



House of Commons  
Foreign Affairs Committee

---

**Article 50 negotiations:  
Implications of “No  
Deal”: Government  
response to the  
Committee’s Ninth  
Report of Session  
2016-17**

---

**Eighth Special Report of  
Session 2017–19**

*Ordered by the House of Commons  
to be printed 15 May 2018*

## The Foreign Affairs Committee

The Foreign Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Foreign and Commonwealth Office and its associated public bodies.

### Current membership

[Tom Tugendhat MP](#) (*Conservative, Tonbridge and Malling*) (Chair)

[Ian Austin MP](#) (*Labour, Dudley North*)

[Chris Bryant MP](#) (*Labour, Rhondda*)

[Ann Clwyd MP](#) (*Labour, Cynon Valley*)

[Mike Gapes MP](#) (*Labour (Co-op), Ilford South*)

[Stephen Gethins MP](#) (*Scottish National Party, North East Fife*)

[Ian Murray MP](#) (*Labour, Edinburgh South*)

[Priti Patel MP](#) (*Conservative, Witham*)

[Andrew Rosindell MP](#) (*Conservative, Romford*)

[Mr Bob Seely MP](#) (*Conservative, Isle of Wight*)

[Royston Smith MP](#) (*Conservative, Southampton, Itchen*)

The following Members were also members of the Committee during the Parliament:  
Ms Nusrat Ghani MP and Nadhim Zahawi MP

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/facom](http://www.parliament.uk/facom) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Tom Goldsmith (Clerk), Zoe Oliver-Watts (Second Clerk), Hannah Bryce (Clerk), Dr Ariella Huff (Senior Committee Specialist), Ashlee Godwin, Dr Eoin Martin and Hannah Stone (Committee Specialists), Clare Genis (Senior Committee Assistant), Zara Emmett and Matthew Chappell (Committee Assistants) and Estelle Currie (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Foreign Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6105; the Committee's email address is [fac@parliament.uk](mailto:fac@parliament.uk).

## Eighth Special Report

---

On 12 March 2017, the Foreign Affairs Committee published its Ninth Report of Session 2016-17, on Article 50 negotiations: Implications of 'no deal'. The response was received on 9 May 2018. The response is appended below.

## Appendix: Government Response

---

### *Letter from the Rt Hon David Davis MP, Secretary of State for Exiting the European Union, to the Chair of the Committee*

Dear Tom,

Thank you for your Committee's report on "Article 50 negotiations: Implications of 'no deal'" (HC1077), published on 12 March 2017. I am responding on behalf of the Government given that the focus of the report is on the implications of leaving the European Union. Further to my letter to the Committee on 21 March, I would like to apologise once again for the delay in responding.

The Government welcomes this report on the implications of 'no deal' and values the time the Foreign Affairs Committee has taken to investigate this issue. This is a crucial and sensitive negotiation and it is in everyone's interest to secure a good deal. I hope that I can provide the Committee with appropriate assurances on the principles underpinning our preparations.

The Prime Minister set out in her notification letter of 29 March 2017 to Donald Tusk that leaving the European Union without an agreement is not the outcome that either side should seek, and that we must therefore work hard to avoid this result. We start from a unique position with close regulatory alignment, trust in one another's institutions, and a spirit of cooperation stretching back decades. A deep and special partnership, taking in both economic and security cooperation between the United Kingdom and the European Union, is of such importance to both sides that we are confident it can be agreed. The Prime Minister reiterated these points in her Florence, Munich and Mansion House speeches.

In December the European Council formally confirmed that sufficient progress had been made to enable us to begin the second phase of negotiations. As the Prime Minister said, this was an important step on the road to delivering a smooth and orderly EU exit and forging a new partnership.

We have made further significant progress in recent weeks, reaching agreement on the majority of the Withdrawal Agreement issues and on the time-limited implementation period. Recognising this, the European Council has confirmed that we are able to move on to discussions on the future relationship between the UK and the EU. In the light of these milestones, I am increasingly confident that we will secure a positive and mutually beneficial deal with the EU, and that the prospect of a 'no deal' outcome in March 2019 has receded significantly.

