



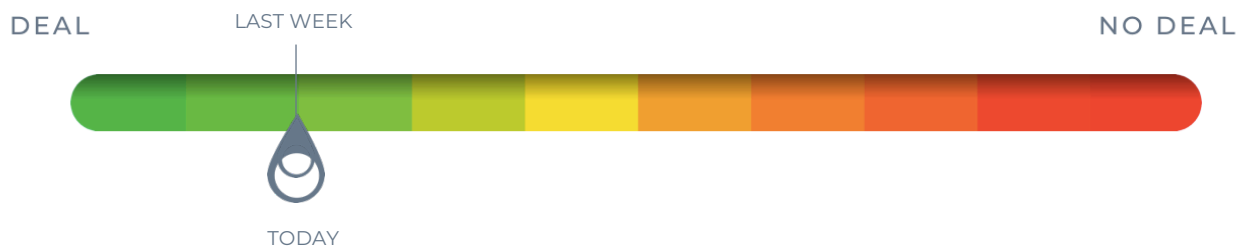
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UK-EU DEAL UPDATE

4 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.

This morning saw a flurry of contradictory headlines as to progress, with yesterday's reported hiccups replacing the reported progress of earlier in the week. It is tempting to focus on the detail but the key is to stay above this and make a call, and our call is that some form of deal is still as likely today as it was last week. It is in nobody's long-term interest for there to be no deal.



WEEKLY RECAP

- o Face-to-face talks resumed in London over the weekend, with the UK government publicly demanding the EU bring “fresh thinking” to the table
- o Sentiment around the talks was positive for much of this week, with a breakthrough being mooted by media on Wednesday, before a seeming blow on Thursday, as France made new demands on fishing rights and the “level playing field” regarding state subsidies. On Friday lunchtime, Downing Street acknowledged that the talks were at “a very difficult point”
- o UK prime minister Boris Johnson and president of the European Commission Ursula von der Leyen are expected to speak at some point in the next day or so
- o Foreign secretary Dominic Raab conceded that this was likely to be the last major week of talks, acknowledging, however, that fishing rights remain “an outstanding major bone of contention”



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- According to research by Scotland Food and Drink, almost three-quarters of Scotland's food and drink businesses feel unprepared for Brexit and any resulting disruption
- Irish foreign minister Simon Coveney remained a vocal commentator this week, firstly saying it was "ridiculous" for the UK to blame the EU for ongoing uncertainty over a deal and then stating that the UK would be making "a really big mistake" if it breached the Northern Ireland Protocol on Brexit. Later in the week, he visited Paris for discussions with the French foreign minister
- German chancellor Angela Merkel warned that failure to reach a deal would not set a good example, although an agreement should not come "at any price"
- Environment secretary George Eustice unveiled the UK government's plans for a new farm support scheme in England, to replace the Common Agricultural Policy. New schemes, including the Environment Land Management Scheme, will be introduced from 2024 onwards and will aim to better reward more sustainable practices
- Scotland's constitution secretary Michael Russell told the SNP conference that the country should aim to rejoin the EU in full in the event it becomes independent, rather than settle for the "halfway house" of the European Economic Area. Nicola Sturgeon later reaffirmed this message in her own conference speech
- The UK government launched its Border Operations Centre, which aims to use "cutting-edge software", such as Border Service Flow, to gather information, monitor problems and tackle challenges
- Both the Office for Budget Responsibility (OBR) and the Organisation for Economic Co-operation and Development (OECD) warned again of the economic consequences of a no-deal Brexit. The UK-based OBR told the Treasury Select Committee that it would "hammer" sectors that had so far proved resilient to the pandemic, and the global entity that is the OECD said Britain would suffer a "serious" short-term hit
- The influential Commons Public Accounts Committee at Westminster stated that the UK government was "taking limited responsibility" for national readiness when the transition period ends, noting that it remained concerned about "the risk of serious disruption and delay at the short Channel crossings"



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- o Research from Lloyds Bank and Aston Business School showed that almost one in five British exporters have diverted business away from the EU since the referendum result in 2016
- o The House of Lords inflicted a further defeat on the UK government, this time backing a Labour motion calling for a consultation on any proposed replacement to EU state aid rules, the agreement of devolved administrations, and any new scheme to be legislated for by the UK parliament

OUR TAKE

If you ever doubted the political significance of fisheries, think again. It makes up around 0.1% of the UK's economy (albeit it is disproportionately significant in Scotland) and there are now likely fewer than 80,000 active vessels across the EU. The emotional resonance far outweighs the economic contribution, and neither side can afford to say they have secured a less than adequate agreement.

So France's late charge, related to fisheries and the so-called "level playing field", is not unexpected but, whilst the jolt from this news was perhaps more impactful because it had been preceded by real optimism that a deal was very close, there is no doubt it has thrown a spanner in the works. French president Emmanuel Macron is up for re-election in 18 months' time and any visible evidence he couldn't fight his country's corner effectively will be seized upon by the traditional parties he displaced in 2017.

Next week we see the UK government's Internal Market Bill come back to the House of Commons, with ministers determined to reinsert the clauses that breach international law, which were stripped out by the Lords. The European Council of 27 member states meets next Thursday (10 December), and for any deal to be agreed and translated into multiple languages in time, we would need something by Monday (7 December) at the latest.

Surely, the end is near. Surely, we must be facing the final curtain. But, once again, we note that countless imposed deadlines have already been missed and the history of EU negotiations is not just down to the wire, but down to the last syllable of recorded time. It is not inconceivable that next week comes and goes, and we enter a fraught festive season still hoping for a positive outcome.

It remains our view that we will get that outcome. We will avoid the Narnia outcome – always winter, but never Christmas. However, to have been almost there and then knocked back, in a year when we have all had to draw on far greater reserves of resilience than usual, marks a disappointing start to the season of goodwill. Whatever transpires, one thing is certain – everyone will say, I did it my way.