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A Fortnightly Analysis for Senior Executives

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August is a good time to review events and refresh analysis. So, here's an end-of-term report on the Brexit negotiations. Hard to believe the clock started ticking on 29 March and that we are already four months into a two-year process. Progress to date has not been encouraging, particularly as the negotiations will have to be completed by November of next year so that ratification of the Withdrawal Agreement can be completed before the clock stops ticking. Far from setting a brisk pace, they got off to a slow start for the following weighty reasons.

UK Disarray

The most obvious reason, and by far the most important, is that the UK government simply does not know what it wants. It cannot reconcile the contradiction between leaving the Customs Union and Single Market while wanting access to both. The battle within the UK cabinet is between those who accept reality (the economic Ministers) and those who don't (the ideological Ministers). We all know who is who.

The difference between them is profound: the realists know the UK needs considerable time to negotiate a new EU relationship but the ideologues brush that aside. They can't wait to get out of the EU. So the disarray within the UK government can be boiled down to a simple choice: is it to take two years or five to negotiate the Withdrawal Agreement and the Future Relationship with the EU? The logic of the EU treaties is inescapable. There has to be a gap between leaving the EU and concluding a new trade deal. The question is, how do you fill that gap? Is there to be an interim regime? And, if so, how long is it to last?

> ***"The leader's address is always the highlight of the conference, a bit like a CEO's report to a company AGM. But it's been a bad trading year for Mrs May."***

An Interim Regime

Throughout July, the need for an interim regime became the battleground between the two factions. The Chancellor insisted there had to be a bridge between the old and the new lasting at least two years. Liam Fox described that as a betrayal of the referendum result. The key point about this dispute is that the UK either bridges the gap or else it falls over the cliff-edge when the clock stops ticking in March 2019. To the economic realists this is blatantly obvious. Some of the ideologues admit it's the case but are impervious to its consequences. The remainder are in denial about the cliff-edge. Hence, there is paralysis on the UK side, as Michel Barnier reported in his end-of-term report. So too did Commissioner Phil Hogan in a toughly-worded interview on RTÉ.

But; just when it was thought the confusion could not get any worse; a spokesperson for the Prime Minister said on 31 July that the free movement of EU citizens to the UK would end in March 2019. If this really is definitive government policy then it rules out the continuation of the *status quo* as the basis for the interim regime, which is the only workable solution if a deal is to be done within the two years specified by Article 50. In short, continue with the *status quo* until a new deal is in force. The logic of the statement from No 10, however, is that it will be impossible to conclude this sort of interim regime by March 2019 and that we'll all be heading over the cliff-edge together, the very outcome that Mrs May wanted to avoid.

The Brexit Bill

As if that possibility wasn't bad enough; there's the Brexit Bill, that other cause of paralysis. At the end-of-term there was no sign that differences between the EU and UK on this contentious issue could be resolved. Mr Johnson's contribution to a solution was to tell the EU go whistle. Yet "sufficient progress" is essential if negotiations are to move to the second stage; scheduled to start this November.

As things stand, the EU wants agreement on a negotiating framework consisting of two parts: first, agreement in principle from the UK that it has financial obligations to discharge when leaving the EU and, secondly, on the methodology to compute the net liability. But the UK is resisting on both and the longer it does the harder it becomes to get a deal from the EU27 for one simple reason. They are all confronted with either a loss of EU receipts or else increased contributions to the common budget as a direct consequence of UK withdrawal. Some are faced with both. Others, like Ireland and France, are looking at cutbacks in the CAP, which would be particu-larly painful. The EU27 are not happy campers.

The Border

The term closed on an unexpected note with the Taoiseach and Minister for Foreign Affairs both laying down markers in the clearest possible terms about the border. They said it was up to the UK, not Ireland, to deal with the fall-out from Brexit. As July came to a close they insisted it was the UK's responsibility to solve the dilemma of preserving an open and seamless border with Ireland while simultaneously introducing frontier and customs controls with the EU. If you break it then fix it, was the message.

The dangers inherent in reintroducing a hard border with Northern Ireland had been blithely ignored by the Brexiteers during the referendum debate, and still are. Hence, what the Taoiseach called his anger, and his demarche and that of the Foreign Minister in terms so blunt that they had a shock effect in London, which was the intention of course. To analysts, they were the clearest signs yet that the negotiations in Brussels are not going well. Not big news, but a salutary reminder of where we are.

The Next Three Months

The next three months are crucial. Real progress on all fronts will have to be recorded within the next ten weeks, which means building significant consensus on the Brexit Bill, citizens rights and the Northern Ireland border. But nothing will happen until the internal contradictions within the British government have first been resolved. In practical terms, that requires the Prime Minister to take control and lay down the law to her fractious cabinet.

The timetable ahead will tell all. Mrs May returns to Downing Street from her Alpine walking holiday on 14 August and has six weeks to prepare for the Conservative Party Conference to be held on 14 October in Manchester. Her keynote speech is scheduled for Wednesday the 4th and it will have to lay out the Tory Party line on Brexit, hard or soft, and on the nature and timing of the interim regime (if there is to be one).

Last year, it was a confident Mrs May who spelled out what she meant by Brexit. This year, her personal authority is gravely diminished and her hard line speech writer is gone. The leader's address is always the highlight of the conference, a bit like a CEO's report to a company AGM. But it's been a bad trading year for Mrs May and she'll have to avoid a shareholders' revolt. As yet, nobody knows if she can pull it off. Perhaps "must try harder" is the only appropriate end-of-term report.

Post Script

None of this is of much help for business planning but there is an emerging consensus among UK executives that it would be prudent to plan for a worst case scenario and correspondingly imprudent to be sit back and wait. In the end, the politics of the Tory party will most likely triumph over business economics, which can only mean a Hard Brexit as defined by the UK leaving all behind it as it exits the EU. Again; watch out for Mrs May's conference speech. It would also be advisable to look at the results of the German general election on Sunday 24 September. When it comes to setting the Brexit agenda Mrs Merkel is the one to watch. And she'll be re-elected.

Brexit Brief

The IIEA's "Brexit Brief", edited by Anthony Brown and Andrew Gilmore will appear fortnightly in view of the gathering pace of the negotiations. The most recent issue can be read here.

Brexit Insight

Brexit Insight also appears fortnightly, alternating with the Brexit Brief. That means we'll be issuing updates and analysis on a weekly basis. The previous issue can be read here.

The Brexit Insight is produced by the IIEA Brexit Project Group chaired by Dáithí O'Ceallaigh, former Ambassador to the UK. This issue is written by Brendan Halligan, President of the Institute.

As an independent forum, the Institute does not express any opinions of its own. The views expressed in the article are the sole responsibility of the author.

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