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INTRODUCTION

After more than a year into the Brexit process, more questions than answers continue to dominate the discussions. “Brexit means Brexit,” said repeatedly UK Prime Minister Theresa May when trying to explain the results of the June 2016 referendum that set in motion the Brexit initiative. “No deal is better than a bad deal” she used to say when referring to the incoming Brexit negotiations. And she was even vaguer when trying to explain what the future deserved to relations with the EU once the Brexit process was completed other than saying that “the UK is leaving the European Union, not Europe.”

[In all truth, all these catch words served Prime Minister May well.](#) They kept her critics busy trying to decipher them, and reflected the confidence with which her government was undertaking a process that took most people – inside and outside the UK government – by surprise, and that even today many fail to understand completely.



Source: Bloomberg

“Brexit means Brexit” remained mostly undefined until January this year, when she [made clear](#) in a much expected speech at Lancaster House, that the UK intended to leave the single market, the central feature of the European Union historic effort to eliminate all barriers to trade across the union, and confirmed that Britain is determined to regain control of migration from the European

Union, to reject the supremacy of the European Court of Justice...and to build, in her own words, a “Global Britain.”

Two months later – on March 29 – Prime Minister May triggered out a two-year exit process during which the British government and its European Union counterparts would negotiate the terms of their separation – the “divorce” proceedings - as well as the conditions on the basis of which their future relationship would be established - a “new partnership” which in the view of the UK would include a bold and ambitious free-trade agreement that would provide for the freest possible trade in goods and services between Britain and the other EU’s member states.

Then, rather unexpectedly, PM May called in April for a snap election in search of a “strong mandate” to lead the Brexit talks, [unimpeded from backbench dissent and an unstable majority](#). She got neither. As pointed out in the Financial Times, the results of the election robbed PM May of a stable majority in parliament and threw Britain’s politics and the PM plans for Brexit into confusion.

Thus, PM May’s optimism of a few months ago has given way to a more nuanced approach. However, the clock on the Brexit negotiations is already ticking and it marks the end of March 2019 for the UK and the EU to reach an agreement. Thus, despite Britain’s shifting politics [the schedule for the next two years will determine what sort of deal the UK and EU can strike, if any at all](#).

THE BREXIT “TIMELINE”



As anticipated, the first formal face-to-face Brexit negotiations started on June 19 in Brussels when Michel Barnier, the EU chief negotiator¹ and David Davis, Brexit secretary² met for the first time to outline their respective positions. As reported by the [Financial Times](#), the EU and the UK had previously exchanged position papers and agreed that issues of citizens’ rights and the Brexit “bill” would dominate the discussions during the first few

months.

At their first formal negotiating session, Britain and the EU agreed to focus the first stages of negotiations over Brexit “divorce” proceedings from the bloc, and agreed to prioritize [negotiations](#)

¹ A former French foreign minister and two-time European commissioner, Michel Barnier oversaw the EU’s deluge of post-crisis financial regulation — and all the tensions with London that came with it. His strength is working the EU’s power centres, from capitals to the European Parliament. Tall, silver-haired and with the stride of a politician with a calling, the 66-year-old has been a fixture of the Brussels scene for decades. His latest job is to spearhead the EU’s negotiating team and brief leaders on progress.

² The 68-year-old David Davis will be Britain’s principal negotiator in Brussels, but will leave detailed talks to senior civil servants. He conveys a breezy confidence and insists Britain can walk away from a bad deal, but some in Brussels fear he does not understand the detail or the weakness of his position. A former sugar industry executive and reservist in Britain’s elite SAS, he is viewed at Westminster as tough but possessing more than a streak of vanity.

[on Britain's exit bill](#) and a settlement on rights for EU citizens living in the UK and Britons on the continent, in line with Brussels' longstanding demands for the [structure of the discussions](#).

"For both the EU and the UK, a fair deal is possible and far better than no deal," Mr. Michael Barnier told reporters at the close of this first meeting. For his part, Mr. Davis said the timetable for the talks was "ambitious but eminently achievable". [He rejected the idea that Britain had given way to the EU on "sequence" on day one](#), insisting nothing had changed despite PM May's failure to secure a majority in the UK general election this month.

The June 19 talks marked the start of what will be one of the most politically sensitive international negotiations of modern times.³ Although Britain's concession on the "sequencing" of talks may have little effect on the final settlement — the UK had wanted to hold "divorce" negotiations in parallel with those on a future bilateral trade deal — it served to underline that the UK government may have overestimated its leverage with the EU.

At the end of this first meeting, the two sides agreed to set up three working groups covering the details of withdrawal: the financial settlement; citizens' rights; and one dealing with other legal issues relating to "separation", and confirmed that there will be one week of negotiations every month, with a pause in between for technical work and consultations.



