



OAK INVESTMENT MANAGEMENT GROUP



MARCH (2) 2017

The Talks will not Succeed

There is no way in which the Brexit talks can result in a negotiated settlement. Although, optimally and rationally for both sides there is sufficient grounds for a compromise to be found – this will not happen. The structure of the talks precludes this; the interests at play will frustrate this; and various public opinions on both sides of the talks will not allow it.

Although, nominally David Davis representing the UK government will square off against Michel Barnier representing the European Commission, the structure of the discussions around Brexit involve twenty-nine separate entities (twenty-eight national governments and the European Commission) each with a legislature and the court of public opinion in their home polities to cater for.

Added to this structural complexity the British wish to bundle two separate issues together. The first is their exit from the European Union, the second is a trade deal giving them continued access to the European Union market. Whilst for the EU the first is relatively straightforward the second is fraught with danger. Too good a deal for the British and a dangerous alternative narrative will be an attractive proposition for countries with their own hostility to the European Union.

It cannot be stressed enough that critically there are three filters that a final negotiated position needs to pass through. The first is an 'agreement in the room'. The second is the formal authentication which is still at the national legislative level for every single member of the European Union (as well as of the European Union itself). The third is the informal support which is the broad body of public opinion in each of these countries.

It is therefore not just the sheer quantity of governments with their differing opinions and ways of sanctioning a definitive agreement that will agitate a definitive deal but it is also these three filters that will shift and change depending on the mood, the temperament, economic well-being of all concerned. We have heard a great deal about the threat posed by Marine Le Pen becoming President of France as well as the outside chance that Angela Merkel being shunted aside by this year's elections in Germany, but there is a structural threat of, for example, the autonomous region of Wallonia in Belgium refusing to sanction a deal.

Wallonia temporarily derailed the CETA deal initiated in May 2009, and sealed in August 2014 which was a free trade deal agreed between the European Union and Canada. In this instance, huge political pressure dislodged this road bloc. But in an analogous situation why



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would the powers that be of the European Union do the same for what they see as the errant state of the UK?

A 'deal in the room' could look something like this: UK to leave the EU, all political oversight by the EU to be abolished, the UK to pay a fee for access to the single market. This fee would have to be less the full membership which on a net basis is approximately £8 billion. Plucking a figure from the air of £5 billion per year could be a figure on which a 'deal in the room' could be done. A pragmatic 'fudge' whereby the UK gets their cherished market access and the EU mitigates the worst effects on its budget from the departure of the UK.

But this 'deal in the room' needs to be agreed by everyone outside it. There are important stakeholders (such as Germany and France) to be won over but there are also stakeholders who can bring up completely unrelated issues as a price of their co-operation (to name just a few potentials Greece, Hungary or Poland).

There is ample scope for the 'deal in the room' to be derailed by deliberate or accidental support by the nation states and that evaporates when the heavy lifting starts of trying to convince home populations that it is in their interests to sanction any agreement. Ultimately whatever is agreed and whatever progress is made can be picked apart and disavowed at will or as expediency demands.

Unlike previous trade negotiation (CETA and the ill-fated TPP) negotiations will not be conducted in private. They will, in fact, be subjected to the unprecedented glare of the Anglo-Saxon press as well as the national newspapers throughout the European Union. This will feed through to the opinions of each of these countries and then through to their national legislatures. This is not a recipe for a sanctioned negotiated settlement.

At the start of negotiations there exists very little good will, an essential component of a negotiated settlement. The core central tenant of ever closer union of the EU has been punctured forever and the commission itself (as negotiating counter-party) is in mortal danger of something like a 15% reduction in its budget which no other country is likely to find politically expedient to plug.

Whilst the assumption is that Germany will take the lead in being the 'real' counter-party to the UK it has little incentive to do so. It is far more amenable for Germany to hide behind collective responsibility of all the other 27+1 rather than break cover. This is both a reflection of the German post WW2 identity but also of a potential public relations disaster at home and abroad if they appear too lenient or too strict on the British. It is no exaggeration to say that this is Greece to the power of ten.

National governments do not control their MEPs so it is easy to contemplate the European parliament disavowing an agreement produced by the European Commission on an agreement of this historic importance. Who will put in the work to impose discipline on this entity?



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On the other side of the fence the government of Theresa May will be campaigning for re-election in 2020 on the result of its negotiation during Brexit. It will be easier for her to return to the British people with no deal rather one that 'costs' something that is perceived as excessive.

UK and EU will go their separate ways. Both will be immediately challenged for internal coherence as a result: UK with Scotland and the EU with pressure for a more a multi-speed approach to integration (if at all). Perhaps in view of this, and after the passage of time, both sides would welcome just a clean and complete break entailed with not reaching a negotiated settlement.