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BREXITBOWL

When it comes to Brexit, clarity and certainty for business is a distant prospect.

The reading of the tea leaves had been clear for weeks. October was not going to be the moment when Brexit talks would progress to their next stage.

Last week's Brussels European Council – the regular summit of EU leaders – failed to decisively move the Brexit process on.

While leaders of the 27 EU Member State governments gave some ground – and some optimism – to the UK by kicking off preparatory work on a future trade deal and transition period, plenty of political and technical work remains.

Negotiations on the details of the UK's exit agreement will therefore continue over the coming weeks, ahead of another assessment of progress at December's European Council.

In this month's Brexit Bowl, we hear from our colleagues in Germany, on how Brexit is playing out in a country focused on the development of its new coalition government. We also take our regular look at developments in London and Brussels and ask what will happen next.

Now for a sales pitch. Do you know how Brexit could impact your business? The only constant for now is the lack of any certainty as to how the Brexit process may unfold. But time is running out when Boards can hide behind the negotiation process.

CEOs need answers for shareholders and investors. Business plans require action, staff need clarity and decisions need to be made on how best to prepare for what remains an unpredictable future. So this month we have also included our Brexit Executive – our suite of strategic communications services designed to support corporate business throughout this process. Business needs intelligence to inform their decisions and guidance on how to communicate. That's where we can help.

Hans Hack and Fiona Holroyde

View from Brussels

Last week's European Council meeting of EU leaders showed how the EU27 remains in the driving seat of the Brexit negotiations.

While progress was noted, there are, in the view of the other European leaders, too many unanswered questions to allow the process to proceed to the next stage. The biggest of these issues is the settlement of EU financial liabilities being demanded of the UK. The gap between what PM May is promising and what the other EU governments want is currently unbridgeable.

More optimism has however been on display concerning citizens' rights and Irish border arrangements, although finding solutions is technically and politically challenging.

Confidence, trust and some smart political manoeuvring will be required to achieve a breakthrough over the coming weeks.

What does this tell us?

While negotiations continue, the EU dangled in front of the UK a carrot in the form of talks about a future trade framework and transitional deal. The EU27 will start their internal preparations immediately. This tells us several things about the EU27's current approach.

First, when it comes Brexit, process is king. The EU27 are sticking firmly to the rules of the game set out in article 50 of the EU Treaty. They don't want to be rushed, and feel it is the UK's responsibility to provide solutions (...and money) to unlock negotiations. While Brexit will inevitably hurt the rest of the EU, they believe it will hurt the UK more. And in a 27-1 scenario, they retain tight control of their positions, the substance and the sequence governing the UK's exit.

Second, unity amongst the EU27 remains a powerful principle and influencer of its approach. However, such unity cannot be guaranteed to last the course. While negotiations over the financial settlement have proved a strong glue for the EU27, there are invariably subtle differences within the EU side and even within some national governments:

- While Germany has been playing hardball in pushing back on accelerating the talks, its own Foreign Office has recently drafted a memo stating that the country wants the EU to have a close partnership with the UK and that it would be in favour of a broad, comprehensive free trade agreement
- The Irish government is increasingly concerned about the implications of Brexit, particularly regarding the impact on its economy and relations with Northern Ireland
- The Swedish government has asked its National Board of Trade to conduct an in-depth analysis on the Swedish interests impacted by Brexit
- Nearly every country has a taskforce identifying its own national priorities.

As Brexit crunch time nears, such national concerns and priorities within the 27 are likely to put a strain on their unity. The decisions at last week's summit were easier this time because there was a clear agreement that there had not been "sufficient progress" in the negotiations. When such a decision is not so clear-cut, the discussions could prove much more challenging.

Third, Michel Barnier, the EU's chief Brexit negotiator remains in the hot seat in managing that unity. Success matters to him personally: having lost out in his bid to become European Commission President in 2014, he would likely jump at the chance of taking the top job when Juncker steps down in 2019. Success would be a fillip to his CV. A calamitous Brexit would leave him with time on his hands to enjoy his beloved French Alps.

So what's next?

