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BREXIT MESS: THE EU ANGLE

Berenberg Macro Flash

Patience with the UK is wearing thin in the EU27. With only 16 days to go, expect the EU27 to put significant pressure on the UK to make up its mind on Brexit fast, ideally before the EU summit on 21 March. The EU is ready to grant a delay. But as the 27 EU members would have to unanimously agree to such a request, a badly disunited UK has put itself into a very weak position versus the EU27 and each of its member states.

We expect the UK parliament later today to reject a no-deal hard Brexit, for which the UK is not well prepared, and from which it would have much more to lose than the much bigger EU27. Tomorrow, parliament will likely vote in favour of delaying Brexit (see [Brexit vote trilogy: predictions and observations](#)). If the UK government then formally asks for a delay, as seems highly likely, the EU27 can largely set the terms, including the length of any delay.

Exasperated by almost three years of UK dithering, the EU27 will want to know what a delay would be used for. If and when the UK has decided what kind of softer Brexit deal it wants, a short eight-week delay to adjust the joint statement on post-Brexit relations accordingly would be fine for the EU27. But if the UK cannot say what it wants, some at the EU would probably argue that the delay should run until the end of 2020 for the UK to sort out its own politics first. Expect the EU27 to use the threat that a bitterly divided UK would otherwise have to take part in the elections to the European parliament on 23-26 May as a means to accelerate the decision process in the UK.

Of course, the EU can be flexible if need be. If the UK has not yet indicated by 21 March which Brexit option it now wants to pursue, the EU could still wait a few more days and call an ad-hoc special summit for just ahead of 29 March Brexit day to approve a request for a delay. However, EU leaders would not relish having to come to Brussels again just because the UK has again failed to make up its mind in time. If push comes to shove, the EU may even accept a short Brexit delay if the UK has not decided yet what it wants by 29 March. In that case, however, the UK would be asked to make its choice among the available options very fast afterwards from an even weaker bargaining position.



THE MENU OF OPTIONS

From the very beginning, the EU has offered the UK a choice of three post-Brexit options. Because mutual trade matters for the medium-sized UK about four times more than it does for the bigger EU27, it was clear from the very beginning that the final Brexit deal would have to be very close to one of these three options:

- 1) A **„Canada plus“ free trade agreement** would give the UK full freedom to control migration and conclude its own trade deals with other countries. The snag: to prevent a hard border in Ireland, Northern Ireland would have to stay in the EU customs union and single market for goods unless a not yet existing solution could be developed to avoid border controls in Ireland in some other way.
- 2) A **customs and regulatory union for goods** would keep industrial supply chains intact and avoid border controls while allowing the UK to control migration and regulate its own services. The snag: the EU would set the terms of UK access to its huge market for services and insist that, for services closely tied to goods, UK regulations would have to stay close to those of the EU.
- 3) In a **„Norway plus“ arrangement**, the UK would remain a full and paying member of all four parts of the EU single market with no control over EU migration except for some escape clauses for exceptional circumstances. This half-Brexit would detach the UK from all „ever closer union“ political aspects of the EU and minimise economic disruptions. The snag: the UK would turn from a rule-maker within the EU to a rule-taker.

EASY OPTIONS: CUSTOMS UNION OR NORWAY PLUS

By voting down Theresa May's deal once again decisively, the UK parliament yesterday rejected the first option, and probably for good. An exasperated EU will not reopen negotiations to further finesse details of this deal. If the UK parliament votes against a no-deal hard Brexit today, as seems highly likely, the softer Brexit variants or a new referendum would be the only options left.

Of these, the customs union and the Norway plus could be negotiated fast with just a short delay to the Brexit date. The detailed Withdrawal Agreement would not have to be changed much beyond a statement that, with a customs union or Norway plus, the Irish backstop would never be needed. Aiming for a customs union or Norway plus would be enshrined in the separate text on future relations. Details would have to be fixed in the transition period until end-2020 anyway. In a customs union, defining the services tied to goods for which the UK would have to stay close to EU rules would be tricky during the transition period.



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In the unlikely case that the UK were to choose a new referendum or call snap elections, the required Brexit delay would have to be much longer than a few months. Such political developments in the UK would be a reason for the EU to grant a long extension. Resolving the European election issue would be tricky in such a case. But if the EU really wants to, it can be good at finding temporary fudges, possibly by letting the current UK MEPs serve for a while until after a new UK referendum.

In our view, the customs union option is more likely than any of the alternatives (see [Brexit vote trilogy: predictions and observations](#)). The EU27 would not stand in the way of such an outcome.

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