

Prof. Danuta Hübner, European Parliament

“In the long term only a cooperative approach can win”

Meeting with Canadian Delegation on the EU-UK Trade and Cooperation Agreement

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On January 1 the UK has left the European Union becoming a fully-fledged third country. Its benefits and duties of membership are gone. It has left the Single Market, the EU Customs Union, EU policies and international agreements. The free movements of people, goods, services and capital will not apply. The EU and the UK are two separate markets, two separate regulatory spaces, two separate legal spaces.

But still for the UK, the EU is its major trade partner. More than 40% of UK exports goes to the single market, more than 50% of its imports comes from the EU.

I do not see winners of Brexit and with negotiations both sides have been trying to reduce the damage generated by a political decision and unclear understanding of sovereignty.

We have two agreements with the UK. On June 19, 2017 negotiations of the Withdrawal Agreement were launched. This Agreement entered into effect on February 28, 2020 and became operational and fully implemented by the end of transition period, on December 31, 2020. The Withdrawal Agreement provides legal certainty to all those affected by Brexit. Its most important parts cover the rights of the EU citizens in the UK and the UK nationals in the EU, and the solution to the Irish hard border, protecting the Good Friday Agreement.

The second agreement, Trade and Cooperation Agreement, negotiated during ten months of transition between March and December, 2020 is about the future relations. Formally it is under provisional application regime till the end of February, 2021 awaiting the finalization of the consent procedure and vote in the European Parliament.

When we reflect on the departure of the UK from the EU, it is worth taking note of the fact that it is, indeed, an unprecedented situation when a big, globally important economy, is voluntarily leaving a preferential economic and trade area and a potent global standard setter, announcing at the same time its intention to diverge from the shared regulatory space.

We have a UK-EU FTA with zero duties zero quotas approach. It is better than WTO tariffs reaching for example 50% on processed food, 10% on cars and 25% on

processed fish. But trade is much more than tariffs and quotas. Goods moving between the EU and the UK will be subject to numerous barriers: customs formalities, SPS controls, VAT complexity as the UK will no longer be part of EU VAT area, product regulations, labelling, putting goods on market, permits, licenses, rules of origin.

Impact of these requirements will have particularly negative consequences for companies involved in the supply chains.

The UK insisted on short transition period, hence short negotiations of the future framework with, I believe, unavoidable consequences for the scope of agreement and the unfinished business. It has also insisted to not have the issues of foreign policy and defense cooperation in the agreement. This element is missing, as financial services are missing too. Services are part of the TCA to a very limited extent, in line with GATS framework only the issue of the right of establishment and some prudential carve outs are actually in the text of the Agreement. The whole complex issue of cooperation in the area of financial services will be negotiated this year separately on the basis of a Memorandum of Understanding within a framework of regulatory cooperation. I can only assume that in the long term a cooperative approach will win. London is here to stay, the European Union is sparing no effort to expand and strengthen its financial industry, including Capital Markets Union.

It is rather unfortunate that British red lines cover the area of fundamental nature for growth and competitiveness which is the single market. This is one of major factors leading to negative consequences of Brexit for growth. Both sides will be affected, still the British economy more painfully.

In the EU there are asymmetric effects of Brexit, as there are national economies more interlinked with the UK and adjustment capacities also differ. The same is true for individual sectors and enterprises. Asymmetric consequences will be seen across countries and sectors.

It is highly probable that in the immediate future we might see changes in policies in the UK and across the EU aiming at influencing the competitiveness environment for companies finding it difficult to adjust to post Brexit situation. To a rather large extent future relationship will depend on politics.