

Life After Brexit

by Antonia Colibasanu - December 30, 2020

On Dec. 21, France closed its border to the United Kingdom after reports of a new, more infectious coronavirus strain spreading in England. Already trucks had been piling up for days as companies rushed to stockpile goods ahead of Brexit and potential COVID-19 lockdowns, and holiday shopping strained shippers. But the Dec. 21 closure generated momentary panic – and a de facto Brexit, with thousands of trucks queuing for days to get approval to cross the channel to Europe. Intense media scrutiny on the situation surely piled pressure on both London and Brussels to reach a post-Brexit free trade agreement ahead of the Dec. 31 deadline. One of the most worrying consequences of failure was right there on TV for all to see.

Thus, on Dec. 24, the European Commission and the British government announced an agreement in principle on the text of a new Trade and Cooperation Agreement. The agreement won the backing of the British Parliament on Dec. 30 and was signed on the same day by British Prime Minister Boris Johnson, the president of the European Council and the president of the European Commission. It will enter into force provisionally on Jan. 1, pending approval by the European Parliament and EU Council in a couple of months. But even after the Brexit process is done, we'll be talking about the relationship between the U.K. and the EU for years to come.

The Economics

The EU-U.K. trade agreement would be pretty ambitious by most standards – it entails zero tariffs and zero quotas from day one – but not compared to the existing trade relationship. Since the U.K. will be leaving the EU customs union, customs checks will be conducted at the border, with reduced checks for certain “trusted traders” and other measures to ease trade in products like automotive, pharmaceuticals, chemicals, wine and organics. All goods entering the EU market will have to meet EU regulatory standards. The need for companies to certify their products for sale in both markets will add costs, while the border checks will add bureaucracy and potential shipping delays.

In addition, the services-heavy U.K. economy will encounter significant new barriers to the supply of services to Europe from 2021. Personal qualifications will not be recognized between the two sides, which means lawyers, architects and other professionals will have to open offices and get credentialed in the EU and the U.K., respectively, to sell their services in that market. The basic trade agreement focuses on the trade of goods, which preserves access for the EU to the British

market in an area where it has a trade surplus. By reducing access for British services, the EU diminishes its own exposure to a sector where the EU runs a trade deficit with the United Kingdom.

The U.K. financial services sector will be hit hardest. British financial companies will lose their authorization to sell products in the EU market starting Jan. 1. For countries that have similar regulations, the EU offers full “passporting” rights – unhindered access to EU customers. The U.K., however, will likely be granted “equivalence,” which covers fewer financial services and can be terminated with 30 days’ notice. Negotiations on all financial services – banking and investment – will continue next year.

This has been the expected outcome since 2017, when it became clear that Europe saw in Brexit an opportunity to make its own financial sector stronger. The **EU has imposed new regulations** on the clearinghouses that settle certain types of euro-denominated contracts and that are located outside of the EU – a very lucrative industry in London’s financial sector. Since then, many financial firms have shifted some of their operations to the Continent.

The Politics

Starting Jan. 1, the free movement of persons between the EU and the U.K. will end. The agreement mentions that arrangements have been made to facilitate short-term business trips and temporary secondments of highly skilled employees. But it will no longer be easy for Europeans to work in the U.K., which was the core promise of Brexit. Those wanting to work in each other’s territories will need working visas, and EU operators offering labor-related services will need to comply with U.K. rules.

The EU, on the other hand, ensured that no hard border would be imposed on the island of Ireland. A hard Brexit involving a hard border between Northern Ireland, and the Irish Republic would have threatened the integrity of the U.K. and the stability of the Irish peace process. It would have put food imports and supply chains to the U.K. and Ireland at risk. The compromise – reached during the previous round of negotiations on the Withdrawal Agreement but thrown into question late in the talks on the future relationship – leaves Northern Ireland in no man’s land, inside the EU’s single market for goods and effectively in its customs union but still part of the U.K. To ensure that third parties couldn’t exploit this weak spot in its single market, the EU needed to include provisions protecting it from external competition, so according to the agreement Brussels can sanction the United Kingdom in cases of unfair competition.

The agreement also sets up a Partnership Council consisting of about 25 specialist committees,

ministerial councils and working groups on subjects ranging from aviation safety to pharmaceuticals, intellectual property to social security. In other words, with the signing of the basic agreement, the U.K. and the EU enter a process of continual negotiation. If a disagreement cannot be resolved through direct negotiation, an independent arbitration tribunal will be established to settle the matter through a binding ruling. This involves more bureaucracy and processes that are similar to those existing since the 1990s between the EU and Switzerland, another non-EU member. The constant negotiations will not be painless, considering the degree of interdependency.

What's Next

The U.K. has regained the ability to write its own laws without having to discuss them with Brussels. But the agreement reached Dec. 24 leaves much to be resolved. The EU has shown it is not an easy bloc to leave – and in fact being a European country on the outside might involve just as much bureaucracy, if not more. This sends a message to all the euroskeptics in the bloc who already started recalibrating their positions toward EU membership years ago and will continue to do so as negotiations wear on for years to come.

For the U.K., the agreement also opens the door for negotiating trade agreements with other countries. The U.K. has expressed interest in signing such agreements with members of the Commonwealth, with which it has seen **increased trade** since 2008. However, internally, the issue of **Scottish independence is again rearing its head** and may get an added boost, depending on how the next few months go. The first Scottish independence referendum was held in 2014, two years before the Brexit vote, and the Scottish National Party is already pledging to hold another referendum if it prevails in Scotland's elections in the first half of 2021.

The pandemic and subsequent economic troubles are also likely to cause political distress for both the U.K. and the EU, further complicating the Brexit fallout and the shape of future talks. After a very shaky start to the year, the EU has mostly found its footing in the last month, finalizing tough negotiations on its next seven-year budget and a COVID-19 economy recovery fund, securing this Brexit trade deal and even reaching an investment treaty in principle with China. But the U.K. can ill afford for Brexit to go badly, especially with the Scottish question hovering over it. The U.K. needs to renew alliances and deepen former imperial links at a time of socio-economic distress for everyone, including its most important ally, the United States.

The EU is at a crossroads. At the moment, the bloc finds itself politically at ease, considering the message it sent to the euroskeptics about how difficult it is to leave. But reforms are still needed, and the EU's problems are neither few nor small. Interestingly, Brexit may be a blessing in that

regard: It may be a relief that Brussels doesn't have to convince the U.K. to agree to its plans. It probably would have been more difficult, for instance, for the EU to agree on common sovereign debt and the issuance of coronabonds if the U.K. had still been an active member this year.

But with Britain's departure, the EU loses its strongest military power and one of the most important NATO members. The U.K. has a strong Atlanticist vision, considering its historical ties with the U.S., something that Germany and France do not share but Eastern European states like Poland and Romania do. Brussels will need to carefully navigate these differing viewpoints to keep its balance, especially given the diverging views between EU member states on strategic security or military matters like the Russian threat, the Eastern Mediterranean crisis and even relations with China. For the EU, the signing of the agreement with the U.K. marks the beginning of a serious, continual negotiation between EU member states on the EU's future.

Author: Antonia Colibasanu

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