

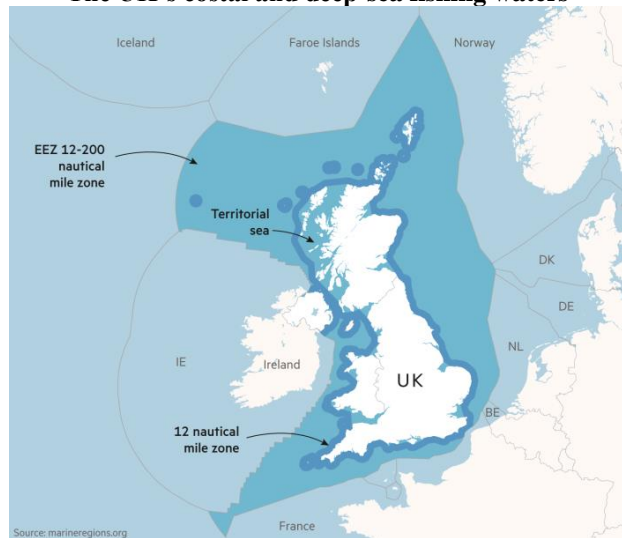
Deal or No Deal, the legacy of Brexit will last for years

Brexit is back in the news headlines around the world because time is running out as the transition period expires at the end of the year.

The coronavirus crisis has made negotiations between the United Kingdom (UK) and European Union (EU) more difficult, especially when they had to take place via video conference. Perhaps more importantly, the two sides are fundamentally opposed on three key issues: A level playing field, fishing, and how to govern the deal.

The **first** key issue is the idea of a “level playing field”, which seeks to ensure businesses on one side don't have an unfair advantage over their competitors on the other. This is a feature of all trade deals, but the EU is demanding that the UK sticks to EU rules on workers' rights, environmental regulations and state aid to businesses in particular. On the other hand, the British position is that the whole point of Brexit was to break free from following common rules governing environmental standards, working conditions and other regulations.

The UK's costal and deep-sea fishing waters



Sources: Financial Times and marineregions.org

Second, the EU is pushing for continued access to UK waters for its fishing boats in return for the UK retaining full access to the EU market to sell fish caught by British fishing boats. Whereas, British negotiators insist that the UK is now an independent state and will give its own fishing boats preferential access to British territorial waters.

The **third** key issue is how to govern any future agreement. The EU is pushing for the ability to take action against the UK in any area of the agreement in response to breaches of any part of the agreement. Whereas, the UK is pushing for retaliation for breaches to be restricted to the area of the agreement in which the breach occurred.

The differences between the UK and EU on these three key issues are so fundamental that it will take significant efforts and faith to agree on a deal before the end of the year. It normally takes years to do a trade deal but this process only has three weeks left. Therefore, even if a free trade deal is agreed now, it will be rather a short-term compromise than a comprehensive and long-term agreement.

Foreign Office Minister James Cleverly told the BBC that the UK would keep negotiating "for as long as we have available time or until we get an agreement". Talks with the EU "often go to the last minute of the last day", he added, saying there was "still time". Meanwhile the EU's chief negotiator Michel Barnier is reported by the Financial Times to have told EU officials that he "cannot guarantee" a Brexit trade deal. With one diplomat saying that "The EU is ready to go the extra mile to agree on a fair, sustainable and balanced deal. . . It is for the UK to choose between such a positive outcome or a no deal outcome."

Euros per GBP



Sources: Haver, Financial Times, QNB analysis

Rather than judging things by such statements, our preferred indicator of the “state of play” regarding Brexit is the exchange rate between the Euro and the Great British Pound (GBP). The GBP depreciated by around 18% when the UK narrowly voted to leave the EU in 2016 and has never really recovered. This indicator therefore does not suggest that progress is likely in the near future.

“Kicking the can down the road” has been the standard of European policymaking for the last decade or more. UK Prime Minister Boris Johnson has staked his reputation on not extending the transition period beyond the end of 2020. Therefore, a No Deal Brexit is still on the table and is a very real threat to the economic outlook for both the UK and EU, just as vaccines begin to offer hope of an escape to a new-normal from the lockdowns imposed by Covid-19.

QNB Economics Team:

James Mason*

Senior Economist
+974-4453-4643

* Corresponding author

Luiz Pinto

Economist
+974-4453-4642

Abdulrahman Al-Jehani

Research Analyst
+974-4453-4436

Disclaimer and Copyright Notice: QNB Group accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Where an opinion is expressed, unless otherwise provided, it is that of the analyst or author only. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. The report is distributed on a complimentary basis. It may not be reproduced in whole or in part without permission from QNB Group.