

Brexit talks: the brutal reckoning that awaits the UK

Many EU member states are calling for a very hard line with the UK in talks on the future relationship.



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Britain's prime minister told the Confederation of British Industry (CBI) on Monday that victory in the December 12th general election will allow him to "get Brexit done" and then swiftly broker an agreement with the EU on the two sides' future relationship.

Noting the UK would embark on trade talks from a place of "perfect alignment and harmony" after leaving the EU on January 31st, he told business chiefs he saw "absolutely no reason" why an agreement could not be reached by the end of next year.

It is a line the Conservatives will stick to in their campaigning ahead of polling day as they warn victory for Jeremy Corbyn's Labour Party would mean more "dither and drift" on Brexit. Mr. Corbyn claimed at the same conference that the

Tories' approach would "subject us to years of drawn-out, bogged down negotiations" with Brussels on a future relationship deal. He said his approach of holding a second referendum would deliver clarity sooner.

But as politicians spar over who is best placed to lead Britain out of its Brexit quagmire, top officials in Brussels believe the UK population faces a brutal reckoning for which it is ill-prepared. EU officials have been preparing for negotiations with the UK on the post-Brexit relationship for more than two years, and behind the scenes, many member states are urging them to take a very hard line indeed.



British prime minister Boris Johnson: 'absolutely no reason' why an agreement with the EU could not be reached by end of next year. Photograph: FRANK AUGSTEIN/POOL/AFP via Getty Images

'Worst thing'

"What is going to come is going to be much more challenging and demanding than what we have seen up to now," says one senior EU diplomat. "I would not wish to negotiate a trade deal with the EU on anybody. It's the worst thing that can happen to you, especially if your administration doesn't have any experience negotiating trade issues."

When and if Brexit is finally delivered, a vast array of questions will immediately spring up. The two sides will need to do their best to safeguard a trading relationship worth £650 billion (€758 billion) in 2018, as well as define the terms of co-operation on everything from air transport to fighting terrorism.

The talks will take place to the beat of a ticking clock. The UK's post-Brexit transition period will expire at the end of 2020 unless Britain requests an extension by the middle of next year – something Mr. Johnson is loath to do.

Both Mr. Johnson and Phil Hogan, the EU's incoming trade commissioner, have emphasized the two sides are not starting from scratch.

Mr. Hogan told RTÉ last week that Brussels would seek to kick off the negotiations swiftly, noting the UK's 46 years of EU membership created a unique context: one where Britain is integrated into the European market and in sync with its rules.

“With a bit of goodwill on both sides we can do an agreement more quickly than we would do with any other negotiations around the world, which would take three or four years,” he said.

Mr. Johnson told the CBI the two sides would begin talks “in a state of grace as far as our tariffs and our quotas are concerned”.

“There is no other trade negotiation the EU has ever embarked upon with a third country where that has been the case,” he said.

Another advantage is Mr. Johnson and the EU have already agreed a 27-page political declaration setting out their shared vision of the future relationship. It forms part of the Brexit deal he struck with the bloc in October.

At the heart of the relationship would be a free-trade deal ensuring duty-free and quota-free access for goods, and providing market access for services at least similar to that granted in the EU's recent trade deals with Canada and Japan. The declaration also covers other key areas of co-operation such as nuclear energy and joint military operations.



The City of London is preparing to lose the right to offer services across the EU

Highly sensitive issues

But EU diplomats warn that putting flesh on the bones of these plans will require a hard-fought negotiation and that the question of how far the UK is prepared to stick to EU rules will be one of several highly sensitive issues needing to be resolved.

Michel Barnier, the EU's chief Brexit negotiator, has already made clear Brussels will be guided in the talks by a simple principle: the further the UK aims to diverge from EU rules in Mr. Johnson's avowed quest to boost the country's economic competitiveness, the more restricted Britain's access to the single market will be.

The EU argues it is being asked to grant Britain market access on goods going beyond any other trade deal the bloc has with a major economy, creating a clear risk of unfair competition for Europe's companies. Such access will come at the price of sticking closely to EU law on workers rights, environmental standards, state aid, and other rules.

Britain, by contrast, argues a free-trade deal is a fundamentally looser economic relationship than membership of the EU's single market and customs union, and

that it would be hypocritical for Brussels to demand far more alignment than it has done in negotiations with other countries. Dominic Raab, the UK's foreign secretary, said on Sunday that the country is "not going to align ourselves to EU rules".

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Some of the countries that have been most adamant about the need for a regulatory level playing field are those, such as the Netherlands and Denmark, that are bastions of the cause of free trade and close allies of the UK. "Britain's allies will themselves be subject to their own internal lobbies," says Peter Guilford, a former EU trade official. "They will not be on Britain's side."

EU diplomats underline this is only part of the difficult terrain that the broader future relationship talks will need to navigate. Another is the neuralgic issue of fish.

Across all 28 EU member states, the sector employs just 180,000 people according to Eurostat – a tiny fraction of the EU's 230-million-strong workforce. Yet for France and half a dozen other EU nations, the industry is the lifeblood of coastal communities, and they will insist on preserving their access to British waters. They could well block the broader trade talks if they do not get their way.

