



BREXIT PERSPECTIVE

Brexit means “hard Brexit”: The UK’s negotiating strategy

“*Brexit means Brexit*”. Since Theresa May became British Prime Minister in July last year, the phrase has become almost synonymous with perceptions of her broader approach to leadership – firm in tone, steely in appearance yet somehow lacking in specific detail.

“I want Britain to be what we have the potential, talent and ambition to be. A great, global trading nation that is respected around the world and strong, confident and united at home.”

Prime Minister, Theresa May MP, 17 January 2017

Indeed, while oft-repeated, her critics – from the UK Independence Party’s Nigel Farage to strongly pro-EU segments of the Labour Party – have long called on the Prime Minister to move away from deploying the trusted soundbite and to outline the government’s negotiating hand.

With the Prime Minister’s self-imposed March deadline for the triggering of Article 50 (the legal mechanism via which the UK will quit the European Union) rapidly approaching, today’s speech as the first clear indication as to the UK government’s negotiating stance and future of Britain’s relationship with the EU.

Roughly 45 minutes in length, the speech was light on detail yet clear on policy direction. It will reassure those who favour a clean break with the European Union, its processes and institutions (a “hard” Brexit) and dismay those whose had wished to see the UK retain membership of the single market or customs union (“soft” Brexit).

Even before today’s speech, the hints at a “hard” Brexit negotiating strategy had begun to emerge.

Appearing on Sky News’ flagship *Ridge on Sunday* programme last weekend, the Prime Minister used the first extended interview of her premiership to recommit to the leaving the European Union (“*we are leaving, we are coming out, we are not going to be a member of the EU any longer*”) and to warn that Britain could not expect to hold onto “bits” of its membership.

The Prime Minister’s comments were echoed by the Chancellor in an interview with Germany’s *Die Welt* newspaper two days ago where he threw his famously-cautious approach to the wind in stating that unfettered freedom of movement from the EU to the UK “*had to stop*”, expressly rejecting the “*political integration that membership of the EU has come to imply*” and repeatedly stressing a desire to forge “*reciprocal*” trade agreements between London and Brussels, as opposed to remaining anchored to the single market or customs union.

What was most striking about the Chancellors remarks, however, wasn’t his advocacy of the tools of “hard” Brexit but rather his warning that the UK was “*not going to lie down*” if Brussels seeks to impose trade tariffs after Brexit; instead promising to respond to any such measures by “*changing the UK’s economic model to regain competitiveness*” through radical cuts to business taxes.

Before the Prime Minister took to her feet this morning, the bulk of the speech had been meticulously pre-briefed to media outlets as a plan that sought to bring about a “*new and equal partnership between an independent, self-governing, global Britain and our friends and allies in the EU*”, not one that meant “*partial*” or “*associate*” or “*anything that leaves us half-in, half-out*”.

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Delivered at Lancaster House in central London – the same venue as the 1943 European Advisory Commission’s meeting that foreshadowed the Yalta conference and set the tone for the next half-century of governance in Europe – the tone of the speech was decidedly internationalist. Declaring that a post-Brexit United Kingdom would be a “*nation that is respected around the world and strong, confident and united at home*”, the Prime Minister set out four key themes upon which negotiations would be based: “*certainty and clarity*”, “*a stronger Britain*”, “*a fairer Britain*” and “*a truly global Britain*”.

More specifically, the Prime Minister detailed twelve explicit policy aspirations:

1. “**We will provide certainty wherever we can**” – While there have been a number of debates about the role of the British Parliament in scrutinising the Brexit deal, the Prime Minister sought to lay these to rest by confirming that the final package will be put to a full vote in the British Parliament.
2. “**Leaving the European Union will mean that our laws will be made in Westminster, Edinburgh, Cardiff and Belfast**” – The Prime Minister has long been clear the UK will no longer be bound by rulings of the European Court of Justice following Britain’s departure from the European Union – a somewhat logical step, given that the court exists in order to ensure the appropriate implementation of EU law at Member State level. Such a step will have considerable implications for the United Kingdom on a large number of policy areas – from business law and accountancy standards to the application of environmental legislation – which will need to be provided for under British law.
3. “**A stronger Britain demands that we strengthen the precious union between the four nations of the United Kingdom**” – It was noticeable that, in her remarks, the Prime Minister made explicit reference to “Edinburgh, Cardiff and Belfast” – a clear signal that she intends to take action to head off moves towards independence in Scotland, Wales or Northern Ireland. More specifically, the Prime Minister stated that devolved administrations will be consulted in trade deals, yet appeared to rule out the Scottish National Party’s push for any form of special status inside the EU for Scotland.
4. “**We will deliver a practical solution that allows the maintenance of the Common Travel Area with the Republic of Ireland**” – The Prime Minister made specific mention of the “special relationship” that exists between the UK and Ireland – neither of which have ever been members of the Schengen area – and the need to maintain the Common Travel Area facilitating the free movement of individuals (and, by default, goods) across the UK-Ireland border. This measure is likely to be welcomed by all major parties in Northern Ireland, particularly in light of snap Assembly elections scheduled to take place in March.
5. “**Brexit must mean control of the number of people who come to Britain from Europe**” – Regardless of what differences may exist between the Conservative government and opposition Labour Party on the minutiae of Brexit negotiations, there is broad recognition amongst the British political class that the public wish to see the UK regain control of its borders. While the Prime Minister did not outline details of her favoured policy today, the government is believed to favour the introduction of a work permit-style system, with ministers able to ease entry requirements and increase the availability of permits on a sector-by-sector basis.
6. “**We want to guarantee rights of EU citizens living in Britain & rights of British nationals in other member states, as early as we can**” – A rather self-explanatory statement, the Prime Minister merely sought to reaffirm what the government had already made clear: that those EU nationals currently in the UK would continue to enjoy a right of residence in return for equivalent protections on the European mainland. Given the sensitivity of this issue, one can expect the UK Government will move swiftly to reach a resolution on this topic.
7. “**Not only will the government protect the rights of workers set out in European legislation, we will build on them**” – The political significance of this issue should not be underestimated, with many opponents of Britain leaving the EU having stressed the importance of guaranteeing the continuation of maternity and parental leave and anti-discrimination laws in a post-Brexit UK. The Prime Minister will hope – perhaps forlornly – that her clear statement committing to the protection of workers’ rights provisions under UK law will blunt the power of political attacks from her opponents.
8. “**We will pursue a bold and ambitious Free Trade Agreement with the European Union**” – In making this pledge, the Prime Minister was clear that a Free Trade Agreement will not be the same as continued membership of the European Union’s single market. Indeed, as the Prime Minister spoke, the Conservative MP William Wragg posed a question to the Chancellor Philip Hammond in the House of Commons calling on him to confirm that the UK will leave the single market, “no ifs, no buts”. In response, Hammond confirmed that “we cannot be members of the single market because of the political lines around the four key freedoms that the other leaders have set”. While single market access appears, at this stage, to be off the table, the Prime Minister did outline her ultimate aspiration for a customs union-style agreement with a specific focus on key economic sectors such as the financial and automotive industries.
9. “**It is time for Britain to get out into the world and rediscover its role as a great, global, trading nation**” – Supporters of Britain forging a distinct path in respect of international trade deals will undoubtedly be buoyed by recent comments by the US President-elect Donald Trump and Australian Prime Minister Malcolm Turnbull in support of concluding swift, post-Brexit deals with the UK. The International Trade Secretary Liam Fox is set to visit New Zealand and the Far East in the coming months, while the Prime Minister’s recent visit to India hints at a renewed push for trade accords with Commonwealth states. It is hoped that, on the day the UK leaves the EU, a series of “signature-ready” trade deals will be inked.

