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Thanks.

Very honoured to be invited.

Ladies and gentlemen: we now face a very critical few months in the Brexit process, and the potential for a severe political crisis between the UK and the EU, as well as for domestic British political turmoil on a scale we have not seen since the War.

We need a great deal of wisdom to be shown on all sides if we are to avoid, over Brexit, the sort of bitterness which this Continent thought it had left behind for good.

This autumn marks the 100th anniversary of the end of the first great global conflagration of the 20th century. One cannot but be reminded of the wisdom of what Maynard Keynes wrote in his brilliant work on the Economic Consequences of the Peace in 1919.

I quote:

"Very few of us realise with conviction the intensely unusual, unstable, complicated, unreliable and temporary nature of the economic organisation by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as permanent, and to be depended upon, and lay our plans accordingly. On this sandy and false foundation, we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, conflict in the European family".

He might almost be describing a number of people on both sides of the Channel in 2018 not 1918.

In the superb pages which follow, Keynes goes on to demolish the complacency - what he termed the "vast unconcern" - of the British political class, for whom these questions were far away and their own lesser problems more troubling.

We are, fortunately, not in the world of 1918. But when a fine commentator like Simon Nixon refers to a "whiff of 1914" when talking about the current state of play on Brexit, he has a point. Liberal world orders can collapse. The first era of globalisation ended with the Great War. On most metrics, it took 80 years to get back to the level of global integration of the early 20th century.

And orders do collapse when the players in key capitals are so embroiled in domestic political crises that they can no longer think straight about the interests and incentives of those on the other side of the table, and can no longer take decisions requiring a vision beyond the next few months.

Self absorption and muddled thinking in London, of which there is plenty on every side , is met with dangerous complacency and an absence of much serious thinking about the "British question" on the EU side of the table.

But there IS a British question. It ought to, and will, matter, greatly to the EU. And it needs more than a smooth technocratic exit process to address it.

However tempting it is for capitals to think that, as the British have brought all this on themselves without much apparent thought or honesty as to what a post Brexit settlement could ever look like

– an understandable accusation - any Brexit deal which was widely perceived as a humiliation, will not be a stable, lasting one.

And all sides need a stable, amicable post Brexit settlement, not an endless toxic running battle.

There is now, in my view, a higher risk than the markets are currently pricing of a disorderly breakdown in Brexit negotiations, and of our sleepwalking, into a major crisis, not because either negotiating team actively seeks it, but precisely because each side misreads each other's real incentives and political constraints and cannot find any sort of landing zone for a deal, however provisional.

There are, of course, those who have always wanted “no deal”, primarily because they actively do not want even a preferential free trade deal with the EU, for fear of the inevitable constraints they know any FTA the EU would ever sign would bring with it.

Its advocates are now terming this a “WTO deal”. There is, of course, no such animal. But their aim is to offer the public comfortingly plausible reassurance that there is either no cliff edge, or that there is an all-weather mattress for all parts of the economy if the UK simply walked off the cliff without a deal.

The UK's notices to the private sector about preparations for a “no deal” actually reveal the truth - rather starkly.

In multiple sectors and on multiple issues, there simply isn't a WTO “rule book” on which to fall back. That is, in any case, just not what the WTO has or does.

Advocates of “no deal” know this really. They know that a genuine “no deal” would bring several key sectors of the economy to a halt. So they argue that European self-interest will be the deus ex machina which delivers a whole set of legal mini deals ensuring that it's all alright on the night.

This is, I fear, simply delusional.

I am all for knowing in any negotiation what, in negotiators' jargon, one's Best Alternative to a Negotiated Agreement - one's BATNA - is. It is particularly important in a negotiation like this one, where the default if there is no deal is not the status quo.

But it is simply not the case that the best alternative here is a set of negotiated mini deals!

Let's think it through.. The reality, in any breakdown scenario, is that any UK PM who felt obliged to say that the Withdrawal negotiations had reached a dead end, would refuse to pay the exit bills.

And the inevitable response to that from all 27 in the Council the following day would be to say there would be no resumption of normal trading relations with the UK unless and until it had agreed to honour its full debts.

In the meantime, the 27 would no doubt enact, at 27, the emergency provisions, which enabled whatever continuity in whichever sectors it deemed in its interests. That would not mean the complete cessation of all business. Of course not. It just means an entirely unilateral and deliberately asymmetric selection by the EU of where there will be continuity and where there will not.

