

Overall, there was something for everyone in the latest deal. The backstop was binned, there will be no hard border on the Island of Ireland and the UK will be free to follow its own independent trade policy. There was some surprise that the UK Prime Minister was able to secure a deal so quickly. While the EU made some concessions, the movement in negotiations was primarily due to Boris Johnson removing some of the UK government's red lines.



Key positives

- *A No deal crash out Brexit would be avoided*
- *All Island economy protected, with no hard border*
- *Northern Ireland will experience a relatively soft Brexit*

Key negatives

- *The sea border between GB and NI will create trade friction between NI and its largest trading partner*
- *The rest of the UK will experience a hard Brexit which will impact negatively on the UK economy and by extension the NI economy too*
- *Businesses in NI and GB will face more red tape, bureaucracy, costs and complexity relative to current arrangements*
- *There are still a lot of unknowns regarding how operational arrangements would work in practice*

Cake and Eat it. The UK PM claimed that the UK could “have our cake and eat it” as it leaves the EU. This suggested choices between Brexit options did not have to be made what has been dubbed as cakeism (*i.e. the idea it is possible to govern without making tough decisions*). Brexit means Brexit was another meaningless phrase that suggested there was only one type of Brexit. Clearly there is a wide spectrum of types of Brexit ranging from a soft Brexit (*the closest possible alignment to the current relationship with the EU*) to a hard Brexit. No deal was arguably the hardest form of Brexit but discounting this, the most extreme Brexit is exiting the single market (SM) and EU customs union (CU) and having a minimal Free Trade Arrangement (FTA) deal with the EU. Boris has applied cakeism to his Brexit choices by plumping for both a soft Brexit and a hard Brexit. Yesterday’s proposals provide a soft (ish) Brexit for Northern Ireland while the rest of the UK is in line for a hard Brexit.

Divergence. Theresa May’s Withdrawal Agreement (WA) proposed a soft Brexit. The UK and Northern Ireland would remain within the EU’s Customs Union and the future free trade deal would be based on close alignment with the EU’s single-market rules . This would prevent the UK securing independent free trade deals with third countries, such as the

United States. The WA also had a commitment that the UK would observe “level playing field” commitments on competition and state aid, employment (workers’ rights), environmental standards and tax. In summary, the UK would remain closely aligned to the EU’s rules and regulations. In addition, the EU would ensure that UK business would not be allowed to undercut its industry with a race to the bottom on regulations and tax. Instead, Boris Johnson has binned this approach. The level playing field commitments have been removed from the legally binding Protocol and placed in the aspirational Political Declaration. Watch out for major deregulation, such as diluting workers’ rights (*which would apply to NI*). Rather than close alignment with the EU, Boris Johnson is seeking a basic free-trade deal similar to Canada’s. This would erect trade and regulatory barriers between the UK and its largest market.

Hard luck Brexit. According to the Centre for European reform, a think-tank, the UK economy was already 2.9% smaller than it would have been had the Referendum vote been to remain. This week an academic think-tank, Changing Europe, calculated that the latest deal will reduce UK income per person by 6.4% over 10 years compared with what it would otherwise be (*i.e. Remain*). This was worse than May’s deal which would reduce it by 4.9%; a difference of £500 per head. Given that the Northern Ireland economy follows the UK economic cycle, any hit to the latter impacts on NI too. It is also worth noting that any free-trade deal, or combination of deals, will not compensate the UK economy for the economic hit from leaving the EU. Furthermore, with the rise of global trade protectionism (*think of the ongoing US-China trade wars*), the opportunity to do ‘buccaneering’ trade deals looks optimistic.

“No Deal is better than a bad deal”. This was a frequent claim by Theresa May but it was false. Clearly if buying a dodgy second-hand car or paying over the odds for something, this slogan rings true. No deal is better than a bad deal if the status quo is retained and you are no worse-off than you are currently. However, that wasn’t the case with Brexit. A No

deal Brexit would have led to the UK crashing out of the EU and all the economic damage that would have caused. The status quo would have been shattered. Eventually under a No deal Brexit, after all of the initially chaos, the UK would have to do a deal with the EU. In light of the above, any deal (*even a bad one*) is better than No deal.

