HM Government

Implications for Business and Trade of a No Deal Exit on 29 March 2019

26 February 2019

Summary

1. The Government’s primary aim is to ensure that the UK leaves the EU on 29 March with a negotiated deal which will honour the result of the referendum. However, as a responsible government, it continues to plan for all eventualities, including one in which the UK leaves the EU without a deal. Guidance for businesses and citizens on how to prepare for a no deal scenario can be found on the Government’s Exit guidance website, www.gov.uk/EUExit.

2. Over recent months, the Government has undertaken significant action to prepare for a potential no deal scenario. Getting ready for this scenario depends not only on Government action, but also on action from a range of third parties. A no deal scenario would also have impacts on the EU and other Member States, and the steps the Commission and Member States have been taking also have a significant influence on the UK’s preparations for no deal.

3. This paper summarises Government activity to prepare for no deal as a contingency plan, and provides an assessment of the implications of a no deal exit for trade and for businesses, given the preparations that have been made. The paper explains that leaving the European Union without a deal on 29 March would have a variety of effects on business, trade and the economy, and despite government mitigation, the impact of a 'no deal' scenario is expected to be significant in a number of areas. While some of this is inherent to a scenario where the UK does not have any agreements with the EU, or with other countries and organisations with which the UK currently has deals through EU membership, in other cases it would be caused by the abrupt nature of the transition, and the late stage at which many parties are starting their preparations. The paper also addresses issues in relation to Article XXIV of the General Agreement on Tariffs and Trade.

4. The information in this note is drawn from a number of sources over a period of time. It represents a fair reflection of the current state of readiness for a no deal exit.

Government preparedness activity

5. Since the referendum in June 2016, the Government’s priority has been to secure the best possible deal for the country from the EU, and deliver that through Parliament. However, it has also been preparing for other possible outcomes, including a no deal scenario as a contingency. The Government has revised its Cabinet committee structures to include a new Cabinet sub-committee, EU Exit and Trade (Preparedness) (EUXT(P)), which has a more focussed remit that its predecessors on overseeing and ensuring effective delivery of plans for an orderly exit from the EU. This sub-committee has, in recent weeks, been specifically focussed on overseeing preparations for a no deal scenario.

6. The Government has taken strategic policy decisions to minimise disruption and provide certainty to businesses and citizens should a no deal scenario arise. In May 2018, the Government agreed to apply a short-term ‘continuity approach’ to no deal plans, meaning that it would take unilateral action to maintain as much continuity as possible in the short term, irrespective of whether the EU reciprocated. For

example, in a no deal scenario, EU hauliers would be able to use their licences in the UK to minimise disruption to businesses that rely on these hauliers to transport goods. Approximately 8 out of every 10 lorries in UK roads is an EU haulier, meaning that this unilateral action would mean that the vast majority of lorries operating in the UK would be able to continue doing so, whilst also having access to EU roads. In relation to human medicines, the Government would continue to recognise batch testing (the process of confirming every batch of medicine has the correct composition, through laboratory tests) carried out in the EU in a no deal scenario. The extent of such continuity varies by area.

7. In recent weeks, the Government has taken further decisions to increase the visibility and intensity of its no deal preparations. In December 2018, the Government took a decision to make preparations for a no deal exit the principal operational focus within Government, notwithstanding the Government's ongoing focus on securing approval for a deal in Parliament. This meant that resources were moved to support no deal preparations, which has supported Government to meet a number of key milestones in no deal programmes in recent weeks. Significant policy announcements therefore have taken place to provide certainty to individuals making plans for their future, such as the offer to EEA citizens on leave to remain in a no deal scenario, and updated guidance on motor insurance, vehicle registrations, number plates, and country stickers for driving in the EU after exit.

8. Notwithstanding very significant efforts to prepare for a 'no deal' scenario, the latest internal Government-wide delivery reporting reveals the scale of risk remaining in the limited time available. In February, Departments reported being on track for just under 85% of no deal projects but, within that, on track for just over two thirds of the most critical projects. The delays to no deal preparations are partly due to communications to third parties, including many businesses, not having the intended effect (see below), and also because the acceleration of preparedness since December is not yet bringing delivery of these preparations back on track where there has been prior slippage.

