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## BREXIT THROUGH A NEGOTIATING PRISM – PART 2



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### **Brexit through a negotiating prism: part 2**

The British Government will tomorrow officially notify its EU partners of its intention to withdraw the UK from the EU. The two-year process of agreeing the terms of that departure will now begin.

British negotiators seeking the best possible Brexit deal, notably maximum preferential access to the EU market, will be asking themselves two key negotiating questions. Do we have any potential allies? And, do we have any leverage?

#### **Do we have any potential allies?**

The EU functions as a network of shifting and cross-cutting alliances, reflecting the interests of the different member states on the range of issues with which they must collectively deal. Difficult issues are often resolved through linkages and trade-offs.

The Brexit process will be unprecedented and different. It is one state against 27. That was in part inevitable, but it also reflects a fundamental reality.

Most members suffered occupation or dictatorship in the years before they joined the EU or its earlier incarnations. Membership offered them hope of prosperity, solidarity and a return as independent democratic states to the European mainstream.

The economic and migration crises have tarnished that ideal and frayed cohesion, but short of a Le Pen victory in France - in which case all bets are off - an underlying sense of common interest remains amongst governments and the majority of citizens.

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It has been notable how even governments hitherto sympathetic to the UK position on many issues – the Netherlands, the Scandinavians, the Germans, Poland, the Baltics – have resisted entering into substantive separate discussion and instead have underlined EU27 solidarity and the integrity of the ‘acquis communautaire’.

That unity may come under strain on some issues as negotiations progress. But the UK would be unwise to rely on it.

### **Do we have any leverage?**

Leverage – the possibility of conceding something the other side wants, or the potential to do something the other side would not like – features in most negotiations. There are areas where the UK might hope to exercise leverage in the Brexit process, but each is problematic:

**Money.** Our partners and the Commission will ask us to pay an ‘exit bill’ of up to 60 billion euros, covering budgetary pledges for the current financing period and longer term commitments.

UK negotiators will no doubt dispute the legal basis and argue that any dues should be balanced against our share of EU assets. But in principle, the more forthcoming we can be on money, the better our chances of securing what we want in other areas.

British ‘generosity’ is however likely to be severely constrained by domestic politics; and the potential for linkage will be limited if the EU27 maintain their insistence that the shape of an agreement on the exit bill must be clear before other issues are discussed (in contrast to the usual EU principle that nothing is agreed until everything is agreed).

**Financial Services.** Brexit threatens to create barriers to EU access to the City’s capital markets. That would have a negative impact on continental commerce and gives the UK potential leverage.

But damage to the City could be greater; some other European countries may focus on the potential to attract financial services business; and banks are already making contingency plans, including the transfer of some operations to other European capitals, to ensure maximum continuity of business.

Moreover in terms of income from services, the UK has much more at stake. UK services exports to other EU countries were worth £89billion in 2015, those from the EU to the UK less than a quarter of that.

**Trade.** EU exports of goods to the UK are worth more than British exports to Europe (the figures for 2015 were roughly £290bn and £220bn). Some argue this gives the UK leverage.

But while exports from EU countries to the UK are 8-17% of total EU27 exports, those from the UK to other EU countries represent some 43% of total British exports. British industry needs the EU market more than EU industry needs ours.

German car manufacturers might ideally like a zero tariff arrangement, but their statements suggest they are unlikely to go out of their way to help us secure one.

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Meanwhile decisions European car manufacturers will make over the next two years – where to manufacture the next generation of BMW’s Mini, and the future of Peugeot/GM operations – have the potential to exercise pressure on the UK.

**Tax.** The UK Government has implicitly threatened aggressive corporate tax competition if an acceptable Brexit deal proves impossible. But is that a credible threat? Is it what most Brexit supporters want? Moreover the EU would be likely to retaliate, perhaps by erecting new trade barriers. Would we want to risk that at a time of maximum vulnerability?

**Security.** The UK is a major contributor, in terms of defence spending, intelligence sharing and cooperation on anti-terrorism, to wider European security. Some have suggested that UK negotiators might use this as leverage in the Brexit negotiations.

The problem is that the UK is involved in security cooperation not out of a sense of obligation or generosity, but because we think it is in our interests. Would we really threaten to complicate or reduce it in order to secure concessions in other areas?

**People.** The British Government has resisted pressure to give unilateral guarantees on the continuing rights of EU citizens who already live here. This element of the negotiation, the Government argues, must be resolved alongside the rights of British citizens resident in other EU countries, ideally at an early stage.

It is arguable that a unilateral gesture might have transformed the negotiating atmosphere. If the UK were to seek now to use the people question as leverage on other issues (and there is no sign of that) it might be seen to cross a moral line and have a hugely negative effect.

## Conclusion

British negotiators have a challenging hand to play, against a tight deadline. They will find it very difficult to establish alliances, and their negotiating leverage is problematic. While failure to reach an agreement will damage both sides, the EU27’s ‘best alternative to a negotiated agreement’ is almost certainly more tolerable than ours. Indeed those on the opposite side of the table may see the UK’s stated willingness to leave the EU without a deal as the negotiating strategy of a man threatening to jump from a tall building unless his demands are met. That is leverage of a sort, but it is unlikely to be effective.

British negotiators’ best bet is to keep their feet on the ground and encourage a cooperative negotiating dynamic, so that both sides seek arrangements of mutual benefit. That will put a premium on positive relationships and require a courteous and listening approach, an empathetic understanding of the other side’s point of view, a focus on common interests, a willingness to make concessions, and the nerve to resist the temptations of destructive rhetoric when the going gets tough.

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