That is not taking back control. That is giving it up.

The EU would calculate that the UK would be back at the table with its chequebook out within the week.

So, to sum up, we know that those who argue for “no deal” are not really after a “no deal” but a complex set of legally binding mini deals assuring continuity across large tracts of the economy, for which however there would be neither the appetite from the EU nor the time, in the only political circumstances we could conceivably be facing if the current talks failed.

But please do not run away tonight with the idea that simply because it would have completely different – and vastly more damaging - results than those who are arguing for it claim it could not happen.

If the talks broke down over the backstop issue, or if no Parliamentary majority could be found for whatever proposition is on the table, the legal default is “no deal”.

And this is where the EU side of the table needs to understand the risks that the UK Parliament might have no majority for an essentially “blind” Brexit. In other words a Brexit where all that is clear is what is in the Withdrawal Agreement on the backstop, on citizens rights and on the UK’s financial obligations on exit, and the nature and ambit of the future relationship is so vague in the accompanying Political Declaration as to leave everything open for the trade negotiation starting only after the UK has formally left.

If, as seems possible, a decent chunk of the Conservative Party cannot bring itself to vote for whatever proposition the Prime Minister gets into that Political Declaration, the political reality is that she would be dependent on Opposition party votes to ratify a deal.

The EU27 needs, at leader level, very seriously to work through now where it wants these negotiations to end.

To date, understandably, it has run the Article 50 as a virtually entirely technocratic process, in which leaders have had - and felt they needed - no serious discussion of the Brexit question or of the future relationship with the UK. And have, equally understandably, prioritised maintaining their unity, and privileged maintaining the integrity of the European project, and notably of the Single Market and Customs Union, over all else.

The 27 have put their own interests in the key issues for the Withdrawal Treaty first, and said that all the substance of the future economic relationship is for another day, and for a different negotiation commencing only after Brexit.

None of this was difficult to foretell.

Any expert knew that would not happen, and that the business of extricating ourselves from the EU would, inevitably, be a tortuous process not an event, would take years to get right, and would involve hundreds of individual issues and complex trade-offs on both sides.

No FTA on the planet has been easy and rapid to negotiate, and this is the first one on the planet which will be between partners seeking to diminish rather than enhance their level of trade liberalisation and integration.

Yes: it is true that this makes the UK a unique proposition as a third country which has previously been a member. But, no: that does not necessarily make the negotiations easier.

It makes some of them appreciably harder, because, as we have seen, the UK will start with a view that the baseline ought to be essentially the status quo on market access rights, and the EU will start with the view that no non member unprepared to meet any of the key obligations of membership, from financial contributions to the full four freedoms and the full jurisdiction of the European Court of Justice, can expect anything close to the privileges of a member, and will be wary of setting precedents which other non-members would aim to capitalise on.

This has only come as news to people who had not really thought through the complexity before the event.

It is also genuinely peculiar that those people whose strongest case against the UK's membership has always resided in saying that the Union's deepening integration had taken hold in every nook and cranny of UK life, primarily via the inevitably huge legislative programme entailed by any supranational Single Market, should then seem surprised that taking oneself deliberately out of the Single Market should entail the completely automatic re-erection of barriers to trade that had only been dismantled via that legislation.

I stress "automatic". The EU's position is not wilful, vengeful or a fresh voluntary decision. The barriers resume because we British have chosen that they should.

That is what Brexit means: Brexit.

And for a services-rich economy like the UK, as anyone who has conducted trade negotiations knows, liberalisation of trade in services cross border is much tougher and more complex than liberalising goods trade. Which is why the big strides have entailed precisely the sort of regional integration – with an inevitable political and juridical dimension – in which the EU has pioneered progress.

Is the Single Market perfect or complete? Of course not.

However, leaving the Single Market entails making cross border trade with its former partners within it much more difficult, and will diminish not increase trade flows. One cannot avoid that. One should not mislead the public by trying to suggest otherwise.

And the EU is right to be saying that, without meeting the obligations, there cannot be the same rights. That is the legal set up we indeed helped create. UK politicians decrying this as "legalism" are frankly not really serious about what any deep cross border trade liberalisation must entail.

