



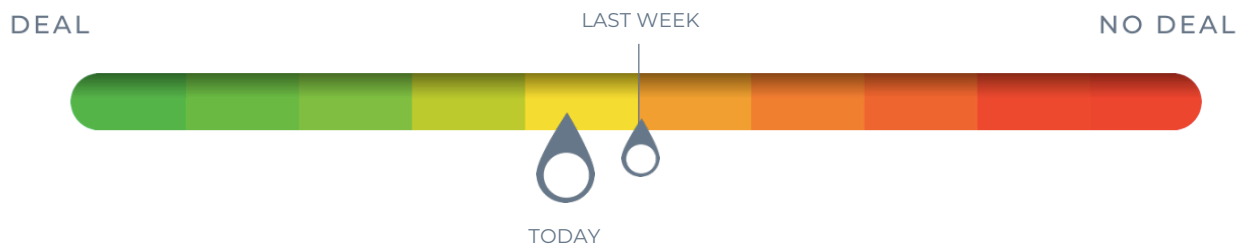
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UK-EU DEAL UPDATE

18 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.

Pending a deadline extension into the new year, this will be the last regular Friday update – we had hoped to wrap the series up long before now, although perhaps in our heart of hearts we always knew it would come down to the last days. Having analysed the week’s events, we are slightly more optimistic than Michael Gove’s “less than 50 per cent” analysis of yesterday, but again the sheer lack of time remaining informs our overall caution.



WEEKLY RECAP

- Tensions going into last weekend – and the self-imposed deadline of Sunday, 13 December – were lifted as both sides agreed to keep talking and “go the extra mile”, but this time without a set deadline
- However, rhetoric on all sides was enhanced, with the UK government suggesting it would deploy Royal Navy gunboats to patrol UK waters in the event of no-deal, and opposition politicians in the UK saying no-deal would be a “catastrophe”. Foreign secretary Dominic Raab accused the EU of “shifting the goalposts” in previous talks
- In spite of this, progress appeared to be made, with Michel Barnier acknowledging “good progress, but last stumbling blocks remain”. He also briefed MEPs that an agreement had been reached on public procurement, with both the UK and EU giving all companies bidding for public sector contracts equal treatment
- Last night, a call between the prime minister, Boris Johnson, and European Commission president Ursula von der Leyen brought an acknowledgment that “substantial progress”



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had been made, but “big differences remain” and “bridging them will be very challenging”

- This morning, Barnier spoke of there being “just a few hours” left to strike a deal, as the two sides stood “at the moment of truth”. Johnson conceded at lunchtime that things were still “looking difficult”
- The European parliament said it would not be able to ratify any UK-EU treaty before the end of December unless the deal was concluded by Sunday
- Irish foreign minister Simon Coveney told a radio programme that no deal would be a “huge political failing”. Later in the week, Irish Taoiseach Micheál Martin said he was more hopeful a deal could be concluded and that the ongoing talks were “a good sign”
- The prime minister confirmed that he had been rebuffed again in an effort to speak directly to German chancellor Angela Merkel and French president Emmanuel Macron
- The Scottish government’s constitution secretary Michael Russell confirmed that the SNP could not imagine a Brexit deal that was “sufficient for Scotland”, and would oppose whatever deal might be agreed
- The UK government has ended its stand-off with the House of Lords over the UK Internal Market Bill, accepting a number of amendments inserted by the upper chamber, including the allowance of devolved administrations for agreed divergence from some internal market rules
- The UK signed a continuity trade deal with Mexico, estimated to be worth more than £5bn
- MPs were warned by Downing Street that they could be recalled from Christmas recess next week if a deal was agreed

OUR TAKE

I am reminded of a football match between Arsenal and Liverpool, at the Emirates Stadium back in 2011. In the eighth minute of injury time, a fairly drab 0-0 sprung into life when Arsenal were awarded, and converted, a penalty. That appeared to be it until, incredibly, Liverpool won a penalty of their own in the eleventh minute of injury time, which they also dispatched, to ensure a 1-1 draw.

The parallel with the UK-EU talks is that things are still happening as we push the boundaries of credible time, in the search for an outcome that signals some form of honours even for both sides. We can envisage weary officials, who already know any chance of a meaningful break over the festive season is long gone, bracing themselves to formalise any bargain that is struck.



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It was pleasing to see some tangible progress this week. The public procurement agreement is encouraging, and it may be that consensus in other outstanding areas will follow. There has been some suggestion from commentators in recent days that the UK may sign up to a non-regression clause in the level playing field and, in relation to fishing, may also settle for a 50% cent catch quota and removal of a number of species from the arrangement.

The deal has to be ratified on both sides. For the UK, there is little drama in this, because the recall of parliament will not lead to tense scenes in the House – for one thing the government has an 80-seat majority and, owing to Covid-19 restrictions, party whips are in possession of a huge number of proxy votes which they will cast themselves. The more interesting scenario will be securing the backing of national leaders on the European Council, even though Barnier will have been keeping them updated these past few crucial weeks. The council would then be expected to go to the European parliament for approval, but some have speculated this process may be bypassed, initially at least.

We opined recently that, in the short term at least, scrutiny of any final arrangement will not be extensive because a) everyone will be relieved there is one, and b) it will fall just as many are trying to switch off after an especially trying year. We will be ready with our own thoughts, whenever they are needed. And we sincerely hope they will be needed soon.