



ABS POLICY PAPER No. 19

COVID 19 AND BREXIT

Written by Colin Munro, Chairman UK Citizens in Austria

April 24th, 2020

Introduction

According to the International Monetary Fund (IMF), COVID 19 will cause a worldwide recession more severe than the Great Depression of the 1930s. The IMF had estimated last year that a No Deal Brexit (NDB) would lead to a 5% drop in the UK's GDP. On 15 April 2020, the head of the IMF, Kristina Georgieva (successor to Christine Lagarde, now ECB President) advised the UK and the EU to agree on an extension of the transition period to avoid NDB on 31 December 2020. According to the Brexit Withdrawal Agreement (WA) which entered into force on 31 January 2020, the sides can agree before 1 July 2020 on an extension of up to two years (31 December 2022). The transition should provide time to implement the WA and reach agreement on the future relationship between the UK and the EU, based on the Political Declaration associated with the WA. During the transition, the UK enjoys the benefits of EU membership, contributes to the budget, but is not a member of the institutions, and cannot block their decisions. The WA covers three subjects: citizens' rights, the Northern Ireland border protocol, and the financial settlement. However, the British government is still ruling out an extension of the transition period. At a press conference on 24 April the EU's chief negotiator, Michel Barnier, accused the UK of failing to engage on the substance of the negotiation on the future relationship, while at the same time refusing to countenance an extension of the transition period.

Detail

Even the most fervent advocates of No Deal concede that there would be short term economic disruption. An overwhelming majority of economists agree with the IMF that No Deal would inflict, not only short-term disruption, but also long-term damage to the British economy. However, on 14 April 2020, at the British government's daily COVID 19 press conference, the Chancellor of the Exchequer, Rishi Sunak, said that:

- UK/EU negotiations (on the future relationship) were continuing via video channels. The government was still committed to the 31 December time line. He was confident that that will not change and that a satisfactory deal will be struck.

Negotiations by video conference resumed on 21 April. Progress so far has been confined to identifying areas of agreement and divergence. In his press conference on 24 April Michel Barnier made it clear that the UK rejects the EU's approach to the future relationship, including issues to which it agreed in the Political Declaration, and which are standard in all the EU's

agreements with third countries. Specifically, Barnier said that without agreement on fisheries there will be no Free Trade Agreement. The UK even refused to agree to a reference to the European Convention on Human Rights and Fundamental Freedoms (ECHR). As a founder member of the Council of Europe, the UK was the first country to sign this Convention which entered into force in 1953.

According to an article in the Spectator on 16 April 2020, the UK will not request an extension to the transition period, because delay would not answer the fundamental question: is agreement on the future relationship with the EU possible, or not? Delay could ensnare the UK in sharing the cost of bailing out EU economies such as Italy. The UK is demandeur. A request from the EU for an extension is therefore unlikely. If the EU did request an extension, and the UK refused, it would put itself in the awkward position of failing to act as a good neighbour in difficult times. What would be the political impact in the UK of refusing to ask for an extension, or acceding to an EU request? On 24 April Michel Barnier argued that a decision on an extension would have to be taken jointly by the UK at a summit meeting with Boris Johnson in June.

The London based Centre for European Reform concludes that coordination will be needed at EU level to allow economies to get back to some degree of normality before a COVID 19 vaccine is developed. Does it make sense for the UK to stand aside from EU coordination?

I had been planning to brief UK Citizens in Austria, in the convivial surroundings of Café Ministerium, on Austrian plans to implement the provisions in the Withdrawal Agreement (WA) that guarantee for life the rights of British citizens living in EU countries. But the meeting in the embassy with British and Austrian officials that had been scheduled for 24 March has been postponed sine die. I had also intended to brief on implementation of the Irish Protocol of the WA, and on progress in negotiations on the future relationship with the EU.

The British legislation ratifying the WA deletes its provision for extending the transition period by up to two years after 31 December 2020. If Parliament does not vote to reinstate this provision by the end of June, the risk of failure to reach agreement with the EU on trade and other matters by 31 December will be even greater than it was before COVID 19 hit us. The Prime Minister is on record as saying that failure would be just fine. Foreign Secretary, Dominic Raab, who is deputising for the Prime Minister while he recovers (from COVID 19), considers the pandemic to be the ideal time to bring Brexit to a successful conclusion by 31 December without agreement on the future relationship. In other words, no deal except for the three subjects (Citizens' Rights, the Financial Settlement, and Ireland) covered by the WA.