No FTA on the planet is remotely like the Single Market. If you want to leave the Single Market because you can't accept the jurisdiction of a "foreign" Court, and enforcement action taken by a

foreign executive, that's fine and entirely legitimate. But then don't pretend that the trade you end up with with former partners will be at the same level on the same terms. It will not. Nowhere near. And on services, the difference will be radical.

But - and there is a but - the EU has choices here too.

And it needs, as I said at the outset, a serious strategic sustained discussion at the level of heads of Government of where it wants to go with the UK once we have left, and what that means for its own place in the world.

For a long while, it has been possible, and convenient, for the 27 to avoid that question

The original red lines strategy from the Prime Minister in her October 2016 Party Conference and January 2017 Lancaster House speech just made it extraordinarily easy for the EU to get immediate complete unity on the position that, if she stuck to those red lines, the only option would be a Canada style FTA. And to point to the EEA as the only available option, were the red lines to be abandoned.

I know it has then taken London another 18 months to get to the Chequers deal.

I know that, to any non Brit, to be told by London, after that extraordinary length of wait, that Chequers, which was the result purely of a contorted bitter internal negotiation, cannot be deviated from, because the only alternative is a "no deal" - which, as I say, the UK Government knows to be unviable – is, to put it no more strongly, immensely tiresome.

I know that Chequers contains many wholly unsaleable elements and will not – cannot – be agreed by the 27..

So the 27 can, if it wishes, still readily react to Chequers by saying "this is still not remotely serious. The only options remain straight Canada Dry or EEA. Let's just get the Withdrawal Treaty, with the backstop, and the money, in the bank." And keep the Political Declaration vague and open enough to enable the British Prime Minister to try and ram it through, saying to the House that the only alternative is the abyss, and to her Party that the only alternative if it does not pass is a General Election.

That seems to me the likeliest course the EU will take in the next few weeks. The UK Government may even press it to. The more detailed the text, the more glaringly obvious the problems of the destination will be.

I hope though that this is not what the EU does.

There are 2 problems. First, for the reasons I have already explained, this may very well lead to an accidental "no deal" and consequential huge EU-UK crisis, because it's patently a bad deal for the UK. I of course understand that the expectation of continued UK turmoil and confusion makes many capitals very cautious about what to put in any Declaration, given a future Prime Minister might immediately want to disown it.

Second, the EU can clearly choose effectively to impose a thin Canada style economic deal as the destination, bolt on a bit more on trade facilitation, and package this with deeper agreements on non-economic issues. And congratulate itself over the cigars that it has royally screwed the exiting state with a deal heavily skewed to the EU's advantage, such that no other Member State would ever be tempted to tread that path.

But the EU does need to think through hard – and now – where that ultimately leads over a couple of decades. A thin FTA which will inevitably represent a very poor deal for the UK with the EU on services, in which we have a major surplus, and will be a radically worse deal than today's for UK-based manufacturers embedded in pan European supply chains.

This would deliver a very substantial dislocation for the UK economy as soon as the status quo transition had ended. The UK economy will restructure over time, but the initial shock of the regime change will be great. Again, let's stop pretending otherwise.

The anticipation of the end of that status quo transition would therefore begin – would have to begin – in the private sector the moment the Political Declaration pointing to a Canada type deal was signed. Indeed, frankly, as you know, in many corporates, that work is already under way in the expectation of a pretty lousy trading deal for the UK. People cannot wait till 2020 to prepare for a radical regime change in January 2021.

This is of course precisely why some of the anti Chequers Brexit supporters, as they gradually come to understand the scale of the change Brexit represents across the economy, and see, in the words of Nick Boles last weekend, the humiliation that might await this autumn, are now desperately casting around for a new plan, with a lengthier non "vassal state" transition built in, to enable us to profit for several years from a Norwegian style deal and thence gravitate more smoothly to a Canadian style deal, permitting far more divergence from the EU27.

This "Norway first, transiting to Canada" model, is of course, simply yet another pipe dream, which the EU has no reason to agree, even if it were a different Prime Minister coming to the table with it, and even if it were legally possible.

Whether or not some other way out could have been sought two years ago, it is too late now. There are not, in Autumn 2018, going to refashion the entire permanent EEA framework now so we can have some temporary comforts on our way to being a third country. I am tempted to say that only a Brit could imagine otherwise.

