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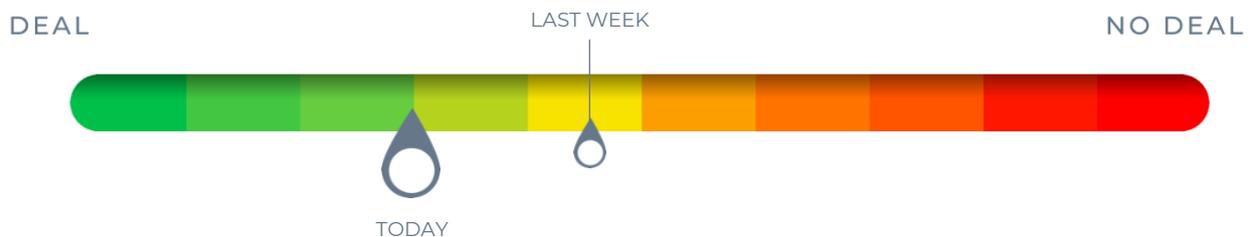
UK-EU DEAL UPDATE

23 October 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.

Despite Downing Street saying last week that negotiations were “over”, Michel Barnier and his team arrived in London yesterday to resume talks, after the EU’s chief negotiator said that “compromises on both sides” were needed in a speech to the European parliament. This led the UK government to say it was ready to continue negotiations.

Uncertainty and disagreement on some key issues – namely fisheries – remain. However, both sides have shown willingness to compromise in recent days. Our view is that the ground is being laid for progress to be made and that we are inching ever closer to an agreement, even if it is a thin one. For that reason, we conclude that a deal is more likely than it was at this time last week.



WEEKLY RECAP

- The UK’s credit status was downgraded by ratings agency Moody’s, which cited falling economic strength due to the pandemic and uncertainty over Brexit. The agency also highlighted what it described as “the weakening in the UK’s institutions and governance”.
- Trade organisations in the UK representing 190,000 businesses and seven million workers across multiple sectors issued a plea for a deal to be reached. In a joint statement, the groups highlighted that clarity will have a positive impact on firms’ ability to prepare.



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- The House of Lords voted 395 to 169 against the government's Internal Market Bill, on the grounds that it would “undermine the rule of law and damage the reputation of the United Kingdom”. The motion of regret is symbolic and provides the Lords with an opportunity to put on record its dissent. However, it lays the ground for more detailed scrutiny in the coming weeks.
- The government suffered a further defeat in the Lords on food standards. A Labour amendment aimed at ensuring imported foodstuffs met equivalent benchmarks to those followed by UK producers, including on animal welfare, environmental protection and food safety, was backed by 282 votes to 244.
- Speaking in the Commons, former prime minister Theresa May highlighted the importance of continued co-operation between the UK and the EU on the issue of security. She expressed her displeasure with Michael Gove's answer to her question, appearing to mouth “rubbish” after the chancellor of the Duchy of Lancaster claimed that the UK could co-operate more effectively in many areas outside the EU than it could inside.
- MPs voted to remove protections for lone child refugees from post-Brexit immigration legislation. The Lords amendment to the bill would have required the government to ensure unaccompanied children in the EU continue to be relocated with close relatives in the UK.
- The UK signed its first major post-Brexit trade deal with Japan, which will take effect from 1 January. The agreement, which was negotiated over the summer, largely replicated the EU-Japan deal, but has an extra chapter on digital trade and lacks quotas on agricultural exports. The deal is seen as a potential stepping stone to the UK joining the Trans-Pacific Partnership.

OUR TAKE

Did the EU blink first? A number of EU leaders went out of their way to sound tough on Brexit at last week's European Council summit, which concluded with them calling on the UK to take the necessary steps to reach a deal. This perceived inflexibility is what led Downing Street to indicate that negotiations were over.

Many will have seen this as a continuation of the posturing from both sides that has characterised the negotiations to date. However, as the BBC's Europe editor, Katya Adler, highlights, some on the EU side are privately admitting this was a misstep on their part.



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On Wednesday, Michel Barnier addressed the European parliament, calling for compromise from both sides and acknowledging UK concerns. Less than 48 hours later, he was in London to restart negotiations – an olive branch extended and accepted.

Fisheries – an economic minnow but political whale – remains the main obstacle. However, as we highlighted last week, the more nuanced language being used on this issue is indicative of progress.

That work is beginning on legal texts – a UK demand – also offers hope.

Ultimately, it's in the interests of both sides – politically, if not for businesses – for the deal to come late in the day. The EU can demonstrate that it is defending its interests and that leaving the bloc isn't easy, while plucky Britain can say it pulled off a deal.

An agreement – even a thin one – would also be a political victory for an embattled Boris Johnson.

The window is tightening, but most signs currently point towards a late deal.