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BREXIT**BOWL**

July is usually when the thoughts of politicians and officials from across Europe begin to turn to sun, sea and sangria, and dreams about strengthening the Union (the European Union) are put on the back burner for a month or two.

But for the Brexit negotiators holed up on both sides of the Channel, there will be no respite this summer.

They have started on a long and arduous journey involving intensive monthly rounds of negotiations, and will have to resolve a wide range of technical and political issues. The issue of citizenship is an early challenge which we focus on.

In this month's Brexit Bowl, we also provide an alternative perspective on Brexit, with a contribution from our Asia team outlining how the UK's exit from the EU is impacting China, particularly on Chinese inward investments. Prospects for future trade deals and for Europe's role as an international hub for Renminbi transactions are also considered.

Finally, the update from London looks at the impact of the unexpected election outcome, and makes clear that the political fallout of the result will not only be domestic in scope. There are direct implications for the Brexit negotiations, particularly with regards to increased uncertainty as to the kind of Brexit deal that the UK Government is seeking, and closely linked to this, the political support the Conservative government can rely on in Parliament for votes on Brexit legislation.

FTI Consulting Brexit Bowl will return in September.

Louise Harvey

View from Brussels

Following the UK elections and months of shadow boxing, the Brexit negotiations have now finally started.

The pace of the negotiations will be intense. The two chief negotiators, Michael Barnier on the EU side and David Davis for the UK Government, have agreed a schedule for the talks which will involve a one week-long formal negotiating round every month, with the remaining time used for internal preparations and informal discussions and talks. There is certainly a lot to talk about.

For those involved in the negotiation, there is little hope of taking advantage of the long summer break when most of the EU institutions shut down. With the urgent need to complete negotiations by the autumn of 2018, an intensive routine of negotiations will be maintained.

Three negotiating groups have been established, namely on citizenship issues, the financial settlement ('divorce bill'), and other so-called 'separation' issues. A separate group has also been set up to discuss the issues concerning Ireland/Northern Ireland.

Reflecting the EU's wish to sequence the talks and deal with the 'divorce' elements first, issues of greater concern and interest to business – such as future trade links – will only be discussed once sufficient progress has been made on the former issues.

Securing agreement on the rules to be followed for the talks, even if these are only procedural in nature, did give a sense of optimism regarding the feasibility of constructive negotiations. Clearly such optimism might not last that long.

The status of the three million EU citizens living in the UK and the 1 million UK citizens living in Europe is a priority for both sides. It's also an important issue for nearly every business sector whether for professional services, such as those in financial services, or labour intensive industries such as hospitality, construction and agriculture.

Nevertheless, several sensitive hurdles need to be overcome before a reciprocal agreement is reached.

Firstly, the 'nuts and bolts' of how exactly the two offers will work in practice will have to be assessed through highly technical discussions.

Secondly, there is a big political question as to how such an agreement is policed. The Commission is insistent that this role must be fulfilled by the EU Court of Justice. The UK government is adamant that it must not be the EU Court of Justice, a red line from the referendum campaign.

A third sensitive topic will be deciding the cut-off date after which existing EU citizens will not automatically be able to apply for citizenship (which will fall between 29 March 2017, when the formal Article 50 process for exiting the EU was triggered, and no later than the date of the UK's withdrawal from the EU).

Clearly, a way through the citizenship issue will have to be found that meets the political positions on both sides, with the whole issue of oversight and dispute resolution a fundamental issue for the totality of the 'exit' agreement.

While the EU's initial reaction to the UK's offer was to say that it was not generous enough, that is not a surprising response at the start of a negotiation; there is clearly mutual interest on both sides to get an acceptable deal as quickly as possible.

The EU27 have remained united thus far, but with negotiations having only just started, and separate upcoming discussions on the future size and format of the EU budget without the UK to come, the atmosphere amongst the remaining EU members could still become fractious.

The EU Council is, however, working hard to maintain internal coherence and discipline. It has its own taskforce within the permanent secretariat, and a dedicated working group consisting of the 27 governments which is chaired by the experienced Belgian diplomat Didier Seeuws. The Council is set up to quickly react and adapt its negotiating positions as the talks progress.

These negotiations will of course be played out in a wider environment where there is still considerable uncertainty as to the prospects of securing a reasonable deal. Several financial services firms are hedging their bets by establishing greater presence in EU27 locations, with Frankfurt being an early favourite destination. The City of London also has been active in promoting its own solutions to the challenges facing the UK's financial services sector through a visit to Brussels this week.

While formal negotiations on the future relationship between the EU and UK are yet to begin, there will certainly be no end over the coming months to the public positioning and posturing taken by a diverse range of sectors aimed at making their case and securing their interests post-Brexit.

View from London

It has been a tumultuous period in UK politics. The shock general election result saw Theresa May lose 13 seats, her parliamentary majority and, perhaps in the near future, her prime ministership.

