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BREXIT UPDATE

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CONTEXT

At the European Council meeting on 10 April, the UK requested a second extension to the Article 50 period. This resulted in a flexible extension to 31 October 2019.

NEW PRIME MINISTER AND CABINET

On 24 July, Boris Johnson MP became Prime Minister. This followed his election as leader of the Conservative and Unionist Party the day before.

Who has responsibility for Brexit in the new Cabinet?

In July 2018, responsibility for Brexit negotiations [moved](#) from the Department for Exiting the European Union (DExEU) to the Prime Minister and it appears this will remain the case.

Preparations for Brexit have been the Department for Exiting the European Union's (DExEU) key role, however Michael Gove MP in the Cabinet Office will now have responsibility for "no deal" preparations.

Appointments and 'machinery of government' changes are yet to be confirmed but the following departments and ministers are likely to play key roles:

- Cabinet Office – new appointment for Michael Gove MP as Chancellor of the Duchy of Lancaster.
- Department for Exiting the European Union (DExEU) - continues to be led by Stephen Barclay MP.
- HM Treasury – new appointment for Sajid Javid MP as Chancellor of the Exchequer.
- Department for International Trade – new appointment for Liz Truss MP
- Foreign and Commonwealth Office – new appointment for Dominic Rabb MP
- Home Office – new appointment for Priti Patel MP

It has also been [reported](#) that the Prime Minister has established a senior group of Ministers to direct the Government's Brexit policy. Members of this group are Chancellor of the Duchy of Lancaster Michael Gove, Chancellor Sajid Javid, Foreign Secretary Dominic Raab, Brexit Secretary Steve Barclay, and the Attorney General Geoffrey Cox.

What is the new Prime Minister's Brexit policy?

On 25 July, the new Prime Minister gave a [statement in the House of Commons](#) on priorities for the government.

On a date for leaving the EU, he indicated the UK Government policy is to leave the EU on 31 October whatever the circumstances:

“...we must take some immediate steps. The first is to restore trust in our democracy and fulfil the repeated promises of Parliament to the people by coming out of the European Union – and doing so on October 31st.

I and all ministers in this government are committed to leaving on this date, whatever the circumstances. To do otherwise would cause a catastrophic loss of confidence in our political system.

The Prime Minister indicated that while leaving the EU with a negotiated exit deal was his preference:

“I would prefer us to leave the EU with a deal. I would much prefer it.

But he appeared to rule out a negotiated deal including the Irish backstop in its current form or with a timelimit:

“A time limit is not enough. If an agreement is to be reached it must be clearly understood that the way to the deal goes by way of the abolition of the backstop.

...I do not accept the argument that says that these issues can only be solved by all or part of the UK remaining in the customs union or in the single market. The evidence is that other arrangements are perfectly possible, and are also perfectly compatible with the Belfast or Good Friday Agreement, to which we are of course steadfastly committed.

The Prime Minister indicated that he hoped the EU would “rethink their current refusal” to reopen the Withdrawal Agreement and indicated that:

- ” If they do not, we will of course have to leave the EU without an agreement under Article 50.

However, in an article titled [Boris Johnson's new Cabinet makes a soft Brexit more likely than ever](#) for the academic initiative UK in a Changing Europe, Dr Craig Berry said that:

- ” In practice, the appearance of a hardline stance on EU withdrawal by a Johnson government may be the very thing that unlocks the possibility of avoiding a chaotic break with the continent.

On the process for forming the new European Commission, the Prime Minister indicated that the UK Government:

- ” will not nominate a UK Commissioner for the new Commission taking office on 1 November – though clearly this is not intended to stop the EU appointing a new commission.

Reaction from the Scottish Government

The First Minister, Nicola Sturgeon MSP has written two letters to the new Prime Minister (one jointly with the First Minister of Wales, Mark Drakeford).

Joint letter

On 25 July, the First Ministers of Scotland and Wales [wrote](#) to the new Prime Minister calling on him to:

- ” reject [the possibility of a no deal exit] clearly and unambiguously as soon as possible

and expressing support for a further referendum, stating that:

- ” It is the policy of both [Scottish and Welsh] governments that the UK Parliament should legislate for a further referendum. If such a referendum is held we will argue strongly that the UK should remain in the EU.

These policy positions are clearly at odds with the Prime Minister's Brexit policy as stated in his 25 July address to the House of Commons.

The joint letter outlines four areas of action to establish a “more productive relationship between our governments”. These are described by the Scottish Government as:

- ” - the need for the on-going Inter-governmental Relations Review to put in place more robust machinery for working together on the basis of greater equality.
- a commitment to full involvement of the devolved administrations in international negotiations which impact on devolved competence.
- the UK Government should ensure that Scotland and Wales would be no worse off if the UK does leave the EU.

- the Immigration White Paper should be replaced by proposals which reflect the needs of the economy of the whole of the UK.

The joint letter requests the Prime Minister to convene a Heads of Government meeting as soon as possible.

Letter on Brexit impact in Scotland and Referendums (Scotland) Bill

Also on 25 July, the First Minister [wrote](#) to the new Prime Minister to briefly highlight

- analysis of the likely impact of Brexit on Scotland
- the Referendums (Scotland) Bill, stating that:

“ the Scottish Government will continue to make preparations to give people in Scotland the choice of becoming an independent country... any decision of the Scottish Parliament on whether to give people that choice must be respected.

Reaction from the European Commission

Following Boris Johnson's election as leader of the Conservative Party, the European Commission's Chief Negotiator on Brexit, Michel Barnier tweeted:



We look forward to working constructively w/ PM [@BorisJohnson](#) when he takes office, to facilitate the ratification of the Withdrawal Agreement and achieve an orderly [#Brexit](#). We are ready also to rework the agreed Declaration on a new partnership in line with [#EUCO](#) guidelines.