9. The Treasury has made in excess of £4bn available for EU Exit planning since 2016, £2bn of which was allocated in December 2018 to support core EU exit preparations for the 19-20 financial year. This funding will apply regardless of whether a deal is agreed, and is ring-fenced to specifically support EU exit.

10. The Government also continues to work with the Scottish and Welsh Governments and, in the absence of an Executive in Northern Ireland, the Northern Ireland Civil Service, to make preparations for a potential no deal scenario. The devolved administrations are invited to relevant meetings of the new Cabinet sub-committee, EUXT(P).

11. The Government has also been working where possible to adopt agreements made between the EU and third countries transitionally, which would otherwise fall away once the UK leaves the EU. A number of the most critical international agreements have been signed and are on track to come into force on exit day, including on aviation and civil nuclear cooperation and safeguarding. Those that are not may not be in force on exit day. If contingency options were not in place, there would be

a gap in coverage for some international agreements, the impact of which would vary depending on the nature and scale of the agreement.

12. Around forty of these agreements are trade agreements. To date, the Government has signed trade agreements with Switzerland, Chile, the Faroe Islands, members of the Eastern and Southern Africa (ESA) Economic Partnership Agreement, Israel and the Palestinian Authority. Discussions with other partners continue with the aim of replicating the effects of existing EU agreements as far as possible. The Government is continuing to engage with those other partner countries to conclude agreements in time for exit day. Intensive discussions are, for instance, happening now with partners such as SACU+M, EEA EFTA countries, Canada and South Korea. Other discussions are ongoing. As above, if the UK leaves the EU without a deal, some agreements will not be concluded in time and therefore will not be in place for exit day. Agreements which will clearly not be in place for exit day are Andorra, Japan, Turkey, and San Marino; the government has set out further details in published guidance. Excluding Japan and Turkey, UK trade with countries with whom we are seeking continuity represents 11% of total UK trade. The 20 least valuable trade agreements account for just 0.8% of UK trade.

13. Where discussions are off track, the Government is looking urgently at contingency options, such as provisional application and bridging mechanisms (e.g. Memoranda of Understanding) to bring agreements into force on exit.

GATT Article XXIV

14. One argument that has been put forward in relation to our future economic relationship with the EU is that the UK can simply rely on the provisions under Article XXIV of the General Agreement on Tariffs and Trade (GATT) to have tariff-free trade with the EU for a ten-year period. This is a misunderstanding of what the rules are. As the Secretary of State for International Trade told the House of Commons on 14 January this year:

    Some have suggested that it would be possible under Article XXIV of the General Agreement on Tariffs and Trade to maintain tariff-free trade as an alternative to the negotiated agreement in a no-deal scenario. There are two immediate problems facing that suggestion. The first is that it would require the agreement of the EU and be based on the expectation of a future trade agreement or customs union to be operable in WTO law. Although it might be argued, as I am sure many in the House would, that that would be in the economic interests of the EU27, we all know from experience that the politics of the EU can take precedence over economic pragmatism. In the political atmosphere of no deal, it would be difficult to cultivate the good will necessary for that to proceed. Secondly, that suggestion would not deal with all the regulatory issues—the non-tariff barriers—that are so important to many businesses.

Third party preparedness

15. Many of the Government’s plans depend on third party or third country action for successful delivery. In August, September and October 2018, the Government released a series of technical notices, outlining in detail the potential impacts of a

no deal scenario, as well as the steps that businesses and traders might want to consider taking to prepare. In recent weeks, the Government has stepped up communications to businesses and individuals to provide the information they need to prepare. All this information is available in a dedicated preparedness website: www.gov.uk/EUExit. The Government is continuing to work to increase funded, targeted advertising on no deal preparedness, including through radio and social media. This media campaign is complemented by a substantial volume of briefings given to relevant industry, trade, consumer and other bodies.

