

Musings on the latest in Brexit negotiations

By Professor Alex de Ruyter, Director, Centre for Brexit Studies

As “negotiations” via remote continue to stutter over key differences, I thought it would be worthwhile to take stock over some of the main issues at this stage. To look at the respective strengths of each side, it is blatantly apparent that the EU holds all the advantages.

As the UK conducts about half of its trade with the EU, whilst the EU in total only exports about 10% of its products to the UK (which will be heavily concentrated in certain sectors like automotive and fall more on countries like Germany), any fallout from failing to attain a trade agreement will have a far greater impact on the UK.

Not that this has stopped much of the media in the UK (pro-Government) from seeking to portray the EU as being under “huge pressure” from the UK.

However the EU are not going to change their minds on their own “red lines” in fishing access and adherence to so-called “level playing field” provisions where they demand continued UK regulatory alignment on issues such as environment, state aid and labour laws.

Indeed, the idea that the EU is under “huge pressure” from the UK presupposes that both sides have equal bargaining power. At the risk of stating what should be the obvious: they don't. The UK is a middle-sized economy with about 65 million people. The EU is a trade bloc with a population of about 450 million.

So no, I don't expect the EU to change their stance. If we look at key areas of disagreement; fisheries and the level playing field provisions; on the former, fishing, whilst a totemic issue for the UK (despite its trivial economic contribution at about 0.01% of our GDP) is equally totemic for EU countries with equally strong maritime traditions; the Netherlands, France, Spain, Denmark etc.

On the EU insisting on the UK abiding by level playing field provisions, this is an existential issue for the EU in that an ex-member state cannot be seen to extract favourable concessions on Single Market access least other EU countries such as Poland and Hungary kick-off and start demanding the right to derogate on key EU treaty obligations – at that point the whole EU project really could unravel.

Not that this would stop the possibility of the UK walking (or to be more precise, Zooming) away from the negotiating table. In fact, I think that “no deal” is looking increasingly likely. For the free-market Brexit “ultras” in the UK negotiating team, any form of continued regulatory alignment with the EU is anathema to them.

I think they prefer No Deal to what they regard as any continued adherence to Brussels rulings. Given that we have until the end of next month to request an extension to the so-called Transition Period of continued Single Market and Customs Union membership, time is running out, and there is no change in sight to the UK Government’s negotiating approach.

Of course, the UK’s stated approach is to seek a free trade agreement of the type that the EU has with Canada. The EU say yes, but only if you abide by our regulatory standards given your volume of trade with us, and “proximity”. The UK say this is “unfair” as the EU haven’t asked such requirements on Canada and Japan in their respective agreements.

However, this misses the point of the essential political imperative for the EU – to reiterate, the UK is an ex-member state with extensive economic integration with other EU economies. The UK Government think they’re playing “chicken” but the EU is playing for its life (and anyway is a much bigger chicken than the UK).

So, I am increasingly of the view that these trade “talks” were always destined to collapse. Brexit, economically, only has a “logic” if you want to pursue regulatory departure from EU standards, so that you can realign your economy and pursue trade agreements with countries such as the US that don’t meet EU standards in many areas (e.g., agriculture, environmental laws).

The Government do seem to favour aligning with the US more. The big problem here though is twofold; one, economically, the benefits of a trade “deal” with the US are miniscule. As I have mentioned previously, the UK Government’s own analysis suggests this would only add 0.16% to our GDP.

In contrast, the same analysis suggests that a Canada-style trade deal with the EU would result in about a 6% hit to our economy; whilst No Deal with the EU would result in about a 9%. So, economically, the maths looks appalling.

And to reiterate here yet again, politically, I don’t think such a deal would fly; President Trump would have to get Congress to ratify a trade deal with the UK and the Democrats control the House of Representatives – I can’t see them approving a trade deal this side of a presidential election. If Biden wins for the Democrats in November he could well scupper such a deal anyway.

That’s before the UK Government even gets to actually trying to “sell” such a deal to the UK public, who in the current Covid-19 context will be especially antagonistic to anything that would undermine the NHS (e.g., giving US drugs companies market access that would result in the price of prescription drugs going up...)

Assuming that the UK Government still wants a trade agreement, we are not going to see one ratified by the end of this year. EU chief negotiator Michel Barnier has consistently argued that it would take at least 3 years. As a comparison it took Canada eight years to get an agreement; and Japan nine years.

Hence, I think that the UK Government should request to extend the transition period to allow more time for negotiations. Covid-19 has sapped the ability of Government to devote time and resources to this and the prospect of a No Deal coming on top of Covid-19 disruption could tip many businesses over the edge.

This would devastate our manufacturing sector. In this context, the recent announcement by Rolls-Royce (surely the flagship of UK

manufacturing) of plans to make 9,000 staff redundant – with 4,000 staff in the UK already furloughed^[1] – should come as a salutary warning in that regard...

^[1] <https://www.theguardian.com/business/2020/may/20/rolls-royce-to-cut-9000-jobs-worldwide-as-covid-19-takes-toll>