



The Bottom Line

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BREXIT'S STORMY BEGINNING

Summary

The United Kingdom's eleventh-hour trade agreement with the European Union is resulting in a rough start to 2021 for some industries.

Background

On March 29, 2017, Prime Minister Theresa May triggered Article 50 of the Lisbon Treaty and formally declared the UK's intention to leave the EU. This action was the beginning of a 2-year period for the exit terms to be agreed upon and finalized. More than 3 ½ years after the referendum that began the process, the terms under which the UK would leave the EU were finally approved by British Parliament and ratified by the European Parliament. The UK formally left the EU on January 31, 2020.

Negotiations did not stop, however. At the heart of the disagreement was the EU's insistence that if Britain wanted tariff-free access to its single market of almost 450 million people, it could not be allowed to dramatically undercut the European economic model, with its tough standards on workers' rights, climate change, and subsidies. If Britain did significantly undermine the "level playing field," its market access should be curtailed. After almost 50 years of membership of the European club, Johnson wanted sovereignty—pure and simple.

Current Status

Although the final Trade and Cooperation Agreement (TCA) included duty-free trade between the UK and the EU, Britain's exit from the customs union and single market on January 1 created a thicket of customs declarations, health checks, and other barriers to trade.

The impact of non-tariff barriers (sanitary and phytosanitary rules, safety, and security declarations) is crippling many industries and small businesses. In Scotland, the fishing industry is in crisis because paperwork issues and administrative errors related to new border checks and customs rules are delaying shipments to Europe. Scotland Food and Drink, a trade body, estimates that seafood

merchants are losing £1 million (\$1.4 million) a day, placing some businesses days away from collapse.

Financial services, which employ more than one million people and account for about 7-percent of British GDP, are not covered at all in the deal. Indeed, many City of London executives say it is effectively a "no deal" Brexit for them—a widely anticipated problem that has seen businesses shift staff and capital out of London to EU centers over the past few years to maintain access to European markets. David Howson, president of Cboe Europe, one of London's biggest exchanges, sat at his computer the first week of January and watched as €6bn of EU share dealing shifted away from the City to facilities in European capitals.

The British government gave the impression the free trade deal it struck with the EU would enable goods to cross borders without painful charges. But for online shoppers and small retailers, the reality has been very different. Customers have complained they are not being told by online retailers that they will be liable for the extra costs—forcing many to refuse to pay when delivery companies turn up at their door. Since the trade deal came into force, UK shoppers ordering items from Europe costing more than £39 are likely to be given a VAT bill. And for items costing more than £135, some customs duties might also apply. A growing number of retailers and courier firms are suspending or cutting back deliveries into or from the EU as companies grapple with new border controls, as well as import taxes.

Impact

The red tape and trade bureaucracy are so far painfully evident: 215 million import and export forms will be required to be filled in every year, costing businesses £7.5bn, according to HM Revenue & Customs. Barriers to trade were erected not just between the UK and the EU, but between the mainland and Northern Ireland.

RESOURCES:

[Inside the Brexit Deal: The Agreement and Aftermath](#) (Financial Times)
[British Shoppers Hit With Unexpectedly High Fees](#) (Independent)
[Scottish Fishermen Say Brexit Threatens to Kill Business](#) (CNN)
[Firms Halt Deliveries from UK to EU](#) (The Guardian)