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Mujtaba Rahman
Managing Director, Europe
+44 (0) 207.553.9823
rahman@eurasiagroup.net

Permanent conflict will be the new normal

- The UK and EU's interactions over the past eight weeks reinforce our view that December's post-Brexit trade deal will remain the high point in an otherwise deteriorating and confrontational relationship.
- This is symbolized by David Frost's ascent from Europe adviser to cabinet minister with total responsibility for Europe and Brexit; importantly, Frost, a strong believer in diverging from the EU model, will advise the government on domestic reform and regulation, with Chancellor Rishi Sunak taking the first steps toward divergence in next week's budget.
- The UK-EU deal is unlikely to be significantly improved: Corporates investing into the EU will still face substantial trade barriers and no agreements for services or the financial sector are likely in the short or medium term.

When the UK and EU struck their trade deal in December, we argued that it was likely to serve as the high point—not the starting one—for UK-EU relations in the future. The last two months have validated and reinforced this conclusion (see: [EG UK/EU/TRADE: The longer-term outlook will remain tricky for UK-EU relations](#)).

In normal times, UK politics over the past eight weeks would have been dominated by the impact of the UK-EU Christmas Eve agreement. Boris Johnson is lucky it has been overshadowed by the coronavirus pandemic. The limitations of the hard Brexit deal for which he opted have become painfully clear for UK exporters hit by red tape including customs duties, VAT administration, health certificates and courier payments. UK shellfish firms have seen their EU market cut off; many fishermen who voted for Brexit feel betrayed, their boats in port. Some firms are moving operations to the continent, costing jobs in Britain. Disruption to goods moving from Great Britain to Northern Ireland has also reignited tensions in the province, raising fears about the survival of the cross-party governing executive and even the peace process.

In private, ministers admit these problems go beyond “teething troubles” and are a consequence of the UK exiting the EU’s Customs Union and Single Market; hence, they are structural. Yet the way in which the government is attempting to address them—essentially, blaming the EU—is very telling for the trajectory of future relations.

Although Conservative MPs have begun to pressurise ministers after being lobbied by people running small businesses, who are often the backbone of their local Tory constituency parties, Johnson is not going to redraw his red lines and renegotiate the Withdrawal Agreement or his trade deal, which he trumpeted as “great” and as “a good deal for the whole of Europe”. There is therefore a ceiling on how many of the problems can be resolved. On the EU side, there is also a strong view that the disruption stems not from the implementation of the deal but the deal itself.

The stage is therefore set for conflict. In particular, the EU has noticed two trends. First, that the government’s rhetoric is purposely creating a substantial gap between reality and expectations. As one senior EU official says: “We have to manage a deal that has not been sold on the British side in a way that corresponds with reality”. Second, that the reflexive response of the government is to blame the EU for problems that are now arising, rather than acknowledging that they flow from choices Johnson made (for example, the UK didn’t want to negotiate exceptions to free movement of labour, which is now impacting the ability of musicians to perform their services in the EU).

The consequence of the government’s action is that it is eroding already low levels of trust, and making it harder for the EU to accommodate some of London’s concerns by reducing the political space and influence of more moderate member states like Germany, Ireland and the Scandinavian economies. As one senior EU official says: “We are trying to be pragmatic, constructive and results oriented, but this is never the first reflex on the British side. The government is much more political, always attempting to score points, only thinking about the consequences later.”

For now, Downing Street seems unconcerned. Indeed, hopes of building a more co-operative post-Brexit relationship have been set back further by Johnson’s decision to strip Cabinet Office minister Michael Gove of his EU role and hand it to David Frost, his EU Sherpa who negotiated the trade deal, who last week won a surprise promotion to a minister of state attending Cabinet and with total responsibility for Brexit.

Johnson feared Frost might resign because, in his previous role as a special adviser on Brexit, he enjoyed less clout than Gove. From next Monday, Frost rather than Gove will be the UK chair of the joint bodies overseeing the Withdrawal Agreement and trade deal. We think this is a clear signal Johnson will favour the more aggressive, confrontational stance Frost took in the Brexit negotiations rather than Gove’s more consensual approach.

Some Whitehall officials are nervous this will make it harder to resolve the highly sensitive Northern Ireland problems (some short-term problems that have led to shortages in Northern Ireland’s supermarkets will likely be eased tomorrow when Gove holds talks with Maros Sefcovic, the European Commission Vice-President). But without Gove in charge, Johnson will be more likely to adopt tit-for-tat measures, such as invoking Article 16 of the protocol—using as cover the EU’s hastily withdrawn threat to do so to prevent vaccine exports from Ireland to Northern Ireland (see: EG [EU: Von der Leyen’s position is not at risk](#)).

The extent to which the government has tried to exploit the EU’s mistake over Article 16 has infuriated many EU capitals. They compare their reaction to the government’s threat on the Internal Market Bill—to pursue legal action but avoid any political overreaction—with the tone and demands from London in the aftermath of the European Commission’s mistake, even though Brussels’ error never even made it into a legal text (the UK’s threat to break international law and not implement the Withdrawal Agreement remained on the table for 3 months). “Ours was a stupidity made by some and it was in the draft and not the legal text. Theirs was a legal text. We are talking 3.5 hours versus 3.5

months,” complains one senior EU official.

In these circumstances, the EU will have no choice but to rebuff Gove’s request to delay some grace periods on new checks for two years. So any tweaks that are reached to the deal will fail to satisfy the Democratic Unionist Party (DUP) which, having reluctantly swallowed the Northern Ireland Protocol last year, is now calling for it to be scrapped. The party has joined a legal action claiming the trade border in the Irish Sea is incompatible with the 1998 Good Friday Agreement and 1800 Act of Union. The DUP, which backed Brexit, is losing public support to the more hardline Traditional Unionist Voice (TUV). This matters because elections due next year will choose the Northern Ireland Assembly that will decide in 2024 whether to keep the protocol.

Wider UK-EU relations are therefore unlikely to be harmonious with Frost in the driving seat. The former diplomat is a true Brexit believer who thinks short-term economic pain is a price worth paying to regain sovereignty that will eventually bring economic gain. Significantly, he will advise the government on “domestic reform and regulation to maximise on the opportunities of Brexit.” He is a strong believer in diverging from the EU model even if that means reduced market access, as it will under the trade deal. Rishi Sunak, the Chancellor, will likely take first steps down the divergence path in his Budget a week tomorrow. One option is to raise the £3.5m state aid limit for grants to a single company to enhance help firms hit by the covid shutdown. Although that is unlikely to spark retaliation by Brussels, further measures could result in EU tariffs.

One reason for the tougher approach is that Tory strategists believe it will play well in the “red wall” of seats gained from Labour in 2019.

These voters are also in Keir Starmer’s sights. That is why he has been reluctant to raise the problems engulfing UK companies since 1 January. “The public do not want to hear us say ‘we told you so’,” one Labour aide explained. But Starmer is under mounting pressure from pro-European Labour MPs, who accuse him of letting Johnson off the hook. We think Starmer will eventually champion the plight of UK firms; the limited changes he will seek to the deal will be to make it work better for business, in the hope of enhancing Labour’s economic credentials. But he will resist Labour demands for a wholesale renegotiation of the deal.

Labour’s caution will only encourage Johnson to play the Brexit card against Starmer, who will not be able to avoid the issue at the next election; the trade deal comes up for review at the end of 2025 and so is bound to feature in party manifestos. While the Tories remain in government, the agreement is unlikely to provide the platform for a more harmonious relationship, as pro-Europeans hoped. As things stand, it is more likely to be a recipe for permanent confrontation and conflict.

Happy to discuss.

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