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10. **“We will welcome agreement to continue to collaborate with our European partners on major science, research and technology initiatives”** – A nation does not need to be a member of the European Union in order to cooperate with the organisation on cross-border research and development and educational projects. In this respect, the Prime Minister confirmation that the UK would remain “at the forefront” on these topics – from “space exploration to clean energy to medical technologies” - would appear to suggest ongoing British participation in initiatives such as ERASMUS and Horizon 2020.
11. **“We will continue to work closely with our European allies in foreign and defence policy even as we leave the EU itself”** – The Prime Minister was clear that the United Kingdom will retain close links with Europe on sharing intelligence information to help counter “threats to our common security”. In addition, she sought to recommit to continued policy coordination in the field of sanctions against Russia following its illegal annexation of Crimea and annexation of Donbas, ensuring stability and security in the Western Balkans and helping to meet the challenges posed by the global refugee crisis.
12. **“Phased process of implementation- seeking to avoid a disruptive cliff edge”** – Finally, the Prime Minister sought to calm fears of a reckless or disorderly British exit from the EU; rejecting any moves towards a “cliff-edge for business or a threat to stability, as [the UK changes from its] existing relationship to a new partnership with the EU”. While some in EU capitals will be dismayed by the Prime Minister’s statements in support of weakening ties with Brussels, she struck a conciliatory cord when it came to the future of the European Union; calling for continued cooperation on joint challenges and rejecting suggestions the UK wished to see a broader “unravelling” of the organisation. Instead, the Prime Minister advocated a “transitional” phase which will give businesses time to plan and prepare for the new arrangements – the time period for which will be a key topic for negotiation over the coming two years.

Unsurprisingly, the Prime Minister’s speech has not met with universal approval, either on a UK domestic or mainland European audiences.

The German government was one of the first out of the blocks with its reaction, with Foreign Minister Steinmeier welcoming the fact that Theresa May had outlined her plans and the greater clarity provided. He also revealed that the German cabinet would for the first time tomorrow be meeting to coordinate its Brexit position.

While EU partners will welcome Theresa May’s comments about wanting the EU to succeed, British audiences often forget how ingrained the EU is as a political and social construct to its continental members – and how politics as much as trade will drive the negotiations.

The speech won’t get the motors running on the Brexit negotiations just yet. Let’s see what comes out of European capitals, but in Brussels, the real work and formal start of negotiations won’t begin

in earnest until the triggering of Article 50. And even then, experienced EU negotiators won’t expect the UK to put all its cards on the table straight away.

The two year timetable remains ambitious and the details of how this will impact individual sectors will be the key point for business leaders. In addition, there will be different opinions from both sides of the channel as to whether the shape of the future UK/EU relationship can be agreed in parallel to completing the divorce settlement. Finding a solution to the complexities surrounding the prospect of the UK leaving the customs union will be critical in order to avoid the adverse impact on the daily flow of commerce between the UK and the rest of the EU. Brussels will not only be the centre of attention on Brexit; focus will quickly turn to the reactions of other organisations, notably the WTO.

In London, the Opposition has already moved to make political capital from the speech. Speaking in the House of Commons, the Shadow Chancellor John McDonnell has already accused the Prime Minister of seeking to “pull up the drawbridge” in respect of links with the EU and seeking measures that will “cut the UK off from jobs and public finances”. This is in addition to the leader of the Opposition, Jeremy Corbyn MP accused Theresa May of wanting to turn the UK into a “bargain basement tax haven”.

The Liberal Democrat leader Tim Farron, who is attempting to define his party as the natural home for pro-European voters, has slammed the Prime Minister’s approach as an attempted “theft of democracy”.

In the coming weeks, the Prime Minister will formally trigger Article 50; a process that will set a two-year countdown clock in motion until the day the United Kingdom leaves the European Union – a process that will be fraught with political difficulties not only from a British perspective, but across the European continent.

As far as Britain’s Brexit negotiations are concerned, today’s speech wasn’t the beginning of the end; but the end of the beginning.

Snap Market Reaction

Markets reacted positively to May’s speech this morning. Sterling rose following May’s early announcement that the final Brexit deal will go before Parliament, spiking above \$1.22, on course for an increase of more than 2.3%. The rise is reportedly the biggest increase in the Dollar since June of last year, and the second biggest rise since December 2008. Europe’s bank index is also now up 0.3pc, turning positive following Prime Minister Theresa May’s comments that the government will seek a transition period agreement for Brexit, citing the financial services sector as a possible recipient.

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