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## BREXIT: DEAL OR NO DEAL?

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It was perhaps one of the most surprising moments in the history of British democracy. The British people had their say in a referendum to stay or leave the European Union and decided: Leave. Theresa May was elected as Prime Minister and henceforth a new terminology was born that would internationally cause painful headaches in the years to come: Brexit.

According to Article 50 of the Lisbon Treaty, the European Union and the United Kingdom were given two years to negotiate and to agree the terms of the divorce. The UK is scheduled to leave the European Union on 29th of March 2019. Last November Theresa May and the EU finally agreed on a deal, however this was from the very beginning not to the satisfaction of the British MPs who in January voted the bill down by an historic margin.

### Brits need to make a decision

The Prime Minister subsequently survived a vote of no confidence and came back with a plan B that didn't really differ from plan A. She has discounted the possibility of a second referendum and still sees the chance that the UK could exit the EU without a deal. May thought progress was possible on the so-called "Irish backstop", an insurance policy meant to prevent the re-emergence of a hard border on the island of Ireland after Brexit. The Parliament eventually agreed on wanting their Prime Minister to go back to Brussels to renegotiate the Irish backstop. The majority of MPs also stated that they don't want a no-deal departure from the EU. Brussels is still open to talk but already made it clear that there is no room for renegotiations.

In the meantime, stakeholders and business owners trying to figure out what scenario will play out come Brexit day. If the UK does leave the EU, it will go into a transition period, where it will be business as usual until December 2020. This would buy businesses time to adjust to the new trading environment. In the possible event of a no-deal Brexit, there will be no time for

preparations at all, and the UK will trade under the terms of the World Trade Organisation (WTO) with the principle of most-favoured-nation (MFN) treatment.

### The impact of Brexit on German Business

As one of the strongest members of the European Union, Germany is not amused to see the UK split from the EU Single Market and the Customs Union. The latest numbers of the Federal Statistical Office in Germany showed, that the UK is Germany's third biggest export partner. According to the German Economic Institute (IW) more than 70 percent of German businesses that may be affected by Brexit, are barely, or not at all prepared for the abrupt change. A survey conducted by the German Chambers of Commerce and Industry (DIHK) predicts that there will likely be over 14 million additional customs declarations needed in Germany alone. This could be a big challenge for the approximately 30,000 affected companies that up till now only trade within the Single Market and aren't familiar with custom procedures plus the potential payment of duty on UK-EU trade. The trade volume between both countries amounted

to EUR 121.5 billion in 2017. Meaning that about 750,000 jobs in Germany depend in trade with the UK. The key results of the survey show, that business is expected to deteriorate and one in every 12 German companies plans to shift its UK investments to other markets. To help German businesses getting better prepared, Chambers of Commerce and Industry (IHK) all over Germany are organising events and published guidelines for deal and no-deal scenarios.

### New Zealand's trade future with the UK

Trading and political ties between the UK and New Zealand are based on a shared history. According to the New Zealand Ministry on Foreign Affairs and Trade, the UK is an important export market with a total trade in goods worth of NZD \$2.9 billion. In mid-January, NZ's Prime Minister Jacinda Adern and British Prime Minister Theresa May signed a mutual recognition agreement, which means that irrespective of what happens with Brexit, New Zealand businesses holding existing EU trade certificates will continue to be able to export their goods into the UK. The New Zealand Government still urges business owners to put in place contingency plans for a range of scenarios to ensure trade into the UK, or into the EU across the UK is not disrupted. Economists predict that one of the key questions will be, what Brexit will mean for market access for New Zealand exports of agricultural products like meat into both the UK and EU. Currently there is an existing quota with no or low tariffs imposed. After Brexit, this quota is likely to be split across the UK and the EU. The EU itself is a close and like-minded trading partner for New Zealand. In light of the impending Brexit, the Free Trade Agreement (FTA) negotiations with the EU become an even more important step for the benefit of Kiwi businesses and consumers.

### What's next?

If no concessions can be made with the EU, there is the risk of change in the political landscape in the UK and there are still growing calls for a second referendum. In many ways, it seems obvious that May will need to seek for an extension of the Brexit-deadline which would require the unanimous agreement of 27 other EU members. Alternatively, the Prime Minister and the Parliament could decide to play their joker card and simply cancel the whole Brexit process. The European Court of Justice already decided that this is possible without permission of the other EU members. Brexit day is fast approaching and if no extension is granted by the EU, the UK might find itself with no deal and devastating consequences for the economy and its trade with other countries.

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