12:12 PM · Jul 23, 2019 · [Twitter for iPhone](#)

This represents a continuation of the EU's policy that negotiations on the Withdrawal Agreement will not be re-opened.

On 25 July an email from Michel Barnier to EU27 diplomats was leaked. [Media reports indicated](#) that this message read:

“ PM Johnson has stated that if an agreement is to be reached it goes by way of eliminating the backstop. This is of course unacceptable and not within the mandate of the European council

While he has declared that he will only engage with the EU on this basis, we are on our side ready to work constructively, within our own mandate. We will analyse any UK idea on withdrawal issues that are compatible with the existing [withdrawal agreement], and we are of course ready to rework the political declaration, in line with the EU CO guidelines.

But as suggested by his rather combative speech, we have to be ready for a situation where he gives priority to the planning for no deal, partly to heap pressure on the unity of the EU27.

No-deal will never be the EU's choice, but we all have to be ready for all scenarios.

Reaction from Ireland

Following the Prime Minister's statement to the House of Commons, the Tánaiste Simon Coveney told [RTE News](#) that the Prime Minister's statements were "very unhelpful" and that:

“he seems to have made a deliberate decision to set Britain on a collision course with the EU and with Ireland in relation to the Brexit negotiations”.

He added:

“From a Brexit negotiating perspective it was a very bad day yesterday”.

Before the appointment of Boris Johnson as Prime Minister, Simon Coveney had written an [article published in the Times](#):

...Ireland has had one red line since Brexit: nothing should be done to put at risk peace on the island of Ireland. The UK honoured its responsibility by negotiating the backstop as an insurance policy that ensures that a hard border would be avoided and the all-island economy would be protected. The goal on our side remains a future relationship between the EU and the UK that makes the backstop unnecessary.

Britain has decided to leave the EU. Ireland regrets this, but it is a sovereign decision. Ireland is remaining at the heart of the EU and its single market, which also is a sovereign decision.

Nevertheless, if Britain decides to leave without a deal it would cause huge damage to us all. The Irish people understand this and we have spent many months and hundreds of millions of euros in preparing mitigation measures.

NO-DEAL ANALYSIS AND PREPARATIONS

New UK Government no-deal preparations

The PM's [statement in the House of Commons](#) on priorities for the government included announcements on how the UK Government would be preparing for a no-deal scenario.

The PM said:

The UK is better prepared for that situation than many believe. But we are not as ready yet as we should be. In the 98 days that remain to us we must turbo-charge our preparations to make sure that there is as little disruption as possible

to our national life... In these circumstances we would, of course, also have available the £39bn in the Withdrawal Agreement to help deal with any consequences.

I have today instructed the Chancellor of the Duchy of Lancaster to make these preparations his top priority. I have asked the Cabinet Secretary to mobilise the Civil Service to deliver this outcome should it become necessary. And the Chancellor has confirmed that all necessary funding will be made available.

The PM referred to preparations for a “economic strategy for the UK in all scenarios”, tax rule changes, free trade deals and an economic package.

Finally, on the rights of EU citizens in the UK in a no deal scenario the PM stated:

“ I also want therefore to repeat unequivocally our guarantee to the 3.2 million EU nationals now living and working among us. I thank them for their contribution to our society – and for their patience - and I can assure them that under this government they will have the absolute certainty of the right to live and remain.

Commons Report: consequences of no-deal for UK business

On 19 July 2019, the House of Common’s Exiting the European Union Committee published its inquiry report on [The consequences of “No Deal” for UK business](#).

This report covers the Committee’s findings on the following sectors in detail:

- services,
- automotive sector,
- food and farming,
- pharmaceuticals and chemicals,
- research and higher education

The Committee also concluded that Article XXIV of the General Agreement on Tariffs and Trade (GATT):

“does not provide a means to mitigate the risks to EU-UK trade in the event of a no deal exit”.

OBR: no-deal fiscal stress test

On 18 July the Office of Budget Responsibility (OBR) published its latest [medium term fiscal risks report](#) (FRR).

The OBR’s summary of the July FRR states that:

“ Given the leadership contenders’ willingness explicitly to countenance a ‘no-deal’ exit on October 31, we use the ‘stress test’ in this FRR to illustrate the potential fiscal impact of a no-deal, no-transition Brexit scenario set out by the International Monetary Fund (IMF) in its April 2019 World Economic Outlook.

The OBR explain that:

☞ This scenario is not necessarily the most likely outcome and it is relatively benign compared to some (for example, assuming limited short-term border disruptions). But it still adds around £30 billion a year to borrowing from 2020-21 onwards and around 12 per cent of GDP to net debt by 2023-24, compared with our March forecast baseline.

A more disruptive or disorderly scenario, closer to the stress test we considered two years ago, could hit the public finances much harder. (It is important to remember that the economic and fiscal developments over the past three years – as well our and the IMF’s baseline forecasts – already incorporate some impact from the referendum vote, although it is impossible to isolate that from other surprises relative to our pre-vote forecasts. The impact of Brexit itself – once it happens – would also continue to unfold for many years beyond the end of the stress test horizon.)

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About this publication

This regular paper produced by SPICe sets out developments in the UK’s negotiations to leave the European Union, the process for which formally begun following the Prime Minister’s triggering of Article 50 on 29 March 2017.

The updates provide information on the UK Government’s approach to leaving the EU including the domestic legislation necessary to ensure a smooth transition in terms of the UK statute book, along with details of the positions of the Scottish Government and the other Devolved Administrations. The updates also provide information on developments within the EU with regard to the UK’s departure. Finally, the updates will provide information on the key issues likely to be at play during the negotiations and in developing the UK’s future relationship with the European Union.

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