

Commonwealth Conversation
Brexit: Challenges and Opportunities
Part Three

Meeting of UK-based High Commissioners

Report February 2017



THE ROYAL COMMONWEALTH SOCIETY

About this Report

The Royal Commonwealth Society convened the latest in its series of Brexit Roundtables on the 7th February 2017, kindly chaired by the New Zealand High Commissioner, Sir Lockwood Smith, and hosted at New Zealand House. The guest speaker was Simon Fraser, former Permanent Under-Secretary at the FCO and whose career included secondments to the European Commission, including as Chef de Cabinet for EU Trade Commissioner, Peter Mandelson.

Introduction

Things are moving fast and Article 50 is likely to be triggered on time in mid-March. HMG want a clean break, with no membership of the Single Market, but maybe some ad hoc partial customs agreements in some sectors and a Free Trade Agreement. It has decided to prioritise the political factors over the economic. The strategic context for all this has been changed by the election of President Trump; and the domestic context should be seen against the background of Scotland and Northern Ireland moving up the agenda.

The Brexit Negotiation Process

HMG needs to achieve two things – a divorce (under Art 50), and an agreement on the future UK/EU relationship. It is unlikely the latter can be sorted in the two years allowed for the former, which suggests a long period of transition after the actual Brexit moment in March 2019. The PM's speech of 17 January set out the Government's aims very clearly – the subsequent White Paper stuck to that framework, but added interesting detail. The details of the divorce are likely to cause some early crunch points, notably on financial issues.

The PM's reference to "progressive implementation of the new arrangements" and the Great Repeal Bill (which allows piecemeal repeal of EU law over an infinitely elastic period following Brexit) implicitly suggest that HMG accept there will be a long transition. For their part the EU are not in a hurry – they are adopting a stance of disciplined non-engagement with the UK, not least as the thirty parties involved (27 Member States, the Commission, the Council of Ministers and the Parliament) all have different interests. The EU welcomed the clarity in the 17 January speech, but disliked the threat to walk away and lower UK tax rates to attract business to the UK. The Commission will lead the negotiations with a mandate from the Council and Member States but the Parliament needs to approve the deal and could refer it to the ECJ. There has been little visible activity in the Commission so far, with Barnier's small task force (40 people) clearly not the full negotiating team which will run to hundreds across all the sectors. The EU's key priorities are (1) to preserve EU unity and (2) to ensure the UK gets no special deal. Elections in France, Germany, Italy and the Netherlands (inter alia) complicate matters during 2017.

The Final Deal

It is too soon to predict the details of the final outcome, but things are moving faster than expected. Sir Simon said that there is a significant possibility that the UK leaves without any deal. In his view the shape of a deal is likely to be closer to the one with Ukraine than the one with Norway or Switzerland. The fundamental problem was that the mutual economic interest in a sensible deal was likely to be trumped by the hard politics on both sides. And the overall deal would likely cover security, defence, borders, CT, foreign and defence co-operation as well as economic issues such as external trade policy.

Currently UK Trade

The priorities for new deals to replace the current arrangements are fairly obvious: the US, countries with which the EU has a Free Trade Agreement, the BRICS, the Commonwealth. But some interesting statistics. The UK's current trade flows are:

EU	44%
US	16%
Commonwealth	9%
BRICS	8%

This has some interesting consequences: -

- If trade with the EU drops by 5% (probably at the lower end of the possible consequences) it would take a 25% rise in trade with the BRICS to compensate;
- Or a 13% rise in trade with the US;
- Or ditto the Commonwealth;
- A 10% drop (probably a more likely outcome) would obviously need twice as big an increase to compensate.

The City has now accepted that it will be impossible to get continuation of the passporting arrangements, and is casting around for other solutions.

Implications for the Commonwealth

It is important for the Commonwealth to get its act together quickly, not waiting for CHOGM. (The meeting of Trade Ministers next month will be a useful opportunity to take things forward). And regional groupings need to establish and make clear their priorities (e.g. CARICOM should be working on what it wants to replace the EPAs with the UK after Brexit).

Q&A Discussion

The Chair asked Sir Simon, what can the Commonwealth do to gently persuade the EU and the UK that the whole world needs Brexit to be sorted sensibly? And within the WTO, how will negotiations with all the other countries go? Sir Simon replied that the UK is not currently focussed on what Europe and the rest of the world thinks about Brexit and the implications it has there. It is important for Commonwealth governments to engage with EU governments in order to understand the broader geopolitical implications. UK needs to establish its WTO position and possibly adopt the EU schedule.

Another High Commissioner stressed that this is not just about the UK but our relationship with the EU as well. The concern is a degree of bitterness that could possibly lead to tariff barriers to be erected. There is a rise of protectionism all over the world at the moment and this is a huge problem for the global economy. Brussels needs to understand this. As the EU contracts, will external tariffs be reduced as a result?

Another High Commissioner from a Mediterranean country pointed out that the debate from 1975 is somewhat reversed. At the time, Britain moved away from the Commonwealth and focussed on Europe. Now this seems to be the other way around. The Commonwealth is being rediscovered but should never be a political instrument. What can we as Commonwealth countries do collectively, rather than on an individual basis, to make Brexit a success? Those outside the EU can't have a better deal than those inside it, but there shouldn't be a sentiment of punishment either.

Sir Simon considered that the Commonwealth per se doesn't really play a role in the Brexit discussion at the moment. Focus is on particular Commonwealth countries in the UK's Global Britain strategy. His opinion is that in the short term, Brexit is a lose, lose situation, which might change in the mid to long term. Collective action is something the Commonwealth ought to think about.

One of the Caribbean High Commissioners asked questions about the services industry. This is an especially important growth market in the Caribbean. What arrangements will there be? What market access will there be for services? The UK has been a great advocate of this within the EU, so there is a risk that after Brexit there will be a vacuum on this front. Sir Simon answered that services are an ever-more important part of UK trade. There is a risk there will not be a Caribbean deal with the UK if it pulls out of the EPAs, which will have to be carefully considered. It was again considered that the Commonwealth should and could put collective effort into this.

Another question raised was about the ACP countries, 32 are currently in EPAs. How do we make sure that the smaller economies don't end up at the bottom? What can the Commonwealth do collectively to get the UK on board? Sir Simon considered that on the issue of prioritising smaller countries there is a moral responsibility to do this and a political willingness to do so, however economically priority is actually given to the larger economies.

Another High Commissioner said that there were interesting lessons to be learnt from Brexit within the current political climate. How do we ensure the process is right within the context of changing popular opinion over time? Sir Simon thought we need to understand the current populist phenomenon and the ramifications this is causing for international political systems. The current position on Brexit has been determined by the referendum and the overall sentiment both amongst leavers and remainers, and a change in this position can only come from the public.