I set out the Government's response to the Committee's recommendation below, as well as addressing the key wider points raised throughout the body of the report, on which I trust the response will provide you with useful assurances.

RT HON DAVID DAVIS MP

SECRETARY OF STATE FOR EXITING THE EUROPEAN UNION

9 May 2018

---

***Recommendation: The Government should require each Department to produce a 'no deal' plan, outlining the likely consequences in their areas of remit and setting out proposals to mitigate potential risks. Such preparation would strengthen the Government's negotiating hand by providing credibility to its position that it would be prepared to walk away from a bad deal.***

**Response:** As The Secretary of State for Exiting the European Union has explained to the Exiting the European Committee, every department has worked at pace to develop a detailed understanding of how withdrawing from the EU will affect existing policies and services. Each department has been preparing for a range of potential outcomes, including the increasingly unlikely scenario where no mutually satisfactory agreement with the EU can be achieved. Since the publication of the report, the Secretary of State for Exiting the European Union has provided further detail to the Exiting the European Union Committee on departments' preparations for all scenarios.

We continue to implement plans to ensure that we are ready for the UK's exit from the EU, including procuring new systems, recruiting new staff and committing financial resources where necessary. As well as the European Union (Withdrawal) Bill, which continues to make progress through both Houses, the Government is bringing forward legislation — ranging from trade to nuclear safeguards — to prepare for all exit scenarios. In November's budget, the Chancellor made an additional £3 billion of funding available over the next two years to allow departments and the devolved administrations to implement plans for a range of exit scenarios, including 'no deal'.

## **Financial settlement**

As pointed out in the report, discussions on the financial settlement are a key part of the negotiations. We have made rapid progress in reaching agreement on the financial settlement text of the Withdrawal Agreement.

This reflects the December Joint Report and confirms that the UK will honour our share of the commitments made during our membership.

The agreement secures a commitment that our rebate will continue to be applied, as well as a number of principles that will ensure a fair deal for UK taxpayers. It also reflects the UK's continued participation in programmes funded through the current budget.

## Negotiations

The report outlines the risks, and consequences, of a breakdown in negotiations. We continue to negotiate with the EU in good faith.

The considerable progress made in negotiations, including at the European Council in March, means that we are increasingly confident of leaving the EU with a good agreement and that the chances of 'no deal' have significantly reduced.

## Role of the UK Parliament

The Committee report states that Parliament may choose to reject the terms of any deal secured by the UK. The Government is clear that its notification under Article 50 will not be withdrawn. The British people voted to leave the EU and we will deliver on their instruction. The Government has undertaken to hold a resolution on the final deal in both Houses of Parliament covering the Withdrawal Agreement and the terms for our future relationship. We are confident that we will get a good deal with the EU — one that Parliament will want to support.

## Role of the European Parliament

As the Committee has identified, the UK's final withdrawal agreement with the EU will require the consent of the European Parliament (EP). We recognise and respect the vital role played by the EP, and are working closely with other Member States and EU institutions — including the EP — to ensure that our withdrawal agreement passes this important milestone.

## Uncertainty for EU citizens in the UK and UK citizens in the EU

The report outlines several areas of uncertainty regarding citizens' rights. From the very beginning the Prime Minister has been clear that safeguarding the rights of EU citizens living in the UK and UK nationals living in the EU was her first priority for negotiations. This is a commitment we have delivered. The agreements reached in December and March, as set out in the Withdrawal Agreement legal text, will provide citizens with certainty about their rights going forward. It will enable families who have built their lives together in the EU and UK to stay together. It also gives people more certainty about residence, healthcare, pensions and other benefits.

## Trading on World Trade Organisation terms

The Committee notes that leaving the EU without a deal could impose material costs on both the UK and its EU trading partners, and could mean that the UK loses access to the EU's Free Trade Agreements.

