

Global Economy

# Brexit gets complicated

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Brexit negotiations are speeding up and they are becoming incredibly complex, both from the technical point of view - how to make each side's red lines compatible - and the political point of view - how to get the final agreement passed by the UK parliament.

Two years after the referendum, the UK government finally put into writing its proposal for the kind of definitive relationship it wants with the European Union (EU). At the Chequers meeting a "soft" Brexit was proposed, to follow a transitional period, with a complex customs agreement that would maintain the free movement of goods and could avoid a hard border with Ireland (a key political issue), but with a separation in the market for services. This leaves the City of London outside the single market and dependent on such bilateral agreements as might be signed for the sector. The proposal also includes concessions on certain issues, such as participation in some European agencies without the right to vote (such as the EMA, European Medicines Agency) and recognition of the role of the European Court of Justice in certain regulatory matters.

Despite its softness, the proposal is still far removed from the European Union's red lines: no remaining in the single market "à la carte" in certain sectors and upholding the freedom of movement of persons. Barnier, the chief European negotiator, has expressed several doubts about the feasibility of the proposal, although one gets the impression that the EU might accept that it is legitimate to separate goods from services, since no mention is made of specific sectors, but it will probably be more demanding on the subject of immigration, on which the UK government will have to yield quite a lot more.

Even assuming agreement is reached in the negotiations with the EU, the political situation in the UK has become very difficult, to the point where it endangers approval of the agreement. The Eurosceptic faction has lost two key ministers and has already signalled that it will not vote in favour of this kind of agreement, knowing that if it is not approved, the country is headed for a "hard" exit in May (its preferred option) with no transitional period and no trade agreement. The Labour Party, which is slightly ahead in the polls, may be attracted by the idea of a defeat for the government in parliament leading to a general election. And the "Remainers" have regained the initiative and are demanding a second referendum, this time with three options (exit with no agreement, negotiated agreement, or remain), the result of which could be anybody's guess.

A no-deal exit in March, with no transitional period, is no longer inconceivable. It is the only solution that does not require a majority, but it is also the worst of all possible options.

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