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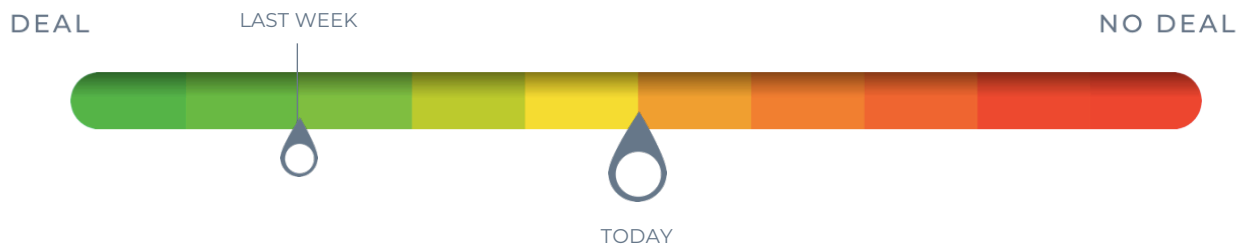
UK-EU DEAL UPDATE

11 December 2020

Charlotte Street Partners is issuing a weekly update on the future relationship between the United Kingdom and the European Union, as the UK exits the single market and customs union on terms (or no terms) as yet to be determined.

We deliberated including just one line in today's update – 'who knows?' – but decided against it because in a time of real and fundamental uncertainty, we owe it to ourselves to weigh up the welter of options and opinions at play.

Our considered take is that the UK and EU's future relationship truly hangs in the balance. We are being geared up to expect a no deal, but we still remain cautiously (perhaps stubbornly) optimistic that a thin deal will be reached. After all, this was always going to go down to the wire.



WEEKLY RECAP

- What should have been a promising intervention from Boris Johnson in the form of a candle-lit supper with European Commission president Ursula von der Leyen on Wednesday evening ended in stalemate, with No 10 reporting that “very large gaps remain”. The two sides agreed a Sunday deadline for a deal.
- Negotiations continue, although the prime minister revealed today that it is “very, very likely” that the UK will fail to strike a post-Brexit trade deal with the EU and leave the bloc on World Trade Organisation terms.
- And this is perhaps one of the few things the two sides can agree on. European leaders have also been warned today that a trade deal is unlikely to be agreed with the UK before Sunday's deadline.
- The main obstacles standing in the way of a deal are disagreements over fair competition rules, how a deal would be enforced, and fishing.
- On the EU's proposed level playing field, Boris Johnson argued that the regulations amounted to saying, “if the EU decides to buy an expensive handbag then the UK has to



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buy an expensive handbag too". Of course, von der Leyen swiftly rebuffed the analogy: "it is only fair that competitors to our own enterprises face the same conditions on our own market."

- o Domestically, Johnson can draw some solace from the fact that Labour leader Sir Keir Starmer has indicated his party will act "in the national interest" and back a free trade agreement if a vote on a deal is brought before parliament.
- o Similar support cannot be expected from SNP MPs, however, with Mike Russell, the Scottish Cabinet Secretary for the Constitution, Europe and External Affairs saying: "we won't support a deal because we don't believe that Brexit is the right thing to happen."

OUR TAKE

As we said last week, everyone will want to say, "I did it my way". And that is the nub of the matter. By any measure, all parties will want to claim two things: that they did their utmost, and that the outcome was not only the right one in the circumstances, but the best available. Nevertheless, a no deal outcome is not really in anyone's interests, and shifts already made in relation to the Northern Ireland border represent a signal that negotiations continue, albeit the hard stance on the Internal Market Bill signals a willingness to appease at least some of the UK's domestic audience.

It's worth remembering that Boris Johnson's message that it is "very, very likely" that the UK and EU will fail to strike a post-Brexit trade agreement suits him in either outcome. In the event of no-deal, it's a case of expectation management, although his previous optimism undermines that slightly.

If a deal is reached, he can position the outcome as his personal triumph and the relief that a deal has been agreed at all will limit criticism of what would likely be a very thin agreement.

We will not be completely astonished if a deal is struck; neither would we be surprised if the Sunday deadline turned out to be yet another movable feast. The very fact that so many deadlines have come and gone confirms to us that everyone would prefer to reach a deal of some kind.

There will of course be more to follow from us if a deal is struck on Sunday.