But the EU must also see that, if it essentially imposed a Canada style economic deal, with a couple of bells and whistles on governance and on trade facilitation, it also predetermines the inevitable UK response when, during the FTA negotiations, the EU makes its inevitable demands for a plethora of level playing field provisions to guard against what it would see as unfair competition. The UK might, at a pinch, agree some non regression clauses in various fields, but it will say that none of these provisions apply to other third country FTA partners, and the EU cannot have its cake and eat it.

The EU will no doubt then respond that the scale and depth of the trading relationship, given the geography, mandates these sorts of provisions.

To which my answer would be: "precisely".

This is not, and never will be, just a bog standard third country relationship like any other. It has geostrategic implications, particularly given the current fragile state of the West. And the EU needs the UK to want to remain a major player on the European Continent, and in confronting common challenges, economic as well as diplomatic, as we have for centuries.

We are condemned by history and geography to be such a player. In any sane political environment, we shall want to be. And it is wholly against the EU's own interests, as well as ours, to see the relationship descend into one bedevilled, even defined, by trade and anti dumping flare-ups, by mutual recriminations over distortive tax and subsidies regimes and by regulatory arbitrage.

For Ireland specifically, a Canada type destination for the UK does not solve the border issue, unless you believe that ultimately, a Northern Ireland specific backstop can be agreed which then exists in perpetuity.

Nor is it good for an Irish economy when much of your EU trade which is not with the UK, flows through the UK.

The advocates in the UK of a Canada style deal minimise or ignore the border issue, and intend to "address" it essentially by refusing to erect a hard border themselves and blaming the EU as and when it insists on such a border at what will be the external border of the Customs Union. The border will never be these people's fault.

There will of course be a countervailing very significant flow of financial and other services sector business relocations from the UK to Ireland. But even here, the risks are significant, and while it is not for me to try and define Irish self interest, the liberal, dynamic, outward-looking, competitive EU which wants to build a successful Capital Markets Union, is not ultimately best served by forcing London to refocus away from the European Continent.

I am very wary of saying too much specifically on the backstop question, given the intractable politics. It is obviously the biggest stumbling block to getting a Withdrawal Treaty over the line. Virtually everything else is in place. But I am not sure the 27 can seriously expect a UK PM to swallow a combination of a Political Declaration pointing to a Canada Dry style destination coupled with a Northern Ireland specific permanent backstop.

I have to be candid. Politically, the only way one can see the PM selling a WA with a legal all weather backstop in it is if she is simultaneously able to point to a Political Declaration which suggests a trade deal for all UK which will obviate the need for such a backstop ever to come into force.

And that is of course the origin of the frankly fantastical and unsaleable Facilitated Customs Agreement proposal. Because, politically, the alternative which manifestly could sell in the EU – a genuine Customs Union with the UK – cannot seemingly be sold to those in her Party for whom, as I said earlier, one vital central purpose of Brexit was to deliver full autonomy on future UK trade policy.

Chequers as it stands, then, is a non starter with the EU. And I am not going to waste time by seeking to defend any of it, when even the Government which produced it seems unable to articulate its case.

Which would have to start and end by explaining why a Canada type deal is so bad for the UK. Which it is. And which the Prime Minister knows. Which is why she has been on an odyssey seeking a non Norway non Canada way since she took office.

But an EU response which purely rebuffs, which says “let’s deal solely with the withdrawal issues and keep the Political Declaration as vague, aspirational and ambiguous as possible”, or one which pins down that the only viable destination on offer is a Canada style FTA, with a much deeper ancillary set of non economic agreements – because those suit the EU - attached, will merely set up further conflict and mutual alienation down the line, and has the potential to deepen the fracture with the UK, as we may have no choice but to take an economic course which will turn cross Channel relations more adversarial.

If EU leaders now think, with Keynes type foresight, where THEY might want the EU- UK relationship to be in a decade or two, then they need to think hard this autumn about where we are heading. Chequers, whatever else, represents a Prime Minister who now recognises that across many key goods sectors, divergence on standards is a chimera which only sounds good to those who have not bothered to understand what friction free trade entails in the 21st century, have never read an FTA, and who privilege theoretical autonomy over real free trade, and who, as I say, have little or no understanding of trade in services.

The 27 ought, in my view, to have the sense to build on that, and build on the good elements of Chequers on future governance arrangements, and reflect profoundly on the depth and amity of the economic relationship they want.. If they do not, I think we shall be looking back from 2038 wondering why the rupture became so much deeper than was desired by any of the main players.