16. Despite communications from the Government, there is little evidence that businesses are preparing in earnest for a no deal scenario, and evidence indicates that readiness of small and medium-sized enterprises in particular is low. For example, without an Economic Operator Registration and Identification (EORI) number, businesses would not be able to complete the necessary customs documentation for goods they are importing. As an EORI number registration is one of the most basic and straightforward parts of the process most businesses would need to undertake to prepare for no deal, this is assumed to be a generous indicator of overall readiness. As of February 2019 there had only been around 40,000 registrations for an EORI number, against an estimate of around 240,000 EU-only trading businesses. There is capacity to sign up 11,000 businesses per day, and so this position could change rapidly with behaviour change from businesses. In practice, the UK's approach is based on, in the short-term, allowing hauliers to pass through the border without stopping, but they would be stopped if taking goods into France without the right paperwork. The lack of preparation for EU controls - of which this is an example - greatly increases the probability of disruption.

17. Evidence suggests that individual citizens are also not preparing for the effects that they would feel in a no deal scenario. UK citizens travelling to or living in the EU would need to complete a number of administrative tasks to ensure that their interactions with the EU are as unaffected as possible. These range from renewing passports, to applying for a car insurance green card and International Driving Permit to drive in the EU. As of February 2019, despite a public information campaign encouraging the public to seek out the Government's advice on preparing for a 'no deal', noticeable behaviour change has not been witnessed at any significant scale. Based on DExEU survey data from January 2019, 55% of UK adults did not expect to be affected by a no deal exit.

18. Government judges that the reason for this lack of action is often because a no deal scenario is not seen as a sufficiently credible outcome to take action or outlay expenditure. In some cases, businesses or individuals are seeking answers to specific policy questions. As set out above, the Government is finalising policy in these areas at pace, and prioritising these issues for discussion at the EUXT(P) Cabinet Committee where needed.

19. Preparations by businesses and citizens are also significantly influenced by actions taken by the EU Commission and Member States. The UK Government has discussed no deal with the Commission, who have published three batches of 'no deal' legislation and their own preparedness notices. The unilateral contingency measures the EU has announced do mitigate some of the most acute immediate

impacts, for example on aviation, road haulage, financial services and potentially citizens' rights. The EU has stressed, however, that the mitigations it is putting in place are only temporary, and some important gaps remain; perhaps most significantly on data adequacy and action to ensure smooth flow at the border.

The anticipated effects of a no deal scenario

20. Despite the Government's efforts to prepare for a no deal, a no deal scenario would have a range of significant impacts for the UK. The key areas of residual impact, notwithstanding the mitigating action being undertaken, are set out below.

Economic

21. The Government has already published long term analysis of the impact of a no deal scenario that implicitly assumes a smooth, orderly transition to WTO rules. This estimates that the UK economy would be 6.3-9% smaller in the long term in a no deal scenario (after around 15 years) than it otherwise would have been when compared with today's arrangements, assuming no action is taken. There would also be significant variation across the UK (Wales -8.1%, Scotland -8.0%, Northern Ireland -9.1% and the North East of England -10.5%). This analysis does not account for any short term disruptions, which would be likely to have additional short and long run economic impacts in an immediate no deal scenario. No modelling can completely capture the complex ways in which the UK economy could be affected by exiting the EU, particularly given the unprecedented circumstances of the UK's departure. While the analysis draws on a robust set of tools and evidence, there is an inherent uncertainty around this type of economic analysis. The results are therefore presented as ranges, and should be interpreted with caution. EU Member States are also expected to face economic risks following a no deal exit.

22. The Bank of England published EU exit analysis on 28 November 2018 in response to the Treasury Committee's request for "analysis of how leaving the European Union would affect its ability to deliver its objectives for monetary and financial stability". The Governor of the Bank of England also appeared before the Treasury Committee to discuss this analysis on the 4 December 2018. The analysis and transcripts from the Treasury Committee session are publicly available.