29 March 2019 – Brexit day - remains the constant.

While it's still probable that both sides will reach a deal on the exit agreement during 2018, time is running out to build out the details of that framework of the future trading relationship and the transitional arrangements that will form the bridge.

Companies are clamouring now for confirmation as to what the post-Brexit environment will mean for their supply chains, staffing, and investment. Decisions are in fact already being made by some firms and more will be taken if certainty is not forthcoming. Companies are right to press their governments for as much clarity as possible.

While there is talk of 'bespoke' outcomes, both sides will be looking to what extent any existing agreements and legal precedents can be taken off the shelf. The UK has of course limited its options by ruling out membership of the single market.

It's a narrative that continues to evolve. But some old messages keep coming back. This is likely to continue until we see some decent progress and we start to hear something new. In an article in today's De Tijd, a Belgian newspaper, Barnier has said that a trade deal between the EU and UK could take three years to negotiate, referencing Canada and Norway as potential models. He still cautioned this could all unravel given that parliaments will need to approve any final deal. PM May's Florence speech had led to "new dynamics" but he added "we're still not there".

These misgivings are a negotiation tactic but a sophisticated solution is clearly in order – particularly if sectors such as financial services (not normally included in a trade agreement but of seismic importance to the UK) are to be included. However, sophistication takes time and would almost inevitably mean that trade negotiations would go on for some years after 2019. This would make a clear and early understanding on transition all the more important.

Could this possibly mean that a transition period could be agreed in which the UK will continue to adhere to the EU rule book but without having influence on it, while fleshing out a trade agreement, all with a hard stop of two years after March 2019? Such scenarios could well be concluded with a late night summit in February 2021. That is how the EU tends to work when faced with tough decisions.

View from London

Are we on the cusp of a Brexit breakthrough? The view from London is that despite the best efforts of some to draw other conclusions, the signals are slowly growing that EU leaders are paving the way for future transition and trade talks with the UK.

For many businesses this development couldn't come soon enough, with a number of larger organisations indicating that – unless progress is made by Christmas – they will need to enact their contingency plans. The contagion that might follow the already steady trickle of businesses moving jobs out of the UK could pose significant challenges to the Government, as pressure mounts for it to give ground on the key 'divorce' issues that remain outstanding – none more so than financial liabilities.

Indeed, Goldman Sachs CEO, Lloyd Blankfein, took time out of his busy schedule to pose a not-so-cryptic message during last week's European Council summit, stating: "Just left Frankfurt. Great meetings, great weather, really enjoyed it. Good, because I'll be spending a lot more time there. #Brexit".

These comments aside, most other businesses are holding out for agreement among the EU27 to move talks along before pressing their own big red buttons. Since the UK Prime Minister's speech in Florence on 22 September, negotiations have made progress in a number of areas, notably on citizens' rights. Back in July, the UK and EU helpfully published a chart indicating the areas of agreement and disagreement relating to issues such as social security commitments, professional qualifications recognition, and right of return. At that stage two-thirds of the issues were marked as 'red' or 'amber', meaning no agreement had been reached. By the end of September, however, less than a third of the issues remained outstanding – albeit with some of the trickiest having barely moved (particularly European Court of Justice jurisdiction in the UK). Theresa May's public letter before the Council meeting last week to guarantee the rights of EU citizens to remain in the UK post-Brexit has provided another demonstration of goodwill and was largely well received.

Nonetheless, on Ireland and money there is still a significant gulf in positions. Whilst both sides are calling for 'creative solutions' to the problem of the Irish border, the EU seem insistent on arguing it is for the UK to devise such solutions, despite the impact it will have on one of their Member States. On money, by far the most challenging issue, there have been barbs sent back and forth. European Parliament President, Antonio Tajani, called the UK's offer of around £20bn "peanuts", whilst some Brexiteers have suggested the UK should simply walk away and not pay a penny. As with any negotiation, the UK's opening gambit is almost certainly at the bottom of the range – providing British negotiators with some wiggle room to increase the offer.

