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A well-managed Brexit is a priority for the entire EU

Karel Lannoo

It is tragic to see that the British Prime Minister is received by the American President and even by the Turkish President, while European leaders turn their back to her. Theresa May's speech on January 17th, but also the mood in Brussels, portends an abrupt departure, rather than a constructive deal. This will not only be harmful for Britain, but also for the rest of the EU. With the 9th March deadline drawing ominously near for triggering Art. 50, discussions need to start right away to secure a managed transition and lay the groundwork for a new partnership.

Revanchist attitudes seem to dominate the debate in continental Europe towards Brexit. Many member states are openly or discreetly attempting to lure financial business away from the City. Policy-makers should be aware, however, that Brexit is a lose-lose situation. Most studies foresee a negative impact, not only for the UK, but also for its most important trading partners in the EU. Furthermore, there are also the several million Europeans living in the UK, whose fate is uncertain after Brexit. The EU and Britain therefore need to urgently work together towards a new deal. Surely, Britain will no longer be part of the single market, but it should remain as closely associated with the EU as possible, to the benefit of all.

The EU should offer Britain the right to remain in a customs union with the EU. The EU's external tariff will harm British exports to the EU, but it will also lead the UK to impose tariffs on EU imports, its main trading partner. Remaining part of a customs union is also crucial for the integrated value chains in manufacturing. Tariffs on components in EU value chains will be extremely disruptive and will require long lead times to accommodate changes, if they are to be at all possible. But administrations will also need time to adapt to implementing the tariffs, in the event that the UK stays outside of a customs union.

The customs union should be coupled with a deal for EU citizens currently living and working in the UK, and linked to a clear agreement on persons travelling between both blocs. Many EU

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citizens risk losing part of their vested rights once Brexit becomes a reality, and undocumented workers risk losing everything. The EU should insist that any non-British EU citizen who has acquired residence rights in the UK according to the Citizen's Directive will retain those residence rights together with the EU standard of protection against expulsion after Brexit. Mutual recognition of professional qualifications may disappear, leading to the relocation of many 'liberal professions' outside of the UK. The lack of clarity about the future regime is already creating deep uncertainty.

For financial services, a comprehensive equivalence agreement should be concluded with the UK upon its adoption of the Repeal Bill and the departure of the UK from the EU, as both jurisdictions have had the same regimes in place until the separation. Today, there is no overall third-country regime for access to the EU's single financial market, but rather a spectrum of approaches, ranging from no to very extensive provisions. Moreover, the equivalence decisions are decided unilaterally by the European Commission. It should be clear that much of this business will not necessarily move to the continent after Brexit. It will stay or move elsewhere in the EU, if access to the single market is important. Or alternatively, it could disappear as well.

As things stand now, it looks as if the UK will move in a period of scarcely two years from its current situation of full single-market involvement at all policy levels to almost no involvement in the EU single market. This is not only unrealistic, but it will also be extremely disruptive for many businesses, which need much longer lead times to make such adjustments. A full trade deal is also not in the cards any time soon, as the negotiations will take years to complete. Both sides therefore need to sit together urgently and start planning an orderly transition that would redound to the benefit of all. The British Government's White Paper published on February 2nd calls for a strategic partnership with the EU, but it takes two to tango (or 1 + 27). And two years is a very short time in which to accomplish everything that has been placed on the table – and businesses will require even more time to adapt to the new regime.