

It Has Taken A While But BREXIT Is Done!

It certainly took a while but finally a BREXIT deal has been agreed and on 1st January 2021 for the first time in 40 years the UK will be a 'third party' in its dealings with the EU.

With the ink barely dry it is impossible at this stage to say whether the positive statements coming from both EU capitals as well as London, reflect the simple fact that a deal has been done after four years of wrangling and attention can now be turned to other more pressing matters, such as COVID and the need to address the economic havoc that this has brought or whether both sides believe they have achieved the principal goals that they set for themselves back in January when the current trade negotiations began.

Certainly the UK's principal objective included in the Political Declaration which was signed at the same time as the Withdrawal Agreement, that any future trade agreement between the EU and the UK should be based on 'zero tariffs, zero quotas', has been delivered upon. It is also hard to deny that the long cherished goal of the UK Govt. that the UK Parliament should have sovereignty over future law making, has also been achieved. Indeed, the EU's insistence at the outset of the negotiations that the European Court of Justice should have a role in determining potential disputes of any free trade agreement has been replaced by provision for 'independent arbitration'. It is however impossible to avoid the fundamental truth that in terms of the economic benefit that the current trade agreement will bring to the UK, it falls far short of what the UK Prime Minister promised following his election a little more than a year ago. The services sector, which represents more than 80 per cent. of the UK's GDP and of which financial services contributes approximately 7 per cent, is not covered by the trade agreement. Instead, a memorandum of understanding on the co-operation on financial services is to be worked on in the New Year with the aim of reaching agreement by March 2021. In the meantime, the fortunes of the UK financial services' industry appear to hinge on whether Brussels grants it 'equivalence', allowing financial institutions easy access to European markets for only so long as the UK's rules and regulations governing the industry remain similar to those of the EU block. So far the numbers of people and the amount of capital

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that have moved to the EU has in large part been a 'trickle' of the potential, the challenge for the UK Govt. will be to make sure that it remains just that.

The biggest relief for the UK Govt. is that with zero tariffs (taxes) there is no immediate need or reason for foreign manufacturers and in particular car makers such as Nissan, Toyota and Ford to close their manufacturing bases in the North East and the Midlands with the huge economic impact that this would have for the local economies in these regions. Whilst recognising there will be no tariffs on goods, it will certainly not be the case that trading with the EU will be "frictionless". It is estimated that UK exporters will be faced with up to 200 million forms to be completed annually, with all of the consequential administrative costs. That said, over time with the adoption of technology and new working practices, these challenges will ease considerably.

For the UK, the critical question will be what do multinational companies value more when making their next investment decision? The benefits that come from a flexible workforce with the ability to move human capital easily between countries such as France, Germany, Italy and Spain or the more stable regulatory environment of the UK where foreign investment is not only accepted but welcomed even if this is at the expense of local ownership of British businesses. What is without question however, is that there remains a great deal more work to do before the UK can claim it has a truly comprehensive free trade agreement with the EU. As well as addressing the financial services industry, further agreements also need to address important issues such as data transfer, security and mutual recognition of professional qualifications such as for doctors, accountants and architects. Flows of data are essential for retail, banking and back of office functions. In the absence of EU recognition of the adequacy of UK data rules it will be difficult for UK businesses to store data on EU citizens on UK data bases. The agreement provides that data flows will continue for up to 6 months by which time the EU will make a data adequacy ruling on the UK. With the adoption by the UK Govt. of GDPR and other regulations equivalent to those of the EU, it is hoped that EU recognition will be forthcoming.

However, even with the shortcomings of the current trade agreement, the simple fact of there being a trade agreement means that there is positive political will between the UK and the EU, meaning that the EU and the UK will wish to find reasons to make the agreement work rather than enter into the inevitable blame game that would have lasted months and possibly years had no such agreement been found.

Whilst BREXIT has finally been done, further agreements will have to be reached on a range of issues if both the UK and the EU are to fully exploit the benefits of a free trade agreement between on the one hand the 5th largest economy in the world and on the other, the world's largest economic trading block.