23. Despite the steps being taken by Government to manage the negative effects of no deal, there are a number of areas where the impact on trade, businesses and individuals would be particularly significant.

Border issues, including inbound and outbound 'roll on, roll off' road traffic

24. When the UK leaves the EU, it will leave the Single Market and the Customs Union, and, in the absence of a trade agreement, the EU will treat the UK as a third country for trade in goods. On exit, this could affect the availability of goods in a number of ways, including customs administration and delays at the border. In the absence of an alternative agreement, UK citizens would be treated as third country nationals by Member States, and potentially be subject to full Schengen checks. This would mean they would no longer be able to use e-gates, and checks to enter EU Member

States could take longer than they currently do.

25. In a no deal scenario, both the UK and EU would need to apply customs and excise rules and VAT to goods moving between the UK and EU, as they are currently applied to goods traded in the rest of the world. Every consignment would require a customs declaration, and so around 240,000 UK businesses that currently only trade with the EU would need to interact with customs processes for the first time, should they continue to trade with the EU. HMRC has estimated that the administrative burden on businesses from customs declarations alone, on current (2016) UK-EU trade in goods could be around £13bn p.a. (not accounting for any behavioural change).

26. Industries with supply chains that are integrated within the EU would face additional costs and burdens as a result of new customs procedures, compliance requirements and reductions in traffic-flow across the Channel.

27. Although the Government has made progress in ensuring that additional controls at the UK border would not cause disruption, including phasing Entry Summary Declarations and Transitional Simplified Procedures, those imposed by Member States would be disruptive. There have been efforts from some Member States to put in place the new infrastructure which would be required at the border to implement customs controls. However, this work is at an early stage and even when completed would lead to new burdens, and would not be the same as the fully free-flowing border in place today. In particular, third country rules applied by the EU, including France, would mean that no goods are allowed to leave the port until they have provided the correct paperwork and have been customs cleared (including any necessary checks at the port, for example on products of animal origin). More significantly, Member States would hold any goods which are not correctly customs cleared. This would hold up all goods where trades are not prepared, expected to be a significant proportion in the early period after exit day. The Government's worst case planning assumption is that, as a result of French checks and lack of businesses readiness, the flow of goods through the Short Channel Crossings (Dover and Eurotunnel) could be very significantly reduced for months.

28. However, French willingness to facilitate cross-border flows means that the Government does not currently expect 'day one' disruption to be at the most severe end of its planning assumptions. The French have begun construction of Border Inspection Posts (BIPs) in both Calais and Coquelles, which they intend to have operational for day one after exit. However, at this stage only initial ground works are underway. The recruitment of vets for these BIPs began in November 2018. The French also intend to increase the capacity of the Douane (French Customs) to process HGVs arriving from the UK, and some French politicians have also indicated recently that they want to keep traffic as fluid as possible.

29. One of the most visible ways in which the UK would be affected by delays in goods crossing the Channel is our food supply, 30% of which comes from the EU. Although our food supply is diverse, resilient, and sourced from a wide variety of countries, the potential disruption to trade across the Short Channel Crossings would lead to reduced availability and choice of products. This would not lead to an

overall shortage of food in the UK, and less than 1 in 10 food items would be directly affected by any delays across the Short Channel Crossings. However, at the time of year we will be leaving the EU, the UK is particularly reliant on the Short Channel Crossings for fresh fruit and vegetables. In the absence of other action from Government, some food prices are likely to increase, and there is a risk that consumer behaviour could exacerbate, or create, shortages in this scenario. As of February 2019, many businesses in the food supply industry are unprepared for a no deal scenario.

30. In order to mitigate against the lack of business readiness for no deal, the Government has announced transitional simplified procedures for EU trade at roll-on roll-off ports, which will make it easier for traders importing from the EU to comply with customs requirements immediately after EU Exit. HMRC has also published its intention to phase in Entry Summary Declarations for imports from the EU over six months following 29 March 2019, rather than requiring these from day 1 of exit.