At the very least, her credibility and standing within the party have been severely damaged and discussions, both public and private, about who will replace her have gathered pace. For the time being, however, Mrs May remains in power having now agreed a 'confidence and supply' agreement with Northern Ireland's Democratic Unionist Party (DUP). This establishes a parliamentary alliance between the Conservatives and the DUP minus the trappings of being in a formal coalition.

Certainly, this is a result very few would have expected at the start of the campaign when some polls showed a Conservative lead of more than 20 points. Opposition Leader, Jeremy Corbyn, who enjoyed a 30 seat gain, has declared the Labour Party a "government in waiting", predicting that another general election will be called as early as next year in order to break the deadlock.

The loss of May's parliamentary majority will likely see the downfall of her "hard Brexit" agenda. The Prime Minister's strategy of putting Brexit at the heart of her election campaign has backfired. While many Brexiteers within her government reject the dichotomy of "hard" and "soft" completely, it is clear that the Government's Brexit stance must soften somewhat if Parliament is going to support them.

Interestingly, we have started to see early indications of this change in direction. Chancellor Philip Hammond gave a speech to City business leaders during which he suggested that the UK would continue drawing funds from the European Investment Bank to support British businesses investing in infrastructure. Critically, he also argued that crashing out of the EU without a deal would be a disastrous outcome, arguing instead that Britain should try to extend its Single Market and Customs Union benefits until a comprehensive free trade agreement is signed – a far cry from Mrs May's longheld "no deal is better than a bad deal" position.

The DUP-Conservative alliance also presents problems for "hard Brexit". DUP leader Arlene Foster, and her party are concerned about the prospect of a hard border with the Republic of Ireland, which they see as having the potential to disturb the peace brought about by the Good Friday Agreement if passport controls and other such measures are installed.

In spite of this turmoil, Brexit negotiations began unabated on Monday 19 June despite many predicting delays after the Government waited until the 11th hour to confirm they were to proceed as planned. The British media, however, has largely viewed the first stages of negotiations rather negatively. Having played down the centrality of a "divorce bill" to negotiations, Brexit Secretary, David Davis, is being seen to have capitulated to Michel Barnier's demands in agreeing to deal with this issue first along with the status of EU nationals – Brussels' two major priorities.

The question going forward will be whether the new government can cobble together a majority for any version of Brexit – hard or soft – without losing the support of Conservative MPs, and potentially losing a vote in the House of Commons. This is a tough ask for a Prime Minister operating without a clear mandate in a hung Parliament.

View from China

The impact of the 2016 UK referendum has reverberated well beyond Europe as a political and economic shock of substantial proportions. There has been great debate about the implications on the UK's relationship with China and the potential impact on Chinese inbound investments in particular.

Historically, the UK has tended towards a rather open and less protectionist stance in relation to inbound investment which has been generally consistent with its view towards Chinese investors. These factors help explain why Chinese FDI has consistently poured into the UK since 2000, with the total figure amounting to US$16 billion between 2000-2014, nearly double that in Germany (US$8.4 billion) and France (US$8 billion), the next largest EU destinations.

Many Chinese investors themselves see Brexit as a "first world problem", with the pros of investing in the UK, for example in the UK property market, seen as a safe bet compared to the over-priced and over-supplied housing markets in China, amplified by the fear of RMB devaluation. Chinese investors arguably need to find a safe haven to balance their assets, regardless of Brexit.

Others see great potential for further bilateral areas for cooperation, whether in the fields of infrastructure, finance, or services, with many also highlighting the possibility for signing a China-UK trade agreement once the UK has left the EU.

Nonetheless, there is still great reason for caution. With the EU being its largest trading partner, with total bilateral trade topping €515 billion in 2016, China is more likely to prioritise a new trade agreement with the EU, before it does so with the UK.

And what of London's place as a major RMB hub for international currency transactions? With many worried about passporting arrangements following Brexit, which could limit financial services firms' ability to market products across the bloc, there is great concern about Britain's continued role in helping internationalise the use of the RMB. The UK is now second only to Hong Kong as an RMB economy by weight for customer-initiated transactions, with the next most significant European economy requiring a four-fold increase in activity just to match where the UK is now. The Chinese have seen London until this point as a global financial centre. Uncertainties could begin to play out, particularly if many of the banks and other financial services' firms begin to relocate their headquarters elsewhere within Europe.

Despite compelling reasons for both sides of the argument, there is undeniably a strong feeling of uncertainty and there appears to have already been a pause in Chinese investment into the UK since last year's referendum. Perhaps we are seeing signs of a hiatus while negotiation talks around Brexit remain unresolved. However, the compelling desire of the Chinese to invest in all things British should not be underestimated, and we should still expect a steady rate of Chinese investment in the short to medium term even while the Brexit negotiations play out.

For the full analysis from China see our separate Brexit Perspective attached to the July Brexit Bowl.

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