

Flash Note 24/02/2017

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

EU vs UK

I fear that the EU and the UK are irretrievably heading towards an imminent clash that will have harmful effects on both sides. Note that I have used the term "irretrievably". I have done so because each part feels legitimized to defend their interests (further, they are obliged to defend their interests), and these interest are diametrically opposed. Note also that I have used the term "imminent". I have done so because the discussion has already been focused and the stakes are so high that it looks to mark an unpleasant start. Negotiators on both sides (Michel Bernier on EU's behalf, and David Davies on UK's behalf) have shown their clear intentions to inflict pain on one another.

Look at the first official positions published in several interviews

EU representatives: "Britain should be charged about 60 billion euros (\$63 billion) when it leaves the European Union. Nothing else will be discussed until the UK pays this amount"

UK representatives (Trade Secretary Liam Fox): "the idea of such a bill is absurd"

EU: "the bill will be a hard sell for May's government because the pledge to the British voters was that they were going to save a lot of money when exiting the EU"

UK: "the final figure for the U.K.'s Brexit bill will be up for discussion when talks formally begin"

EU: "Using the threat of becoming a tax haven as leverage would of course be a provocation. If they start to reduce their corporate taxes to an unreasonable level, then there will be a certain reaction from Europe." (May's advisers have floated the idea of bringing it down to as little as 10 percent, the Sunday Times reported in October, taking it below Ireland's 12.5 percent rate)

UK (spokesman Swift): "The U.K. hadn't provoked the EU by explicitly proposing to turn Britain into a tax haven for businesses if a good trade deal can't be secured". "There is a big difference between saying we will set competitive tax rates and saying we are cutting tax rates."

EU: "There will be no free lunch for the British government. They need access to the European market and so they have to behave in a decent and reasonable manner."

UK: "The British government believe that we can have a very general negotiation with all the important issues being negotiated in parallel, and come to a conclusion within two years,"

EU: "From the European point of view it is necessary to first fix a treaty of withdrawal –the infamous €60bn-, then regulate the financial obligations and to clarify the situation of British citizens in Europe and vice versa. This should be possible within two years. Only after these two years can the EU turn to discussions about free-trade agreement, transitional arrangements and foreign policy"

This is how things stand. Judge by yourself. As I see it, it's unrealistic to think the two sides can strike a deal over a wider trade pact in a reasonably short period. Just what Europe does not need.

Kind regards,

Alex Fusté
Chief EconomistAndbank