Tariffs

31. In a no deal scenario there would be wider macroeconomic effects, and a number of factors would impact on the trade and economic viability of UK industries, and in particular could be expected to increase the price of imports Such factors would include the resurrection of non-tariff barriers with the EU, and countries covered by EU free trade agreements but not yet new UK ones, and any restrictions at the border which could delay imports and exports. Despite the use of a continuity approach where possible, and notwithstanding very significant efforts to prepare for a no deal scenario, the impact of a no deal scenario is likely to be severe in a number of areas.

32. Industries would need to respond to the application of EU tariffs. These would vary by sector. While for some sectors (such as life sciences or electronics) the effect of any tariffs would be minor, other sectors would be more affected. For example, the EU would introduce tariffs of around 70% on beef and 45% on lamb exports, and 10% on finished automotive vehicles. This would be compounded by the challenges of even modest reductions in flow at the border. Given the unprecedented nature of the sort of economy-wide adjustment that would be required in a no deal scenario, it is impossible to accurately predict the ability of businesses to adapt. The second order effects on local economies dominated by a small number of industries, or on businesses in the supply chains for those companies, is also hard to predict with precision, although it would be likely to be uncertain and costly.

33. **Case study: The automotive industry.** The UK automotive industry is highly export intensive. In 2018, 81.5% of UK vehicle production (1.24 million vehicle) was exported. 42.8% of UK vehicle production was exported to the EU27. The risk of no deal is of major concern for the industry, due to the high tariffs which would be applied on exports to the EU. This would be 10% on finished vehicles, and around 2.5 - 4% on components. Although wider macroeconomic effects will influence how the sector is affected, low operating margins may mean that in many cases extra costs could be likely to be passed on to consumers at the showroom. Car

manufacturers also use a just-in-time production model, which would be disrupted by delays at the border.

34. The Government will bring forward secondary legislation and set out the UK import tariff in a no deal scenario soon, in line with the provisions in the Taxation (Cross-Border Trade) Act. The Government is committed to an open and liberal economy that works for everyone. There needs to be a balance between protecting consumers and downstream users from the possible price impacts of a no deal scenario and avoiding the exposure of industries to unfair competition. Further details will be announced in due course.

Northern Ireland

35. Overall, the cumulative impact from a 'no deal' scenario is expected to be more severe in Northern Ireland than in Great Britain, and to last for longer. This is because of Northern Ireland's unique circumstances, including in particular its geographical position as the only part of the UK with a land border with the EU, and the current lack of an Executive in Northern Ireland.

36. The Government has been clear that it is committed to avoiding a hard border between Northern Ireland and Ireland in any scenario. The Government will shortly publish further details on its immediate, temporary, arrangements for trade between Northern Ireland and Ireland in a no deal scenario. The Government would need to work urgently with the Irish Government and the EU to find any sustainable longer-term solution.

37. In a no deal scenario there is an expectation of disruption to closely interwoven supply chains and increasing costs that would affect the viability of many businesses across Northern Ireland. There is a risk that businesses in Northern Ireland will not have sufficient time to prepare. This could result in business failure, and/or relocation to Ireland with knock-on consequences for the Northern Ireland economy and unemployment. Northern Ireland is particularly vulnerable given its high proportion of, and reliance upon SMEs (75% of all private sector employment) and the number of businesses who trade directly with Ireland (Northern Ireland's largest international export market). The agri-food sector is a disproportionately large part of Northern Ireland's economy and located predominantly in border / rural areas. It is particularly vulnerable given its reliance on cross-border supply chains in the production stage and in finished products. Disruption could also include impacts for the single electricity market (SEM), cross-border cooperation on areas such as crime and security, and potential for community tensions to be heightened. Groups could seek to exploit gaps in law enforcement and any divergence between Northern Ireland and Ireland, which may lead to increases in smuggling and associated criminality. The Government is committed to restoring an Executive in Northern Ireland but in this context this would become more challenging.

