrical Contractors Association - Rob Driscoll
Engineering and Utilities Alliance - Isaac Occhipinti
Environmental Services Association - Jacob Hayler
Fluidly - Johnnie Ball
Haribo - Herwig Vennekens
International Meat Traders Association - Katie Doherty
Interstate Hotels and Resorts - Nicholas Northam
John Mills Limited - John Mills
Ladbrook Manufacturing - David Spinks
Ledwood Engineering - Nick Revell
Leeds City Council - Tom Riordan
LSE - TA Sampson

Martin's Rubber Company - Adam Hooper
MIT - John Van Reenen
Millennia Computer Services - John Thorpe
MLM Group - Neil Cooper
Munro Instruments - Edmund Daley
National Farmers Union - Nick von Westenholz
National Federation of Fishermens Organisations - Barrie Deas
University of Northampton - Nick Petford
Osborne Construction and Contractors - Andrew Osborne
Oxford Brookes University - Alistair Fitt
The Producers Alliance for Cinema and Television - John McVay
Reid Steel - Simon Boyd
Skimlinks - Alicia Navarro
St Austell Printing - Peter Moody
Tangerine - Martin Darbyshire
Tozer Consulting - Jeremy Tozer
Reid Steel - Simon Boyd
Wakefield Ltd - Tom Shutes
Which? - Sue Davies
Zinc Mission 2 - Lorenz Fischer

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