But time is in short supply. Recent economic forecasts are increasingly pessimistic about the future should the talks fail. For instance, Rabobank – a Dutch financial services and international banking firm – claimed that in the event of 'no deal' the UK economy would see a fall of 18% to GDP by 2030 (although still in growth). But there would also be damage for the EU in this scenario, with a GDP loss of around 2% by 2024; the Netherlands would be particularly affected (with a loss of around 3.8% of its GDP). The damage for other Member States would be severe too, particularly for Ireland, but also for Belgium, Poland, Spain, France, Italy and – of course – Germany, given the EU's overall trade surplus with the UK is growing and now stands at £71bn.

However, UK public opinion seems impervious to the changing fortunes of the negotiations and the prospect of 'no deal' doesn't appear to faze them – a poll for Sky News revealed that 74% of people support the position that 'no deal' is better than a 'bad deal'.

The problem is that's just the negotiations with Brussels and the EU27. The Government have a whole different negotiation to conduct with Parliament, including some of its own MPs. The EU Withdrawal Bill, due to reach Committee stage in October, has been pushed back to after the November recess. Reportedly over 300 amendments have been tabled to the Bill, some by prominent Conservative backbenchers, which apparently carry Opposition support. The battle in Parliament, it seems, will be just as tough – if not more so – than the one taking place on the other side of the Channel.

Does all this really demonstrate a critical breakthrough in this most tumultuous of negotiations? Probably not. But we are getting closer on the major issues and pressure, for both sides, is beginning to mount enough that sensible leaders are moving out of their entrenched positions. As Mr Juncker so tellingly pointed out, to make this breakthrough the UK needs to cough-up for its share of the drinks round – how many of those beers it will need to pay for to secure such progress, however, is still up for debate.

View from Berlin

Brexit? What Brexit?

The German elections have presented Angela Merkel with some serious challenges to build her next government. Looking at the critical topics that divide the potential coalition partners, Brexit isn't one of them. Why is that? And where does the Brexit debate stand in Germany?

After September's general elections which will in all likelihood lead to Angela Merkel's fourth term in office, the political focus in Germany is on building a new government. This won't be a simple exercise, not for Merkel's Christian Democrats, neither for her potential coalition partners, the Greens and the Liberal Democrats. Coalition negotiations are only starting in earnest from next week and may well drag on into the New Year.

No Brexit debate

And there are quite a number of contentious subjects on the agenda: finance, environmental protection, Europe, immigration, security – not Brexit. While many would say that Brexit is in fact a serious issue for Germany and the EU, attention is elsewhere these days: The point about the current Brexit debate in Germany is, there is none.

Focus on EU reform

President Macron's passionate call for a strengthened EU with a long list of ideas has turned the focus back to reforming the EU, regardless of Brexit. At a recent trade union meeting Chancellor Merkel acknowledged that Brexit talks are important, but added that she will aim to minimise impact on Germany, and stressed that the 27 remaining member states were "really determined" to develop the EU further. And don't we all agree that progress and change is needed for the EU to ensure stability or even survival? The German-French axis seems stronger than it has been for a while, and with such passion for strengthening the EU, one could almost ignore Brexit altogether.

German industry fears hard Brexit

In contrast, German businesses are very focused on the exit talks. And they are frustrated. The UK is one of the most important trade partners for German companies worldwide. So it is no surprise that they are putting the pressure on. Industry association BDI has repeatedly called for "strict and very serious" talks and complained that Britain was talking a lot but did not offer any clear concepts.

Cementing this frustration is the fact that the "Voice of German Industry", as BDI calls itself, has set up its own Brexit-Task-Force together with heavyweight organisations like Deutsche Bank, Siemens and Airbus in order to prepare for a scenario where negotiations fail and effectively lead to a "very hard Brexit". Especially businesses with a presence in Britain or Northern Ireland needed to make provisions for this scenario, BDI warned most recently. German companies are seriously concerned and busy preparing for all scenarios, while the political discussions cannot offer them any reassurance.

Not at any price

Corporate Germany demands progress with Brexit and expects their Chancellor to sort things out at the negotiating table. Merkel herself is keen on progress in the negotiations, but not at any price.

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