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Brexit: between shady signals and real interests

By Marcello Minenna

In mid-June, the United Kingdom announced that it will not ask for extensions of the transition period for the completion of the Brexit negotiation. Thus, the deadline remains next December 31, meaning that there are 6 months left to find an agreement with the EU and avoid tariffs and non-tariff barriers provided for by the WTO standards.

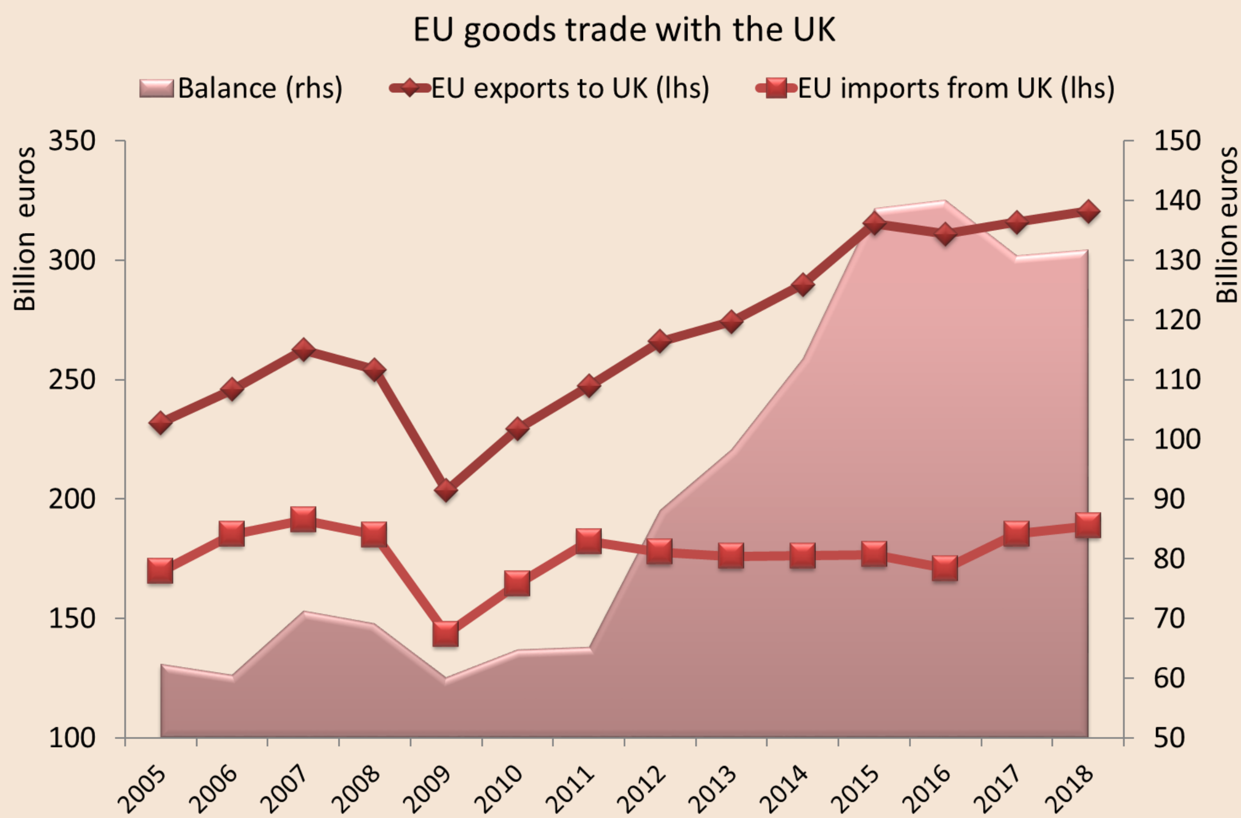
The British government's negotiating proposal is centered on a draft free trade agreement that mirrors that between EU and Canada (CETA) albeit with some significant novelties.

Particularly dense is the part on trade in services, the pride of the British economy. Service exports from the UK amount to nearly £ 300 billion annually, ranking second on a global scale after the US. And the main outlet market for this service supply is the EU with a 42% share (equal to over £ 125 billion).

Numbers that help to understand why services are among the most delicate subjects of the negotiation and, somehow, the same *raison d'être* of Brexit. Leaving the EU, for Brexiters, means regaining the independence of the Kingdom, including the regulatory independence to be applied primarily to financial services (which represent the 22% of the entire British export of services).

So far, the UK has easily exported its finance to the continent with the passport system thanks to which the authorization to operate issued by the competent authorities of one Member State is valid in all the others. But from January the passport will be "revoked" and it will be necessary to obtain from the European authorities a judgment of equivalence that can be withdrawn on 30 days' notice. The novelty would be unwelcome to the British finance, which is why Downing Street (after having tried in vain to obtain a permanent judgment of equivalence) is now aiming for an agreement that provides for «*transparency and appropriate consultation in the process of adoption, suspension and withdrawal of equivalence decisions*».

Despite the EU's steadfastness regarding aligned regulatory standards (*level the playing field*), many believe that in the end the British will get a satisfactory agreement on services. The rationale is simple: thanks to the huge export of goods beyond the English Channel (€ 320 billion), the overall trade balance (goods and services) of the EU to the UK is a positive € 74 billion.



For the main European economies, the UK is an important partner in the exchange of goods with an average weight of 6.4% on total exports and 4% on total imports.

The largest share of these exchanges belongs to Germany with a surplus of over € 45 billion in the trade of goods with the UK, followed by the Netherlands (24), Belgium (13.6) and Italy (12).

In light of these figures and the underlying stakes, the recent statements by representatives of the German establishment on the importance of maintaining a firm and cohesive negotiating position are to be interpreted as attempts to minimize the concessions that the EU will probably end up to do to British finance (and not only).

Indeed, the driving force of this industry appears unstoppable, as also confirmed by the impressive expansion of UK fintech: £ 38.3 billion in investments and £ 9.9 billion in revenue in 2019 thanks also to a friendly regulatory framework that is open to innovation on financial products and services.

Hardly the UK will agree to subject what is increasingly seen as the future of finance to EU standards. It's more plausible that a friendly agreement will be reached on fintech as well. Provided – obviously – that EU goods are guaranteed an easy landing on the other side of the English Channel even after 2020. To Germany, which since this month presides over the European Council, the arduous task of negotiating the best conditions for (*all*) the EU.

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