

LESC: extending the transition would be costly and pointless

*CIB affiliated organisation the **Labour Euro Safeguards Campaign (LESC)** explains why extending the transition period beyond December 2020 would be both costly and pointless. This article is taken from LESC's latest bulletin, the full version of which can be downloaded at the end of the article.*

The coronavirus pandemic has understandably dominated the government's attention – and indeed that of the media and public discourse generally – for many weeks, and is certain to continue doing so. However, as the EU's chief negotiator Michel Barnier is fond of saying, the clock is still ticking.

The UK government's position is that there should be no extension to the current transitional arrangements beyond the end of 2020. If this stance holds, any agreement on trade will have to be agreed in principle ideally before the summer recess, and in early autumn at the very latest, if it is to be ready to bring into force on 1 January 2021. This is because it will need to be endorsed and ratified not only by the UK government but by all the EU Member States, the European Parliament, and various subsidiary legislative bodies. There are only a few weeks left, therefore, before the die will have to be cast.

The tactic of calling for an extension to the transition period beyond 31 December is obviously particularly attractive to those who oppose Brexit generally. They hope that delay will soften the UK's negotiating position and perhaps even lead to it getting reversed. There are, however, a number of good reasons for the UK to stick to the 31 December deadline –

even apart from the general principle that we have suffered enough delays and should bring the result of the 2016 referendum to a satisfactory conclusion as soon as possible.

If there were a reasonable prospect that a delay would produce a better outcome for the UK than sticking to the 31 December 2020 deadline, there might be a good case for it. It is not, however, at all clear that the principal sticking points are going to be any easier to resolve in one or two years' time. On the contrary, if an agreement is to be found, it seems more likely to materialise as the result of a deadline which has to be met than as a consequence of further procrastination.

There are other important factors at play. Businesses need as much certainty as possible to enable them to plan ahead, and more delay leads to more uncertainty. Every month that goes by with the UK locked into the current transitional arrangements involves another net budget contribution of nearly £1 billion *per month* – at a time when the UK's finances are already under acute strain. Moreover, a fresh EU budget cycle begins next year, meaning the UK would risk being dragged into even more EU financial commitments.

The extent to which the UK really needs a free trade deal with the EU may be less than is often supposed – for at least two reasons. Firstly, the UK has a very large balance of payments deficit with the EU – averaging about £100bn a year recently – which is underpinned by a visible trade deficit of a similar figure. This is in sharp contrast to our position vis à vis the rest of the world where we have a trade and balance of payments surplus.

Secondly, the tariffs on industrial goods traded between the UK and the EU are generally low – averaging no more than about 3%. The imposition of tariffs them would not, therefore, have a very material impact on our trade with the EU and might lead to a smaller overall deficit than we have had recently. It is therefore not in the UK's interest to concede to the EU's

demands on fishing and the 'level playing field', because the costs of losing a free trade deal are not that high.

It therefore seems unlikely that the UK will back down on either of these issues. There are some recent signs of a softening of attitudes by the EU on fishing, which may help to close the gap. On the 'level playing field', however, so far there has been little sign of movement by the EU so far, and it is hard to see how the UK can reasonably be expected to concur with EU demands on this front.

While tariff- and quota-free trading between the UK and the EU would still be most people's preferred outcome both sides of the Channel, and indeed may still be the final outcome, it is equally likely that we will finish up with no agreement between the EU and the UK on trade, leading to both sides falling back on WTO terms.

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