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BREXIT AND THE EU: PROGRESS OR BLAME GAME?

Berenberg Macro Flash

Berlin, Paris, Biarritz: On his first big trip as UK Prime Minister to the European continent, Boris Johnson did not really dispel the impression which his campaign to lead his party and country had left in the EU27: he is gearing up for potential snap elections soon. His approach to Brexit is designed accordingly.

Snap elections shortly after the 31 October Brexit date could potentially maximise votes for the UK Conservatives. After Brexit, a vote for the Brexit Party would have become pointless. Likewise, a vote for the Lib Dems to promote a “Remain” option that would no longer exist would be somewhat pointless too. Right after Brexit, Labour would probably still be led by hard-left Jeremy Corbyn, whom many moderates consider unelectable. Right after Brexit, even if it is a hard one, the true costs would not be fully visible yet. As a proven campaigner, Boris may hope to get away with blaming the EU27 for the short-term disruptions of a hard Brexit. A bonanza of announcements of new spending increases and tax cuts could drown out some of the bad Brexit news.

Dissolving parliament before 31 October for snap elections shortly after Brexit day would also shorten the period parliament would have to prevent a hard Brexit.

30 DAYS FOR A NEW DEAL – OR FOR THE NEXT BLAME GAME MOVE?

The guarantee to keep the Irish border open come what may remains the bone of contention between the EU27 and the UK. Contrary to the assertion from some Brexit hardliners, the EU does not insist on the “backstop” as agreed with then-UK Prime Minister Theresa May in order to tie the UK indefinitely to the single market and customs union against its will. The backstop is a mere backstop. It is to be activated only if and for as long as all efforts to allow the EU to safeguard the integrity of its single market and keep its side of the Irish border open in any other way have failed. In a major concession towards May, the EU27 accepted long ago that it will go along with technical solutions for decentralised controls rather than a hard border between the UK member Northern Ireland and EU member Ireland. However, such viable technical solutions have to be developed first. As Johnson reportedly accepted in his talks with EU leaders, the burden of proof that such solutions work rests on the UK. Unlike the EU27, the UK wants to diverge from its current position as member of the single market and customs union.

Last Wednesday’s somewhat off-the-cuff remark by German chancellor Angela Merkel that it may not be impossible to find an alternative solution “within 30 days” needs to be seen in this context. So far, the UK has not given the EU27 any reason to doubt the general assumption that it will take years before such solutions may - or may not - be viable. Ireland and the EU27 hence insist on the backstop.

We would treat the Merkel comment less as a sign of confidence that a technological solution can be found fast. Instead, it reminds the UK that it would have to demonstrate to Ireland that an al-



ternative to the backstop is viable before the backstop can become redundant. If – against the odds – London can do that well ahead of 31 October, fine. If not, the EU27 would blame Johnson for the failure to put enough substance to his woolly demands for “alternative arrangements”.

DUBLIN COUNTS MORE THAN BERLIN

By choosing to have dinner with Angela Merkel and lunch with Emmanuel Macron last week, Johnson repeated the unproductive pattern of his predecessor. Instead of just talking on the phone to Dublin before flying to the continent, he should have spent two evenings in a Dublin pub with Ireland’s Leo Varadkar. To tackle the Irish issue, the UK has to strike a deal with Ireland. As part of the solidarity within the club, the EU27 will loyally support the Republic of Ireland in whatever stance it takes on the border issue that is vital for the emerald isle. If London can convince Dublin that it has viable technological solutions for decentralised border controls that do not require physical infrastructure at a “hard border”, the problem would be solved. No backstop would be required any more. If Boris can persuade Dublin to re-package or tweak the wording of the backstop, Paris would not object. Discussions with Berlin rather than Dublin will make little difference to the Brexit outcome: even a Germany that is teetering on the brink of a technical recession will not go soft. German industrial output is falling, exports to the UK are already 12% lower than they would have been if the trend that prevailed before the June 2016 Brexit vote had continued. To safeguard the cohesion of the EU27 single market, the association of German industry (BDI) nonetheless advocates a hard line on Brexit issues despite its own warnings that a hard Brexit would be expensive for all sides involved.

THE CORBYN ROADBLOCK

In one key respect, Johnson can probably count his trip to the continent as a success. UK headlines about “30 days” to find an alternative to the backstop can make it more difficult for Tory opponents of a hard Brexit to topple him with votes in parliament. Johnson can now portray his story “back me for the sake of a better deal with the EU” more convincingly in the UK than before. Every week Johnson stays in office once parliament is back from its summer recess on 3 September cuts into the time parliament would have to stop a hard Brexit. This adds to the Corbyn roadblock: so far, the Labour leader insists that he needs to be the interim prime minister in any attempt to oust Johnson and ask for a Brexit extension before calling new elections and/or a new referendum. As long as Corbyn does so, Tory opponents of a hard Brexit will likely shy away from bringing down Johnson. For them, putting hard-left Corbyn into 10 Downing Street is a risk at least on par with a hard Brexit. In this sense, Corbyn seems to be playing Johnson’s game. Outcome uncertain.

Unfortunately, uncertainty hurts. For a detailed discussion of Brexit scenarios and their economic impact, see Kallum Pickering’s [“The Brexit mess: economic scenarios”](#).



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