

Deal or No Deal?

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There was no ‘Meal Deal’ this week for the UK and EU after Boris Johnson dined with Ursula von Der Layen in Brussels, with the latter saying “*we gained a clear understanding of each other’s positions. They remain far apart.*”

Sunday is the next ‘final’ deadline. It may finally be ‘final’ this time, although given the number of deadlines that have come and gone I wouldn’t bet against talks still going down to the wire over Christmas. Think turkey, tinsel and trade.

And it remains very difficult to predict what will happen given differences over fisheries and so called ‘level playing field’ provisions. On the latter, the UK wants the power to set its own rules, while the EU feels that UK firms cannot have tariff free access to the European market unless they follow comparable standards to those in the EU.

A ‘non regression clause’ is standard in trade deals, meaning that country A won’t reduce say labour or environmental standards and hence gain a competitive advantage over country B. That has pretty much been sorted out between the UK and EU.

Rather, the sticking point is how the UK and EU will manage divergence over time in the future given their common starting point with exactly the same regulations and standards.

Speaking earlier in the week, Prime Minister Johnson told the House of Commons that a “good deal” could still be done, but that he would not accept a deal that could see the EU impose trade sanctions if Britain were to shift from shared rules:

“Our friends in the EU are currently insisting that, if they pass a new law in the future with which we in this country do not comply or do not follow suit, they should have the automatic right to punish us and to

retaliate ... I do not believe that those are terms that any prime minister of this country should accept."

In essence, the UK government sees Brexit as about sovereignty and yes that phrase 'taking back control' on things like laws, borders and fishing waters. It fears that the EU is trying to bind it into the EU's (changing) rules indefinitely.

The EU meanwhile fears that over time the UK will undermine the EU's competitiveness by diverging on labour and environmental standards and offering more 'state aid' (financial support) to British firms. This threat of being a 'Singapore-on-Thames style' low-regulation rival right on the EU's doorstep worries a number of EU member states, hence the demand for 'level playing field' provisions.

German chancellor Angela Merkel stressed this week that there was still a chance of a deal, but that this may not actually happen. In so doing she reiterated the importance of defending the EU's Single Market:

"One thing is certain: the integrity of the single market has to be maintained.... We must have a level playing field not just for today, but we must have one for tomorrow or the day after, and to do this we must have agreements on how one can react if the other changes their legal situation,"

Given the talks impasse, the EU is now stepping up no-deal contingency planning. Brexit trade talks may now be on life support. But they are not dead quite yet; both sides still seem sincere on wanting to reach a deal if possible, despite the very different viewpoints.

There remains in essence a potential landing zone but neither side is yet willing to make the necessary compromises to get there. The UK's position on sovereignty is understandable in the wake of the 2016 Referendum but the counter argument is that any trade deal today involves some sort of sacrifice of sovereignty to reduce what are termed 'non tariff barriers' to trade like regulations and standards.

Some sort of compromise deal might involve the UK avoiding tariffs now on exports to the EU but the possibility of facing tariffs down the

line if it chooses to exercise its sovereignty and diverge from EU standards over time, subject to some sort of agreed dispute settlement procedure.

Boris Johnson flew to Brussels and back for dinner talks yesterday. Down on the ground lorries were snarled up in big traffic jams, in part because of efforts to import goods in the UK ahead of the end of year. Firms are again stockpiling to avoid disruption and higher prices next month in the event of no trade deal and tariffs.

The port of Calais and the Eurotunnel are struggling to cope with the flow of traffic and car-maker [Honda has even had to suspend](#) car production at its Swindon plant as its finely grained component supply chain became stuck in the jam.

But failure to reach a trade deal by the end of the month will likely bring much greater disruption in the New Year with tariffs on imports and exports of goods like cars.

Even with a limited trade deal, Brexit will create additional financial and other costs for sectors like manufacturing. Think of tariffs, customs declarations, customs delays, certificates' costs, audits to prove that rules of origin requirements are met and so on...

Either way what's clear is that the UK is heading for a hard Brexit – either a thin trade deal that just avoids tariffs and quotas or an even more economically damaging no trade deal at all.

A no trade deal outcome won't just represent a failure of negotiation but would indicate the depth of fundamentally different positions between the UK and EU about their future relationship.

This post has also been published on UK in a Changing Europe. [See here](#).