

LSE Continental Breakfast 1: What can we expect from Brexit negotiations?

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*In the first of LSE's **Continental Breakfasts** – held under Chatham House rules, so participants can speak as freely as they wish – a roundtable discussed the immediate challenges facing the UK as it triggers Article 50. **Robert van Geffen** distills some of the key points.*

Once Article 50 is triggered, the European Council will meet to issue guidelines on the negotiating position. It is not clear yet how detailed these guidelines will be. The exit agreement will also need to be [approved](#) by a 'super majority' in the European Council of 72%.

Forthcoming elections in various member states make the whole process a lot more complicated. After the European Council has given its guidance, the Council of Ministers will give the European Commission a negotiating mandate through negotiating directives. Then Michel Barnier's team can start the negotiations with the UK. All member states will need to ratify the agreement, as it will touch upon national competences. In countries with a federal structure, this will involve the regions as well.

What can be negotiated in 24 months? Realistically, the exit arrangements and the general outlook for the future relationship should be laid out. A transition period, which Theresa May [referred](#) to as an implementation phase, will be needed to bridge the period between the end of Article 50 negotiations and the start of the new agreement. This period should also give the UK and the EU time to negotiate the necessary agreements: Charles Grant of the CER has [identified](#) at least six.

The UK will need to give more details on what custom arrangements it wants and what the phrase "best possible access to the single market" means. Each member state will bring different priorities to the table, which will make the negotiations very complicated.

The issues that have to be settled

- The sequence of the negotiations. The UK wants to negotiate about the exit arrangements and the future relationship in parallel, whereas the Commission argues that during the Article 50 process only the exit arrangements can be negotiated
- The UK's legally binding commitment to pay towards the pensions of EU staff and MEPs
- Where the European Medicines Agency, the European Banking Authority and the atomic research centre – all currently based in the UK – will relocate
- The status of EU citizens in the UK and UK citizens in the EU.

Meanwhile, the EU faces a multitude of crises and internal elections to deal with.

For other states, the EU is more than an economic project

The UK is not very good at reading Angela Merkel, and underestimates her political commitment to the EU. The argument that German car manufacturers will tell the German government to give the UK a favourable deal is false:



car manufacturers are much more committed to the EU project than the UK realises.



Chief negotiator Michel Barnier. Photo: [European People's Party](#) via a [CC-BY 2.0 licence](#)

Donald Trump does not like the EU, and the UK might find the 'special relationship' does not provide much leverage. The US President's competences when it comes to trade policy [are limited](#) in the first place, and the EU is a significantly larger trade partner for the US than the UK.

Could the UK change its mind?

If the economic impact of Brexit is more damaging than expected and the government decided to stay, it would have to call a general election. The rest of the EU would probably accept such a decision provided it were not a blatant attempt to stop the clock.

The economic perspective

In pessimistic scenarios, economic growth will be 3-8% of GDP lower than expected in the medium to long term. The government's priorities are therefore to leave the EU with as little pain as possible, and to address the question of rebalancing the economy.

There is a high [correlation](#) between 'left-behind' regions and those that voted for Brexit. But the EU is not to blame for this inequality. Austerity cuts fell particularly on these regions, exacerbating existing trends. Research shows that EU membership has in fact led to wages increasing and prices falling. There is no evidence that immigrants have crowded out native Britons, for example in terms of jobs or school places. For the regions which supported Brexit, the impact of globalisation is only a small part of the story. Technological change was another important factor.

The economic [dominance](#) of London and the south-east is due to economic policy in the UK, rather than EU membership. The financial services industry, for example, has been able to grow in London because of domestic policy. In fact, industries in the north have benefitted from single market access, as have SMEs throughout the country due to procurement opportunities. Losing this is expected to have a negative impact on employment.

Brexit's impact on [finserv](#) is a particular concern. It was suggested that the industry might be able to rely on global regulations to argue it remains equivalent to the EU regulatory framework. This could allow firms to continue to provide certain services under a so-called 'third country regime'. However, these global standards are not detailed enough for one to be able to argue that the UK is equivalent to the EU. Questions could also be raised about the accountability of the FSB, which sets these global standards. Post-Brexit regulatory divergence is the key problem.

Is trade the solution?

The government has said it wants to pursue a global trade strategy. However, countries tend to trade with their neighbours. As the NIESR recently [argued](#), the iron law of trade models is that trade between two countries roughly halves when the distance between the two countries doubles^[1]. Trade with the EU cannot immediately be replaced by trade with India or China, not even if very favourable trade deals are negotiated.

Striking trade deals with other major economies, as has been suggested, will not be easy. The US uses a particular template for its trade agreements that it will want to pursue and which favours US interests. A number of contentious areas would need to be negotiated before agreement could be reached on a US-UK trade deal, including health care privatisation. Agreeing a trade deal with China [will not be easy](#) either, given the size of its economy. China recently signed an FTA with Switzerland: but while Switzerland had to abolish its import tariffs immediately, China enjoyed a 15-year phase-in period. India, meanwhile, has immigration demands that the UK is unlikely to meet.

The [White Paper on Brexit](#) indicated the government wants to be outside the customs union. Besides bringing in tariff barriers this would, more importantly, introduce non-tariff barriers. Addressing non-tariff barriers requires harmonisation of domestic regulations such as product standards. For this support from both sides of the trade relationship is necessary. It normally also involves a dispute settlement mechanism at a time when the UK would be looking to leave the jurisdiction of the ECJ. This dispute settlement mechanism is by definition a supranational authority and would be difficult for Brexit supporters to accept when the [European Commission has tried to institutionalise](#) the use of such supranational authorities in their dispute settlement mechanisms in other FTAs in recent years.

It is clear that trade policy alone will not help to address the economic imbalances that Theresa May is looking to address. On the other hand, neither will trade barriers.

Priorities for domestic policy

- The government needs an industrial policy, and should spend more on trade adjustment decisions as they did help to relieve the impact of globalisation on left-behind regions
- Deprived regions will need more support. The British Business Bank is not enough
- It is important to ensure that net incomes do not decline, so more wealth distribution is necessary.

Other issues such as justice and home affairs cooperation and international security will also need to be negotiated and these are member state, not EU, competences. Could the UK use these issues as bargaining chips in the negotiations, as [has been argued](#) – given the important role the UK plays in these areas of international cooperation, and that the EU therefore arguably has more to lose than the UK?

Ending free movement will also require negotiations about the status of current EU citizens living in the UK, and vice versa. Simply guaranteeing these citizens that they will be able to stay in the countries they currently live in will not be enough; decisions will need to be taken about their rights to social security, health care access, pensions and how their qualifications should be treated.

Could the UK become a tax haven in order to stay competitive? The rest of the EU does not take this seriously at the moment, but there would be retaliations if the UK decided to go down this road. The EU has allowed Ireland to compete with taxes because it is small and does not pose a threat to the economic base of other countries; it would be different for the UK. State aid (such as the kind that may or may not have been offered to Nissan) are very damaging and do not support a viable economic model in the long term.

The Brexit process is going to be difficult. The question is how the public will respond if it turns out to be very damaging. Will an economic downturn lead people to push back against Brexit? Will they turn around and agree it was a mistake? Concern was expressed that people might instead blame 'elites' and the EU itself.

This post represents the views of the authors and not those of the Brexit blog, nor the LSE.

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