EU chief Brexit negotiator Michel Barnier, left, and British Brexit secretary of state David Davis wrap up a press conference on their first day of talks. Source: © AP

³ And probably also the most "transparent" one and plain of symbolism as well. As an example just note the comment from the Financial Times referring to the first formal encounter between the two chief negotiators, Michael Barnier and David Davis: they opened the day with a "plenary" meeting on the seventh floor of the European Commission's Berlaymont building, accompanied by their full negotiating teams. That was followed by a brief one-to-one discussion and a working lunch in the 13th floor dining rooms, with half-a-dozen top negotiators. The menu included Belgian asparagus, red mullet and dessert of vacherin cake with wild strawberries. In a bid to build rapport, the two men exchanged gifts themed on their shared love of hill walking and hiking. Mr Davis brought a rare signed first edition of "Regards vers Annapurna", a mountaineering classic recounting a French expedition to the Himalayas in 1950, and Mr Barnier in turn presented a traditional walking stick from Savoie, his home region of France, where he retreated at the weekend to "draw the strength and energy required for long hikes".

The first test of the negotiations, however, took place out of the negotiating table, on June 21, when the UK parliament discussed the [Queen's Speech](#), the formal announcement of the British government's legislative program, a central feature of which would be a [Great Repeal Bill](#), which PM May has indicated would be needed to incorporate most EU legislation into the UK statute book, i.e. to replace the European legal order by which the UK has operated by more than four decades.

The Brexit timeline would continue with the negotiating teams meeting every month – the next round of talks would take place in mid-July and the negotiators are expected to outline the terms of the “divorce” by the end of this year before starting to consider the terms of EU and UK future relationship.

The goal then would be to complete the talks by October 2018 – some 16 months from now – to allow for ratification of the deal by EU member states, the European Council and the European Parliament, as well as a vote by the UK parliament before March 2019 when the Brexit process should be completed – unless the talks are extended, which need to be agreed unanimously.

THE CONTROVERSIAL ISSUES

As the Brexit negotiations began in full, three issues would dominate the discussions: the “exit bill” that the UK would have to bear to honor its commitments to the EU, the treatments that some 3 million Europeans living in the UK, and 1 million Britons living in the EU would receive after Brexit, and the nature of future relations between the UK and the EU, including any possible “transitional” agreement.



Source: © FT montage; Dreamstime

As reported by the Financial Times, the European Commission has outlined [its view](#) that Britain will need to make a gross financial settlement of up to €100bn [to respect in full the financial obligations resulting from the whole period of the UK membership in the union](#). Brussels has not made public its estimation of the final sum but wants substantial progress on the bill before negotiations can move on to discussing future trading relationships between the EU and UK. It is also willing to discuss the timing of payments in a second stage of the negotiations. A gross €100bn “exit bill” may turn, after some calculations and discounts to little more than a net a £53bn bill, which may look enormous to individuals but not, according to the Financial Times, to such a huge economy as the UK. [Thus, a payment of that sort to leave the EU should be the least of Britain’s worries.](#)

The one “sensitive” issue where the negotiators are focusing their attention now is the “preserving rights of Europeans and Britain’s living within their border. [There are roughly 4m migrants caught out by Brexit](#) and their rights as EU citizens are about to become a focus of the negotiations over Britain’s departure from the EU. Theresa May took the initiative on this issue during her (probably) last participation in a European Council in Brussels by sharing with EU leaders the broad outlines of a “generous” offer for Europeans residents in the UK who now find themselves in a legal limbo. The UK prime minister sought to reassure millions of EU citizens that they would be free to stay in the country.

But there is still a fundamental difference between the two sides: the EU wants all migrants to effectively remain under EU law and protected by EU courts, even when living in Brexit Britain. The British side argues such an outcome — which could give EU nationals more rights than UK citizens — is unacceptable. Other dividing issues regarding European migrant living outside their country but within the EU would be determining who would be eligible to the new status, what rights would they retain and the administrative requirements needed to prove it.

Finally, as to future EU-UK relations, almost unexpectedly and diverging from PM May’s views, Philip Hammond, the UK Chancellor of the Exchequer, has warned that [Britain should not dismantle existing customs relations with Europe until the UK has sealed a free-trade agreement with the EU](#), a process that could last several years after Brexit. Mr. Hammond, [speaking at the Mansion House in London](#), said an “implementation period outside the customs union, but with current customs border arrangements remaining in place” should continue until [“new long-term arrangements are up and running”](#).

This approach would probably imply – upon demands from the EU - extended British budget contributions and the application of European Court rulings during the course of such a transition, and prevent Britain from negotiating and finalizing its own bilateral trade deals. In Mr. Hammond views, Britain should prioritize EU trade during the transitional period, as [giving up existing trade for future trade is pain now for possible – but uncertain – future gain](#).

