

Global Economy

# Prisoners in Salzburg

Expansión (Spain)

Miguel Jiménez

1 October 2018

Last week's European summit in Salzburg dealt a reality shock to the British government in its aspirations of obtaining the support of the European leaders for its Brexit negotiation plan. After Salzburg, the prospects of a reasonable agreement are at an all-time low, although it is to be hoped that the situation will improve in the next few months, since it certainly cannot get much worse. It is in both sides' interest to reach an agreement that avoids a no-deal exit in March 2019, but the political environment in the UK is very complicated, with many interested parties and several variables to negotiate, which means that there are numerous crossed incentives that may lead to strategic behaviour. Right now, the betting is on a corner solution - a second referendum or a no-deal Brexit - rather than on an intermediate way out.

The nature of trading relations is the main variable to take into account. The UK government's proposal is an agreement whereby the UK would participate in the European single market for goods only - not services - and without allowing free movement of people. This is what the EU leaders have spent two years rejecting as Brexit à la carte, its main red line in the negotiations, which has been reiterated in the past few days above all by the French leaders, but also by Angela Merkel addressing German businesspeople. There had been some hope that the European Union would support the British proposal, since the à la carte aspect was simple - goods as opposed to services - but it was not to be. The most eurosceptic voices in the UK, many of whom are in the governing party, reject any trade agreement with the EU, while the opposition Labour party has a more complex position - retain all the advantages associated with the single market, but without some of the concomitant obligations.

A second key issue, related to the foregoing, is what to do about the Northern Irish border. It is not possible to keep it open and carry out customs and regulatory checks on third-country goods without erecting barriers between Northern Ireland and the remainder of the UK. In fact, the solutions that have been put forward are "imaginative": based on yet-to-be-developed technologies that would take time to implement. The interest of all UK parties is obviously to avoid barriers within the country - their red line - but the Irish on both sides of the border and the EU are determined to stick to the open borders agreed to in the Good Friday Agreement.

Thus the political variables within the UK come into play. At the moment the government does not command a majority in parliament to approve a possible deal with Europe - a deal that looks difficult to achieve. The possibility of Theresa May's being ousted - as many eurosceptics would like - or of an early general election, which is Labour's main aim, or of a second referendum being held with two or three options (exit with a deal, without a deal, or remain) creates a very confusing decision tree that may give rise to strategic behaviour. Perhaps the main danger lies in the referendum: the wish to reverse Brexit, shared by European leaders and nearly half of UK citizens, may lead to the UK government's being fenced in by Europe or by parliament, but it could also lead to an abrupt exit in March. The worst possible alternative, in a situation rather reminiscent of the prisoner's dilemma.

Barely two months are left in which to reach an agreement. The summit of 18 October is the date set for finding a solution, but European Council president Tusk has already programmed a possible meeting in November to settle the issue. December is probably the latest possible date that would allow a deal to be approved in time in the normal way by the parliaments. Going beyond this would involve even more "imaginative" solutions, such as considering an extension of Article 50. Meanwhile, contingency plans for facing a no-deal exit in strategic sectors such as transport are now being taken more seriously, not as a means of exerting pressure in negotiations. One more sign of just how serious the situation is.

**Creando Oportunidades**

Artículo de Prensa - 1 October 2018

## DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These derive from the department's own research or are based on sources believed to be reliable, and have not been independently verified by BBVA. BBVA therefore makes no guarantee, either express or implied, as to the document's accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Historical trends in economic variables (positive or negative) are no guarantee that they will move in the same way in the future.

The contents of this document are subject to change without prior notice, depending on (for example) the economic context or market fluctuations. BBVA does not give any undertaking to update any of the content or communicate such changes.

BBVA assumes no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or solicitation to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis of any contract, undertaking or decision of any kind.

In particular as regards investment in financial assets that could be related to the economic variables referred to in this document, readers should note that in no case should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to take such decisions.

The contents of this document are protected by intellectual property law. The reproduction, processing, distribution, public dissemination, making available, taking of excerpts, reuse, forwarding or use of the document in any way and by any means or process is expressly prohibited, except where this is legally permitted or expressly authorised by BBVA.

### ENQUIRIES TO:

BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain. Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25 - [bbvaresearch@bbva.com](mailto:bbvaresearch@bbva.com) [www.bbvaresearch.com](http://www.bbvaresearch.com)