COVID 19 is not only a health crisis, it is also precipitating a worldwide economic crisis. Measures to contain the spread of the virus have shut down many parts of the world economy. In the course of the last five weeks over 26.5 million Americans have lost their jobs in a country that lacks the social security safety net that we have in most of Europe. The virus is putting millions of Britons out of work. The great depression unemployment peaks (25% in the US, 15% in the UK) may be surpassed. Of course, Keynesian economics, superior social security systems, and short time working to retain labour, mean that a majority of individuals should not suffer as much in rich European countries, as their grand-parents did during the great depression of the 1930s. But the cost of these interventions, in terms of public spending, is massive, increasing still further, swollen budget deficits in countries such as Italy. The cost to public funds in the UK of paying companies to retain, rather than shed labour, is equivalent to the defence budget (US\$ 55bn) for a whole year. The UK's budget deficit is likely to climb to 14% of GDP by the end of the year. 35% of GDP will be lost between April and June. Significant parts of it, in service industries, cannot be recovered. Some politicians argue that the moment to relax the "lockdown" will come when the money to pay for it runs out.

In the UK, the civil service and the BBC are back in favour with the Conservative government. Correspondents despised for their forensic analysis of Brexit, are now treated with the utmost respect, at the government's daily press conference. However, with the possible exception of Sunak, Ministers are unconvincing and evasive, not least in relation to the situation in care homes. The Home Secretary's sole appearance at the daily government press conference was unimpressive. Priti Patel was "sorry if people felt they did not have the protective clothing that they needed". The shortage however, is a matter of fact, not feeling. She presented the government's new immigration system to Parliament on 24 February. Her emphasis on stopping low skilled immigration from the EU does not fit well now with care workers' new status on the COVID 19 front line, underpaid, but not under skilled, and much appreciated. The Immigration Bill, centre piece of the government's vision for a post Brexit UK, has been shelved.

The average pay of a nurse has declined in real terms by 8% since the Conservatives came to power in 2010. Immigrants, like the two nurses (one from Portugal and one from New Zealand) who looked after the Prime Minister, may have to pay surcharges in future for the privilege of working in the NHS. As Matt Hancock (Secretary of State for Health and Social Care) said last year. It is the "national, not the international health service!" The British system relies in the best of times on leadership by the Prime Minister. This is lacking at present.

In early June 2016 Michael Gove (Minister of Justice) asserted: "the British people have had enough of experts". Now, Gove (Minister for the Cabinet Office), like other members of the government cannot get enough of them, at least in relation to the pandemic. The government insists that its COVID 19 decisions are based on expert scientific evidence, although for about ten days in mid-March, it did not follow expert advice on testing, tracing and social distancing. Testing and contact tracing were abandoned because the UK did not have the means to perform these tasks. In the period ahead, experts may be blamed if the virus gets out of control.

The Labour Party, now under the leadership of Sir Keir Starmer, is performing quite well in the role of responsible constructive opposition party, although clearing up the mess left by Jeremy Corbyn will be a mammoth task. Boris Johnson attracts sympathy, admiration, and respect for his "fight" with COVID 19. Beatification of a Prime Minister, perceived as growing into the job even while he is unable to do it, is well under way. Criticism of the kind that Johnson endured on Brexit has evaporated, at least for now. He symbolises national resilience in time of adversity.

It had been left to the usual suspects (Guardian, Independent Financial Times, Economist) among the print media to draw attention to the fact that it will be impossible to deal with COVID 19 and conclude substantive agreements on the future relationship between the UK and the EU by 31 December 2020. It might, just, have been possible to conclude a minimalist Free Trade Agreement (FTA) with the EU by 31 December 2020, before COVID 19: but not now. The two sides are far apart, e.g. on fishing and the level playing field. Detailed negotiations involving numerous officials cannot be conducted by video conference. Concessions, deals and U-turns are made in side meetings, not on screen. These problems will not have been overcome by June. But on 19 April the pro Conservative Sunday Times printed a blistering attack on the government's handling of the Corona crisis:

- Coronavirus: 38 days when Britain sleepwalked into disaster.

The following day a Times editorial admitted that Brexit and austerity had contributed to the disaster. And there has been a further Times editorial casting doubt on the competence of the government.

The EU has published a comprehensive draft agreement (440 pages) on the future relationship. Its main thrust is to prevent the UK turning into some kind of deregulated Singapore on Thames. The UK published the legal text of a Free Trade Agreement on 18 March. But it does not include trade with the EU, or the US, over 60% of the total. It rolls over the EU's FTA with countries such as Singapore and Canada. This suggests that the British government may already have abandoned the objective of securing a substantive FTA with the EU by 31 December. Texts sent to the Commission on trade with the EU, law enforcement and nuclear safety have not been published, and are not supposed to be shared with member states! Michel Barnier regretted this at his press conference on 24 April.

On 5 April 2020 the Independent on Sunday reported on the results of an opinion poll (2,000 people involved) conducted by FOCALDATA Limited, commissioned by Best for Britain (an anti-Brexit outfit) and Hope not Hate (which campaigns against racism and fascism). Two thirds wanted the British government to request an extension to the Brexit transition period so that it could focus on the Coronavirus pandemic. 84% of Labour Party supporters were in favour of an extension; 83% of Liberal Democrats, 78% of 18-24-year olds; 52% of people aged over 65. 44% of Conservative Party supporters were in favour of an extension, as were 19% of Brexit party supporters. 65% wanted the UK to re-join the EU's Early Warning and Response System (EWRS) for medical emergencies, as did the National Health Service (NHS).

