

UK business should play for extra time in the Brexit negotiations

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Chequers has done nothing to resolve the underlying dilemma in the Brexit negotiations: the closer the UK gets to the least worst economic outcome (a 'soft' Brexit), the more it has to break Brexiteer red lines, prompting conflict within the Conservative party and government resignations. The White Paper and ongoing political debate have done nothing to resolve this fundamental predicament, no matter the different scenarios on customs arrangements and proximity to the Single Market that are considered, rejected or revived. The tendency to kick the can down the road on issues offering unpalatable trade-offs, such as the Northern Ireland border or the UK's future commercial policy, will persist.

The emerging tentative, incomplete and contradictory compromises struggle to survive in the echo chamber of Westminster politics, or the even smaller bubble of the Cabinet. Attempts to check whether they are compatible with the EU's red lines have virtually ceased. This shortcoming will inevitably lead to a showdown with the EU, most probably at the upcoming October Summit. At that point, the EU27 will send Prime Minister May packing with the clear message that any UK offer has to abide by the principles the EU has set for these negotiations from the start. It will only be when faced with the cliff edge that the real 'compromising' will begin: to avoid the Armageddon scenario of no deal on 29 March 2019, the UK will have to concede on every substantive point.

All of these political machinations are leaving businesses based in the UK perplexed about the right strategy. Undoubtedly, for many, contingency plans are starting to be put into action. Because of corporate strategies' long planning horizons, some steps will have to be taken now. In the face of continuing uncertainty, businesses have an obligation to ensure that the major risks they are facing are mitigated as much as possible.

But besides making the necessary preparations, businesses need to realise they can still influence the trajectory of the Brexit process. While many business leaders and representative organisations are reluctant to get involved in the leave-or-stay debate, they have a role to play in pointing out the consequences of political choices. And with an increasingly apparent willingness among business to speak out, the question becomes: "what should they be saying?"

First, they should exercise their legitimate right to express their preferences on the future economic relationship, based on the possible impacts such arrangements could have on productivity, trade and investment. In that regard, the attempts by some politicians to silence businesses should be resisted in the strongest possible terms. Second, they should explain that it would be negligent towards their shareholders if they did not warn them about the consequences of specific Brexit scenarios. But now is not the crucial moment in the debate to determine the right model for the long-term economic relationship; the current negotiation is mainly about the divorce, not the future. Now, the priority is to buy time.

The immediate threat is 'no deal', which is never better than a bad deal: leaving the European Union without an accord is far more catastrophic than the rosy picture some politicians are painting of trading under WTO rules. It is a chaotic Brexit, significantly worse than a hard Brexit. Not only would there be substantial logistical bottlenecks but also an immediate exit from the Customs Union and the Single Market, creating a legal void. This would make any cross-border movement virtually impossible. Businesses must make it clear that no deal can never be an acceptable outcome and that reaching the transition phase is the absolute minimum. They should relentlessly demonstrate the enormous costs of no agreement.

At the same time, business can play a role behind the scenes. There is a near universal consensus that less than two years is not enough time to negotiate any long-term deal, no matter how limited in scope. It is necessary, at the very least, to have the possibility of extending the transition period, but this can only be done if a clause to this effect is included in the Withdrawal Agreement. Even for those businesses that have already decided to leave the UK, having one or two more years on top of the transition period to conduct an orderly retreat can only be a benefit. All businesses should lobby vigorously for such a clause to extend the transition period, impressing on Theresa May and her Ministers the inevitable consequences of a shorter planning horizon.

Neither of these prospects – the avoidance of no deal and the extension of the transition – would resolve the underlying political trade-offs. But they would buy some time, and that might well be what is needed, not only for business but also for the British people. It could create an opportunity to hold a different debate on Brexit and lead to an outcome that, in the longer term, minimises the economic and political harm of leaving the European Union.

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