THE POSSIBLE SCENARIOS

In a recent interview given to various international newspapers, including The Economist, Michael Barnier, the EU chief Brexit negotiator, hinted at his frustration over [the failure of Britain’s politicians to confront the reality of the choice they put to British voters a year ago](#). “Very few people in charge explained what Brexit meant” and “lots of people underestimated the consequences”, he said. He does not know what would be Britain’s negotiating stance in the negotiations after the recent elections and whether the UK government would keep its initial “hard” Brexit views, and move to a “softer” version of it.

Indeed, after more than a year since the June 2016 referendum that gave the British people the choice to quit or stay in the EU, and thousands of reports, discussions, and political battles – in particular after the recent elections, no consensus exist as to the future relationship between the UK and the countries it has been associated for more than 40 years. [Quitting the EU is one thing, quitting the single market is another, quitting the customs union is a third thing](#), said Mr. Barnier.

Each version of a “softer” Brexit involves difficult trade-offs for any British government committed to leaving the EU. Some in Britain still flirt with the idea of staying inside the single market while imposing limits on EU immigration, but membership of the single market implies acceptance of its four fundamental freedoms (the free movement of goods, services, capital and people). Thus, PM May’s insistence on ending free movement of people reduced her ambitions for Britain’s future relationship with the EU to a free-trade deal, rather than deeper integration with its single market. But even this may take different forms.

A [UK Treasury study](#)⁴ published before last year’s referendum assessed continued UK membership of the EU against three alternative scenarios: 1) membership of the European Economic Area (EEA), like Norway; 2) a negotiated bilateral agreement, such as that between the EU and Switzerland, Turkey or Canada; and 3) WTO membership without any form of specific agreement with the EU, like Russia or Brazil.

Following the [Norwegian model](#), the UK could become part of the [European Economic Area \(EEA\)](#), which was established in 1994 to give non-European countries the possibility of participating in the EU Single Market while remaining not committed to other, non-trade aspects of the EU. All EU countries plus Iceland, Lichtenstein and Norway are members of the [EEA](#). The non-EU members of the EEA are not part of the EU Customs Union, nor they belong to the [Common Agriculture Policy \(CAP\)](#); they can set their own external tariffs and conduct their own trade negotiations with countries outside the EU. However, EEA members have to accept free movement of people, rulings by the European Court of Justice (ECJ) and payments to the EU budget, all of which are anathema to Brexiteers.



Chancellor Philip Hammond delivers his annual Mansion House speech to City leaders. Source © PA

⁴ **[HM Treasury analysis: the long-term economic impact of EU membership and the alternatives.](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517154/treasury_analysis_economic_impact_of_eu_membership_print.pdf)**
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517154/treasury_analysis_economic_impact_of_eu_membership_print.pdf

As reported by the Financial Times, [“the Norway model” seems to be gaining support among partisans of a strong post-Brexit relationship between the EU and the UK](#), particularly among the business community. This position is gaining strength after the June 9 inconclusive election results, either as a transitional arrangement or a long term solution as the UK is already – as currently EU member – part of the EEA arrangements. [The “Norway model” is also used to differentiate supporters of a “hard” Brexit \(exit from the EU’s single market and customs union\), and a “soft” Brexit](#), i.e. those showing some flexibility on freedom of movement, notably Phillip Hammond, the UK Chancellor of the Exchequer, which has emerged as a force of moderation in an otherwise very radical approach to the Brexit negotiations.

Then there is the Swiss model, which is somehow more flexible than the Norway one. Switzerland has entered with the EU into a number of bilateral treaties to regulate its “bilateral” relations with them. Switzerland belongs – together with the non-EU members of the EEA - to the [European Free Trade Association \(EFTA\)](#), which provides for free trade with the EU in non-agricultural goods. A [Swiss plus model](#) could be to join EFTA, an association the UK helped founded when it decided in 1957 to remain outside of the EEC, the predecessor of the EU.

Relying purely on WTO rules is another option. The UK could restructure its relationship with its trading partners at the World Trade Organization (WTO). The UK was an original member of the General Agreement on Tariffs and Trade (GATT) and remains a member of the WTO in its own right. However, as it subsumed its trade policy to that of the EU over the years, the EU took over negotiations on its behalf, and the UK’s WTO membership is now intertwined with that of the EU. [The job of the UK trade negotiators would be to disentangle the UK from the EU, and to establish the UK as a fully independent member of the WTO](#). Under the WTO scenario, the UK will have the possibility of concluding trade agreement with the countries it chooses, i.e. the United States, UK’s traditional preferred partner.

