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The **implications** of a no-deal Brexit in the medium to long term are difficult to assess. A no-deal Brexit would lead to deterioration in long-term political relationships, which would make a new trade arrangement and other cooperation in the future less likely.

is the situation in Ireland, which is also the most contentious

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The United Kingdom submitted on 29 March 2017 the notification of its intention to withdraw from the European Union based on Article 50 of the EU Treaty. As a default, the United Kingdom will therefore become a third country on 30 March 2019 and cease to be a member of the EU.

I see four possible scenarios:

1. The UK exits based on the negotiated withdrawal agreement. This scenario is not further discussed in this Policy Contribution.
2. The UK leaves the EU without any agreement. This so-called no-deal Brexit is the core of this Policy Contribution (as per the Bundestag EU Committee's request).
3. The UK asks for an extension of the two-year Article 50 period, thus remaining a member of the EU until the end of the extension period. Such an extension would require the consent of the EU. Moreover, if the extension exceeds a few months, the UK would have to participate in the 2019 European Parliament elections.
4. The UK could decide to unilaterally revoke its Article 50 notification. The Court of Justice of the EU<sup>1</sup> has confirmed that this can be done without requiring the consent of the EU. It would mean that the UK would remain a full member of the EU under the current terms.

It is impossible to say at the time of writing which of these four scenarios is the most likely. But it is important to highlight that the current UK political situation is very volatile. I would therefore attach





The top five sectors exporting from Germany to the UK are road vehicles, medical and pharmaceutical products, petrochemicals, electrical machinery and other transport equipment (Figure 2).

**In a no-deal Brexit, the United Kingdom will become a third country and the applicable tariffs will be WTO most-favoured nation (MFN) tariffs.** The UK has already notified the WTO that it will apply the EU's MFN tariffs once it leaves the EU and there is no disagreement on that at the WTO. Table 1 gives an overview of the tariff rates that would be applied to British exports, for the top five trade sectors that concern Germany. **This data suggests a rather modest effect on overall German exports, but the effects would be relevant in specific sectors such as the car industry.**

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Product	MFN Tariff	EU Tariff
1. Road vehicles	10%	0%
2. Medical and pharmaceutical products	0%	0%
3. Petrochemicals	0%	0%
4. Electrical machinery	0%	0%
5. Other transport equipment	0%	0%



it is worthwhile noting that the EU has not been able to implement the same rule relative to the United States, which requires visas from some EU citizens but not from others. Rights of residence and the right of non-EU nationals to work are currently decided by EU member states. In our view, EU member states would be well advised to cooperate and define a unified position relative to the UK to help ensure a similar status for all EU citizens wanting to work and live in the UK. It would also be important, in our view, to distinguish between citizens already resident and those wanting to migrate. The status quo of residents should not be altered on either side in case of a no-deal Brexit. **An important interest for Germany and the EU more generally is therefore that the accumulated rights of their citizens in the UK should continue to be honoured, and that the EU and the UK should agree in a no-deal Brexit scenario to ensure cooperation in areas including social security rights and pension transferability.**

**On financial services, we consider that the most important contingency plans have been made.** From conversations with major financial institutions across Europe, I can con-

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**A no-deal Brexit would be bad news for the EU as well as for the UK in the short term, compared to signing the withdrawal agreement.** In this Policy Contribution, I have not quantified how much worse a no-deal scenario would be compared to signing the current deal. However, I have highlighted that a no-deal would be particularly bad for Ireland, because it would lead to customs controls on the island in order to protect the integrity of the single market. Moreover, I have highlighted a number of immediate quite disruptive challenges for trade, for specific sectors such as airlines and pharmaceuticals, and for people. The withdrawal agreement is a rather complex text, documenting the extent to which economic, societal and political relationships are affected by Brexit. Leaving all these relationships without any agreement is likely to cause significant short-term turbulence.

**The longer-term trade and more general implications are difficult to assess as they require making assumptions about the future EU-UK relationship.** As such, that longer-term relationship is less certain than it would be under the draft agreement with its annexed political declaration on the future relationship.

**It is important to be prepared to reduce and mitigate the impact of a no-deal Brexit, also taking into account the highly uncertain political situation in the UK.** The EU institutions, EU member states, business and citizens all have a role to play. But no preparation can satisfactorily solve the problem that Ireland would be confronted with.

**One important question for the EU is whether it would be ready to modify the terms of the political declaration or even the withdrawal agreement to make its ratification more likely.** So far, the EU has stated strongly it will be impossible to alter the deal that was agreed between the UK government and the European Commission negotiators (Juncker, 2018). From a strategic point of view, this is the communication that one would expect. In fact, one can think of the strategic situation in terms of a game-theory setting, a so-called chicken game. In a chicken game (Maynard-Smith and Price, 1973; Rapaport and Chammah,



**UK's readiness to honour its financial commitments.** Some leas do not require cooperation under a no-deal Brexit. But it would be naïve to assume that non-cooperation would be cost free. Non-cooperation would significantly aggravate the costs of no-Brexit for both sides, but the costs would be particularly high in the UK. I have argued that the EU is right to take a strong stance on money. **Under a more reasonable scenario, I would expect cooperation on a number of key files such as visa rights, frictions on the Irish border and customs cooperation.** Member states, parliamentarians and EU institutions should be ready for no-deal emergency agreements, especially when it comes to areas in which human lives might be at stake, such as health cooperation or nuclear cooperation. Also in financial services, cooperation is highly advisable as a no-cooperation no-deal Brexit could increase financial stability risks. No matter what the UK's position is, the EU should aim to prevent the worst outcomes when it comes to human lives and financial stability.

**The overall strategic direction I would advise the EU to take is to increase the cost of a no-deal Brexit as much as possible (while respecting ethical limits), while showing more flexibility on the political declaration and possibly the withdrawal deal itself.** The EU and the UK have a long-term interest in being close partners. Departure of the UK without any deal would be a very bad signal to the world about the ability of the UK in particular and also of the EU to cooperate with strategic partners. It would be highly damaging in terms of the UK-EU (political) relationship. Highlighting this political cost of a no-deal Brexit should help convince the UK parliament to sign a deal. Nevertheless, all players should quietly make preparations at a technical level to prepare for no-deal.

**The next six months could very well prove politically turbulent, with significant brinkmanship. It is of the utmost importance that the EU remains united. It is also important that the EU does not lose sight of its long-term strategic interests.**

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