38. **Case Study - Single Electricity Market.** The Single Electricity Market (SEM) between Northern Ireland and Ireland is integrated more than any other cross-border wholesale market. In the first instance, even in a no deal scenario, the UK would seek to agree with Ireland a continuation of the SEM, which would minimise impact on exit. This relies on cooperation with Ireland and the EU, which is not within the UK's gift to unilaterally control or mitigate.

Service sectors

39. The service sector (which makes up around 80% of UK GDP) is supported by free movement of people and a range of cross-cutting regulation such as mutual recognition of qualifications. In a no deal scenario, UK businesses would be treated as third-country service providers by the EU. The UK would risk a loss of market access and increase in non-tariff barriers. UK businesses would face barriers to establishment and service provisions in the EU which they had not previously faced, including nationality requirements, mobility, recognition of qualifications and regulatory barriers when setting up subsidiaries in EU member states.

40. **Case study - legal services.** The legal services sector generated £31.5bn in revenue in the UK in 2016, as well as underpinning other service sectors including the financial industry. UK legal professionals benefit from being able to provide full service to clients, across the EU as well as domestically. In a no deal scenario, the EU has said that UK nationals would be treated in the same was as third country nationals with regards to recognition of their professional qualifications. This would mean the loss of the automatic right to provide short term 'fly in fly out' services, as the type of work lawyers can do in each individual member state may vary, and the loss of rights of audience in EU courts. UK lawyers and businesses would be responsible for ensuring they can operate in each Member State they want to work in.

41. **Case study - financial services.** In the financial services sector, firms could lose their regulatory permissions to conduct cross-border business in a 'no deal' exit. In addition, the Commission has implied that third country access ('equivalence') will not be in place for the UK across EU legislation in no deal. The Government has taken action to minimise disruption for UK households and businesses, including by introducing temporary regimes for EEA firms operating in the UK. The European Commission has also taken action in some areas, and some Member States are introducing 'no deal' legislation to mitigate risks of disruption to certain financial services provided by UK-based firms. However, as the Financial Policy Committee said in its Financial Stability Report in November 2018, it is unclear how comprehensive Member State actions to mitigate certain risks will be by March. The Commission has stated that it is only focusing on areas in its self-interest, for EU financial stability, and that any decisions taken may be conditional and time-limited.

42. In addition to this, financial services firms have set up new European entities as part of their no-deal planning. The Financial Policy Committee also said in its Financial Stability Report from November 2018 that the UK banking system is strong enough to continue to serve UK households and businesses even in the event of a disorderly exit. And most risks of disruption to the financial services that EU firms provide to UK households and businesses in the event of a disorderly exit have been addressed, including through legislation. However, the absence of action by EU authorities to mitigate risks in some areas of financial services, there could be some disruption in a no deal scenario.

Regulated, integrated and just-in-time industries

43. Goods businesses would face additional regulatory barriers in a no deal scenario. For harmonised goods sectors (such as chemicals, aerospace, medicines and automotive) that are subject to EU common rules, the continuity approach means some form of continued recognition of EU product requirements and associated compliance activity would continue for a limited period after the UK has left the EU in a no deal scenario. This would ensure that these goods continue to flow onto the UK market.

44. Those UK businesses which export goods to the EU would still have to have their products tested with the relevant EU27-based assessment body, which would add to their compliance costs. Existing licences and authorisations for UK authorities would likely not be acceptable in the EU27 beyond the short-term unilateral commitments made by the EU.

45. **Case study: The chemicals sector**
    a) The chemicals sector is the UK's second largest manufacturing exporter by value, exporting £28.3bn in 2017, £17bn of which was exported to the EU. The sector has four main clusters of operations in the North of England and Scotland, and is an important contributor to the local economies. Supply chains are highly integrated within the EU, and products will cross borders a number of times before becoming final products, making them vulnerable to delays at the border.

    b) Currently, businesses who manufacture or import substances into the EU need to register them with the central European Chemicals Agency. As of August 2018, UK businesses held over 12,000 of these registrations. Following a no deal scenario, UK companies would only be able to sell into the EU providing they have transferred their existing registration to an EU-based entity. The European Chemicals Agency transfer fee for a single registration is around £1,500, excluding admin costs. Businesses would need to meet both UK and EU requirements when they register new chemicals or seek authorisation to sell into both markets, creating duplication of registration fees and additional administrative burdens. EU WTO tariffs of on average 5% would also apply.