Alternatively, the U.K. could consider being part of a revisited, and expanded NAFTA. Negotiations on a [Canada-EU agreement](#) have already been completed, although the treaty is awaiting approval, and Mexico already has a trade agreement in force with the EU, meaning both NAFTA countries already share with the UK –through the EU – an advanced trade agreement, but NAFTA itself is going through a process of re-negotiation and it is not evident they would like to further complicate a process that may be rather complex between the existing NAFTA partners.

There have also been suggestions that Britain keeps the customs union with the EU, and many see political advantages in doing so. In particular, it does not require acceptance of free movement of people, budget contributions or being subject to the ECJ. [It also avoids rules-of-origin checks on exports to ensure that they do not include parts from third countries](#). The customs union may not be a suitable long-term home after Brexit. But it could offer a transitional one that minimizes the risk of falling off a cliff into trading on WTO terms alone at the end of the two-year time limit for Brexit set by Article 50 of the EU treaty. Some reckons it would take at least five years to negotiate and ratify a comprehensive free-trade deal with the EU after Brexit; staying in the customs union during that time might serve as a bridge until such a deal is completed.

THE OUTCOME OF THE NEGOTIATIONS

Whatever post-Brexit scenario prevails, it seems certain that there will be a rather long period of uncertainty during and after the Brexit negotiations that would affect the United Kingdom as well as existing and prospective UK trading partners.

As pointed out by Phillip Stephen, Brexit is the biggest upheaval in the nation's political and economic life since the end of the Second World War. PM May emphasized the vast new opportunities for a nation now rechristened "Global Britain". Yet, no one should doubt the cost – economic and geopolitical – of the proposed break with the EU.

While leaving the European Union after almost half a century of membership, [the UK is planning to redesign its trade relationship](#) with the rest of the world. It is not going to be easy. Not only is the UK breaking up from its biggest trading partner, but it is doing so when its next largest trade partner (the United States) is probably moving towards protectionism.



Theresa May is faced with multiple crises with little time to think © FT Montage/PA

Indeed, the UK's trade ties with the EU are substantial. The EU is by far the UK's largest market. The value of UK goods exported to the EU is about the same as its exports to the rest of the world. Imports from the EU total more than that from all other countries combined. Also, as part of a global – but mostly European – supply chain, about 60 per cent of [UK exports](#) are intermediate and capital goods, or raw materials, not final consumer goods.

But exports of goods are only one part of the UK trade story, and not the most profitable. The UK exports almost as much in services as in goods. In 2015 they amounted to £230 billion and £266 billion respectively, but it imports nearly three times the value of goods than that of services. This leaves the country with a large and widening deficit in trade in goods and a similarly large and widening surplus in services trade.

The freedom to sign trade deals with any country offers a world of potential. But [even replacing the deals that Britain will lose on dropping out of the EU will take many years, and new opportunities may be harder to realize than they look](#). It all depends, of course, of the final outcome of the Brexit negotiations. As an EU member, the United Kingdom is part of 36 trade agreements with third countries and other than establishing a stable trade relationship with the EU, the future of these agreements to which the UK is part as member of the European Union need to be assessed.

Moreover, says Mr. Stephen in another of his articles in the Financial Times, [when things are this bad. . . well, they can only get worse. Theresa May won the June election and lost it](#). Officially the

government's Brexit policy remains unchanged: it will leave the single market and customs union and banish the European Court of Justice.

Self-evidently, he adds, the outcome of the election has empowered those, such as Mr Hammond, who want to safeguard the economy. But it has not diminished the zeal of the English nationalists who will be satisfied only by a complete rupture with the EU. More than a year has passed since the referendum. [Neither government nor opposition has produced anything resembling a vision for Britain's place in the world outside of the EU.](#)

Also, as put by Timothy Garton Ash in [The Guardian](#), Britain will probably end up, after a transition period keeping current single market arrangements, with some novel variant of Norway's European Economic Area deal, Switzerland's customized free-trade package with the EU or Turkey's membership in the customs union.

This will effectively mean, he added, that [the UK would have second-class membership of the common market](#), that we must abide by rules we have no say in making, that we will continue to pay into the EU coffers, that immigration from the EU is only slightly reduced, and that we have to accept legally binding arrangements in which the European court of justice still plays a significant role (along with a British court, and perhaps a third party court or tribunal).

But things are not yet settled until they are final, and the above scenarios are not inevitable. So Garton Ash calls for British Europeans to gather all their strength to say, at the moment when the half-baked negotiation result is presented to parliament: ["This is the worst of both worlds, neither having our cake nor eating it.](#) Why settle for second-best, associate membership, with many clear disadvantages and few advantages, when you could just stay and have the real thing?"