Bin the backstop! “Bin the backstop” was a slogan amongst the DUP and Brexiteers within the Conservative Party. Yesterday’s agreement has done just that – the backstop has been binned. The backstop was agreed in case the UK and the EU failed to agree a long-term trade deal in which the UK retained key aspects of EU customs and single market rules necessary to prevent a hard border. If so, NI would still be covered by them. The fear amongst the DUP /UUP / Brexiteers was that if alternative arrangements / solutions (*use of technology etc*) weren’t forthcoming the backstop would become a permanent state. Hence the calls for a time limit on the backstop. The EU / Irish Government were against this as it would effectively have meant a time-bounded insurance policy. There would have been no incentive to solve the permanent hard border problem if there was an expiry date.

Goodbye backstop hello frontstop! This has been solved by binning the backstop and replacing it with a “frontstop”. That is the UK Government has proposed a final and permanent state for the Northern Ireland / Republic of Ireland border regardless of the future relationship between the UK and the EU. New consent clauses have been added whereby the Northern Ireland Assembly could periodically vote to change this status quo. The proposals set a very high bar for changing this with no political party having a veto. In theory there is an exit mechanism but in reality this is unlikely to ever occur. The consent mechanism covers regulatory alignment on goods and customs; the Single Electricity Market, VAT and state aid.

Great British Break-off. A frequently cited red line for the DUP and the UK government was there would be no sea border (*regulatory & customs*) between Great Britain and

Northern Ireland. This was initially an EU proposal that was rejected by Theresa May's government. The EU reopened May's withdrawal Agreement as Boris Johnson was prepared to remove this red line. Given that Northern Ireland remains more closely aligned to the EU, and the UK is embarking upon a more independent trade policy, there is the potential for the Northern Ireland economy to diverge from the rest of the UK. Remember, Great Britain is NI's largest trading partner and new barriers to trade between the two economies will be erected. Despite "best endeavours" to facilitate trade between NI and GB, the new state will have more frictions (*bureaucracy, cost and complexity*) than the current position. Checks and controls will be made on all goods entering NI from the rest of the UK.

Shoulder to Shoulder. It remains to be seen whether Rory Best's men in green answer Ireland's call against the All Blacks. Arguably yesterday's deal answers the All-Island economy's call. Northern Ireland remains part of the UK customs union but unlike the rest of the UK, will remain aligned to EU Single Market rules for goods and agriculture (but not services). Friction between the Northern Ireland and Republic of Ireland economies will be minimised and a hard border avoided. This is aided by creating a regulatory / customs sea border between the island of Ireland economy. Conversely, new barriers (*bureaucracy and additional costs*) will occur between Northern Ireland and the rest of the UK. These costs of doing business will be additional to the rising costs from pensions auto-enrolment, the National Living wage etc.

Trade deal player or spectator? Northern Ireland effectively has special status with its relationship with the EU different than any other UK region. With the rest of the UK free to embark upon future free-trade agreements (FTAs), how will that impact upon NI? In theory, NI would continue to benefit from future UK FTAs **provided that those agreements don't prejudice the application of the agreed Ireland / Northern Ireland Protocol**. So NI would be able to benefit from future UK FTAs in, for example, services and investment but also the export of its goods. Similarly NI will be able to benefit from the import of goods that

are not at risk of entering the EU's Single Market either as goods by themselves or after having been subject to commercial processing. In practice, if a UK FTAs were done with Brazil and the US. Cheap beef and chlorinated chicken could enter the GB market but not the NI market as it would breach the agreed protocol. The UK's quest for an independent trade policy (*e.g. targeting cheap food*) would potentially have a big negative impact on NI's producers. It's largest market – GB – could become saturated by cheap food imports from elsewhere.

Check the small print. After every Budget, economists and commentators always sign off with the caveat that the devil is in the detail. Much uncertainty remains in the latest version of the Withdrawal Agreement, but the devil hasn't written the detail yet. Much of what is proposed in terms of dual customs arrangements and VAT arrangements is massively complicated and untested. The most difficult operational details of the new arrangements have effectively been put to one side in order to wave a deal through. Nevertheless, it is clear that what has been proposed adds more bureaucracy, red tape and complexity to the cost of doing business, particularly between NI and GB and vice versa. What impact will the proposals have on supply chains in the UK? Many answers to big questions remain.

To be continued. Should the latest Withdrawal Agreement be voted through tomorrow night, this will not represent the end of Brexit. This only represents the endgame of the beginning – that is withdrawing from the EU. While a period of transition will be entered into, the future relationship between the UK and the EU is still to be negotiated. Determining this will be measured in years not months. Even if the deal is passed tomorrow, history has taught us that there could be more unforeseen political twists and turns in the weeks and months ahead.

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