46. Trade in non-harmonised goods (such as furniture, sports equipment and bicycles) is governed by the principle of mutual recognition. A UK business that wants to sell goods in the EU would have to conform to the domestic regulations of the first member state that it exports to, and so may have to track multiple domestic requirements, or have less flexibility about where an initial sale can be. However, non-harmonised goods represent a minority of UK-EU trade in goods (26.8% of UK exports to the EU and 16.8% of UK imports from the EU) and it is likely that only a subset of trade is reliant on the mutual recognition principle. This means that in the short term, other factors being equal, the majority of non-harmonised trade in goods would be likely to continue.

Data flows

47. Uninterrupted personal data flows are critical for many UK businesses' processes and all trading activity. For example, a wide range of financial services activities require the transfer of personal data, including the servicing of cross-border contracts and payments. The UK would need to seek adequacy decisions from the EU, which the EU has said they will not start until the UK is a third country. Therefore, in the event of a no deal exit, there would be a gap in the lawful free flow of personal data while the assessment takes place. Alternative legal bases to enable the continued lawful flow of data, in the absence of adequacy, are available. To prepare for a no deal scenario, many UK businesses need to work with their EU partners to secure a legal basis for the continued transfer of personal data from the EEA to the UK. Businesses are at varied levels of readiness and the Government is engaging widely to increase awareness of actions that businesses can take.

Citizens

48. Effects of a no deal scenario would also be felt by individuals. In addition to the economic impacts detailed above, there would be practical barriers preventing UK nationals from interacting seamlessly with the EU in the way they do currently. UK nationals would still be able to travel to the Schengen Area visa-free, for 90 days in every 180, but would not be able to undertake paid activity during this time. For UK nationals living in another EU Member State, citizens with less than five years' residency would be subject to the rules of the Member State in which they are living, including their immigration rules. Although most Member States have now announced unilateral arrangements for resident UK nationals, the offers do vary. The Government is encouraging Member States to reciprocate the rightly generous offer that the UK has made to resident EU nationals, but in the absence of an arrangement of this sort UK nationals would see changes ranging from the administrative to more profound effects, such as the potential need to arrange for healthcare cover.

Impact across the UK

49. The effects on Scotland, Wales and Northern Ireland are likely to be similar to those for the rest of the UK, as described above. In addition to issues arising specifically in Northern Ireland, and the economic impacts mentioned in paragraph 20, key examples of particular impact on Scotland, Wales and Northern Ireland include:
    a) Impact on the UK's agriculture, forestry or fishing industries would have particular effects in Scotland. ONS figures demonstrate that these three industries account for 1.21% of Scotland's economy, compared to 0.46% of England's.
    b) Around 92% of Welsh lamb exports by value go to the EU. Consequently, disruption to animal exports would likely be felt strongly by the Welsh lamb industry.

c) Impacts on the UK's food and drink sector would be more pronounced in Wales, Scotland, and particularly Northern Ireland, where the sector comprises 5.07% of the economy, compared to 1.38% for England.

British Overseas Territories and Crown Dependencies

50. The UK Government continues to work closely with British Overseas Territories, Crown Dependencies, and Gibraltar to prepare for all outcomes, including a no deal scenario. Overseas Territories are likely to experience effects to those parts of their economies with close ties with the EU.

Conclusions

51. Government has been accelerating its preparations for a no deal scenario since September, with a particular emphasis since December 2018. However, the short time remaining before 29 March 2019 does not allow Government to unilaterally mitigate the effects of no deal. Even where it can take unilateral action, the lack of preparation by businesses and individuals is likely to add to the disruption experienced in a no deal scenario.