We remain confident that we will get a good deal, and have worked at pace to reach agreement in a number of areas.

Irrespective of the exit scenario, leaving the EU offers the UK an opportunity to forge a new role for itself in the world, to negotiate our own trade agreements, and to be a positive and powerful force for free trade.

## **Regulation and post-exit rulemaking**

The report highlights the possible need for new UK rulemaking bodies post-exit. Individual relevant departments are responsible for existing and potential new regulatory bodies within their remit. The Government will take any necessary steps to ensure that we are ready for exit day.

We will also explore associate membership of EU agencies, such as those which are critical for the chemicals, medicines and aerospace industries. This is the only way to meet our objective of ensuring that these products only need to undergo one series of approvals.

## **Legislation**

As pointed out in the report, a sudden withdrawal could leave the UK with gaps in its legal framework. The EU (Withdrawal) Bill will ensure that we have a functioning statute book on the day we leave by converting EU law into UK law. This gives the maximum possible certainty to individuals and businesses about their rights and obligations as we leave the EU, providing the basis for a smooth and orderly exit. In addition to legislation announced in the Queen's Speech, the Government will also bring forward a Withdrawal Agreement and Implementation Bill to implement the Withdrawal Agreement we aim to conclude with the EU.

## **UK participation in the EU's Common Foreign and Security Policy**

The report discusses the implications of the UK no longer cooperating with the EU on its Common Foreign and Security Policy. The Prime Minister has emphasised, in Florence and more recently in Munich, that the UK's commitment to European security is unconditional. We want to work closely with our European partners to promote our shared values, and to keep our citizens safe from common threats. With challenges to our security becoming more serious, our response cannot be to reduce cooperation with each other, but instead to work together even more closely. For this reason, we are seeking an enhanced partnership with the EU which goes beyond that with any other third country, reflecting the UK's unique relationship with the EU.

The guidelines adopted by the EU27 in March call for strong EU-UK cooperation in the fields of foreign, security and defence policy. The draft Withdrawal Agreement also provides for our future relationship in this area to begin during the implementation period. The UK will continue to play a leading role as a global foreign policy and security actor in international fora, and will strengthen our bilateral security relationships with European partners and with allies further afield.

## **'Hard' customs border between Northern Ireland and the Republic of Ireland**

The report rightly highlights the challenge of the land border between Northern Ireland and Ireland. The Government is fully committed to the Belfast ('Good Friday') Agreement, its successors and the institutions they established. We will maintain the Common Travel

Area and protect the rights enjoyed by British and Irish citizens in each other's states. We recognise the special importance of this to people in their daily lives, and the underpinning it provides for the Northern Ireland political process.

The Joint Report, published in December, reiterates both our commitment to avoid a hard border between Northern Ireland and Ireland — including any related checks and controls — and our clear position on preserving the constitutional and economic integrity of the United Kingdom.

### **Economic impacts**

The report states that a 'no deal' scenario would impose considerable economic costs. As a result of the significant progress made in negotiations, and the agreement reached at March European Council on the implementation period and Withdrawal Agreement, we are increasingly confident that we will secure a deal with the EU.

We approach the negotiations anticipating success and are seeking the broadest and deepest possible economic partnership with the EU, covering more sectors and cooperating more fully than any existing Free Trade Agreement.

My department, working with officials across government, is undertaking a wide range of analysis to support the negotiations.

To give businesses certainty, the implementation period will allow them to trade on the same terms as now up until the end of 2020, so businesses now know the terms that will apply immediately after our withdrawal. Therefore they will continue to operate and invest with confidence as the design of our future partnership with the EU becomes clear.

As the Prime Minister has said, it is in the interests of both the UK and the EU for our exit to be as smooth and orderly as possible. We are confident that we will reach an agreement with the EU but, as this response demonstrates — we are preparing effective and proportionate plans for a range of potential outcomes.

Department for Exiting the European Union