The issue is just as sensitive for the UK, where the removal of British waters from the EU's Common Fisheries Policy is hailed as one of the boons of Brexit.

Other potential flashpoints range from Spain's veto over Gibraltar's place in any future relationship to the vexed question of the City of London's ability to offer financial services to European companies.

The pressure is ramped up further by the tight timetable. Without a deal ready on January 1st, 2021, Britain risks a no-deal exit with the sudden imposition of tariffs and regulatory barriers on EU-UK trade, something economists warn would have a seismic effect on British business. Ratification of any deal by the EU promises to be a complex and lengthy process – although there will be scope for at least a

provisional application of the core parts of a trade agreement once the EU Council and European Parliament have given it their blessing.

EU officials are already speculating about the UK shifting its position once it grapples with the hard facts of what it means to leave the single market and customs union.

The timetable for talks

Jan 31st

On the basis that the UK does leave the EU on January 31st with an exit deal, the European Commission is expected in early February to present a draft negotiating mandate for the free-trade agreement.

The hope is EU27 national governments would grant quick approval, allowing negotiations to start as soon as the following month. The UK would also need to approve its negotiating mandate.

June

EU-UK summit to take stock of progress in the future relationship talks.

July 1st

Deadline for Britain to request an extension to its post-Brexit transition period beyond the end of 2020 (to as late as the end of 2022). Mr. Johnson said this month he will not extend it – and sees “absolutely no need to do that”. Any extension would require a financial contribution from the UK to the EU budget.

End-2020

Britain’s post-Brexit transition period is scheduled to end, meaning it will either have a future relationship deal in place or will crash out and trade with the EU on basic World Trade Organization terms.

Under a future trade deal, importers and exporters would face new paperwork and customs and product checks aimed at combating everything from animal disease to excise fraud.

For Sam Lowe, a senior research fellow at the Centre for European Reform,

“many businesses would find adapting to a new FTA just as troublesome as if the UK had crashed out without a deal”.

Trade deals also typically offer little in terms of market access for services, the backbone of the UK economy.

EU diplomats are already concerned the talks could drag on as the UK gradually opts for closer economic ties than a conventional trade deal can provide. The Labour Party’s policy is to negotiate a relationship in this vein, with a customs union and a “close relationship” to the single market.

Marietje Schaake, a former member of the European Parliament’s international trade committee, says: “The UK is under pressure because of the ticking clock, but more because of the incredible promises that have been made about the benefits that will materialize.

“The reality is years of negotiation and difficult choices.”



Dominic Raab: We’ll be an independent coastal state. Photograph: Peter Nicholls/Reuters

Three areas of concern

1. A 'regulation-lite' UK

There is deep unease in Paris, Berlin and other EU capitals about the economic course post-Brexit Britain might take – the fear it might embark on a journey to a light-regulation “Singapore on Thames.” The idea is widely dismissed by UK ministers but still causes concern in Brussels.

This would come just as the EU goes in the opposite direction – ramping up its environmental regulations and imposing rising costs on its businesses as it does so. As well as demanding that Britain continue to uphold key EU rules as they stand at the end of its post-Brexit transition period, Brussels will also want a system to ensure swift and potent resolution of any disputes that arise in this area once the trade deal is in place.

For its part, Britain will note both sides have agreed level playing field obligations should be “commensurate” with the “scope and depth” of the future economic relationship, and that the UK is seeking a standard free-trade agreement, not full-blown membership of the single market.

2. Financial services

Finance chiefs fear their industry is being given far too little thought in the UK's plans, as the City of London prepares to lose the passporting rights that come with membership of the single market, and with it the right to offer services across the EU.

While EU free trade deals include chapters on financial services, in practice they do little to open up markets. Instead, the EU operates a system of “equivalence” in which it judges whether other countries have regulations as good as its own, and grants improved market access on that basis.

For the UK, these equivalence assessments are supposed to be completed by the middle of next year. In principle, Britain should have few obstacles to qualification. But the fear in the City is also that equivalence will provide only a fragile foundation for future access to the EU market, as it is granted unilaterally by the European Commission and is revocable at short notice.

3. Fisheries

Access for their fishermen to UK waters is a top priority for France, Spain, Denmark, and other coastal states. EU diplomats told the FT that although the fisheries negotiations were technically separate to the talks on a free trade deal, Paris and other capitals will be relentless in exerting pressure to get an agreement on fishing rights in place.

“This is not just the French – there are seven or eight member states highly interested in this,” says one senior EU diplomat. “They have to push it, as it’s the EU’s moment of leverage.”

Both sides say they want a deal, which would cover reciprocal access to waters and the right to sell fisheries products into each other’s markets. Their aim is to have one by July 1st, 2020.

The question is how much access the UK is willing to guarantee, given it is determined after Brexit to assert its sovereignty over its territorial waters. “We’ll be an independent coastal state, we’ll have full control over it,” foreign secretary Dominic Raab said on Sunday.- Copyright The Financial Times Limited 2019

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