The House of Commons Select Committee for Health and Social care was asked by the government to evaluate the EU's negotiating mandate for the future relationship, with regard to health and social care issues. The short section on health and the environment is concerned with the latter, because hitherto health has been a matter for member states. However, in a letter to the government, Jeremy Hunt, (former Health and Social Care Minister, and runner up in the Conservative Party leadership contest) Chairman of the Committee, argued that current proposals for the UK's full divorce from the EU would have a significant adverse impact on health and social care, including:

- failure to ensure that the NHS can cooperate with EU member states on "pandemic management" e.g. on data sharing in clinical trials
- no plans for continuing access to substances of human origin,
- no plan for the UK to take part in the EWRS.

On COVID 19, the initial government response, was to obfuscate on EU invitations to work together, e.g. on procurement of ventilators and personal protection equipment (PPE). The UK was invited to participate in joint efforts, but failed to respond. British officials attended four meetings in Brussels on this subject, beginning on 31 January. On 21 April, under questioning in Parliament the Permanent Secretary at the FCO, Sir Simon MacDonald admitted that the government had taken a political decision not to join an EU wide COVID 19 procurement scheme. He was then obliged to write a letter contradicting himself. There had been a "misunderstanding." In Brussels the Commission has made it clear that there had been no misunderstanding. If, in the period ahead, health service workers in EU member states are adequately supplied with PPE, while their colleagues in the UK are not, the political repercussions of this obtuse behaviour by Ministers could be considerable.

Meanwhile, implementation of the Withdrawal Agreement (WA) is not going smoothly. The UK is refusing to allow the EU to open an office in Belfast to monitor controls on the import to Northern Ireland of goods and phytosanitary products from Great Britain. The EU suspects that the UK is trying to avoid implementing the controls set forth in the WA. Michel Barnier reconfirmed at his press conference on 24 April that implementation of this Protocol was an essential precondition for agreement on the future relationship.

If COVID 19 were to lead to economic collapse in Italy and thus to collapse of the Euro, the future of the EU itself would be in doubt. Hence the feverish efforts to cobble together a rescue and recovery plan without obliging countries such as Germany and Austria to shoulder responsibility for Italy's debts. Sharing responsibility for the debts of allegedly spendthrift countries is political dynamite in Germany, Austria, the Netherlands and Finland – the frugal four. My judgement however, is, that if push comes to shove, as it may well do soon, Germany will not let the EU fail. The indications from the EU meeting on 23 April to consider the future budget and recovery from COVID 19 are that Angela Merkel (a scientist) and Ursula von der Leyen (a doctor) will succeed in steering the EU through this crisis. Europhobes invariably see every crisis as the one that will finally collapse the whole project. The last decade has seen five:

- The financial/economic crisis unleashed by the collapse of Lehman Brothers in 2008,
- The Eurozone crisis that began in 2009;
- The European migrant crisis that began in 2015;
- Brexit since the UK referendum on 23 June 2016
- COVID 19

None of these has been resolved, least of all Brexit. The UK's constitutional crisis is also simmering in the background.

Germany takes over (from Croatia) the Presidency of the EU Council of Ministers on 1 July. In early February the Germans circulated proposals for a close relationship between the EU and the UK after 31 December, including a possible German British Treaty. But they were rebuffed by Boris Johnson. Was this, the Germans asked themselves, rhetoric aimed at a domestic audience, or policy? The answer is that at the time, it was both. But the opinion poll cited above, indicates that No Deal would not be popular now. Moreover, Germany and Austria are perceived - correctly- as the countries that have done best in Europe in handling COVID 19. (British ministers seem to be unaware however that Hoffman La Roche is a Swiss, not a German multinational healthcare company.)

Conclusion

I hesitate to predict how this will play out. COVID 19 provides justification for an extension, as does Trump's mishandling of the crisis. There will be no FTA with the US by 31 December 2020. But protracted negotiations would expose the impossibility of the UK having its cake and eating it. The Prime Minister may yet be tempted to follow the advice of that most resolute of advocates of No Deal, and climate change denier, the Rt Hon Owen Paterson MP (for North Shropshire) who launched, virtually, a new (pro No Deal) Centre for Brexit Policy, on 22 March. Public adulation may strengthen the Prime Minister in the conviction that he possesses that most important of qualities of a leader in time of crisis - good judgement. On the other hand, he may realise that while Brexit got him to the top of the Conservative party and into No 10 Downing Street, mishandling the transition, the economy and COVID 19 could cause alarm in the party and the country, threatening his downfall. In that event he would not hesitate to perform another U-turn, if that was the way to stay in No. 10. June, the fourth anniversary of the Brexit referendum could be an interesting month.
