

# Peering through the Brexit fog

Blog post by Chief Economist Gregor Irwin, 30 June 2016

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It was hard to imagine before 23 June that the uncertainty about what exactly ‘Out’ would mean could get any worse. But since the vote all sorts of ideas have been floated. Is it possible to peer through the Brexit fog to get an idea of where the UK’s relationship with the EU might be heading?

Most ideological Brexiteers appear to want to base the relationship on a Free Trade Agreement of the sort that Canada has signed with the EU. Specifically, they want tariff-free trade in goods, potentially with some enhancements, but without much appetite to make concessions on regulatory sovereignty, at least not initially. Michael Gove, Iain Duncan Smith, and Liam Fox probably all fit into this group. There is an even more extreme wing of Brexiteers that are not that bothered about an FTA and say we should just eliminate our own tariffs, but they are unlikely to have much influence.

There is also now a strong pull on the other side of the debate. David Cameron and Jeremy Hunt say they want as close a relationship as possible with the EU, with Hunt advocating membership of the European Economic Area, albeit with some changes to free movement. Rupert Harrison, who used to be George Osborne’s chief of staff, favours something similar, possibly indicating where his former boss’s instincts lie. Neither Osborne nor Hunt are in the contest however.

There leaves plenty of room in the middle. Theresa May has said there is no mandate for a deal that involves the free movement of people, but she wants the best possible access to the single market for goods and (pointedly) for services. Stephen Crabb is in a similar position. May has not said how she might trade off access for migration controls but she has at least recognised a trade will be required. The same could not be said for Boris Johnson, who stuck to his policy on cake, of having it and eating it, before deciding not to stand for the leadership. He will still be influential, however, and is likely to be a pragmatic deal-maker in the middle ground.

It is too early to tell what position the EU27 and the European institutions will adopt, but there is a good chance it will evolve to the one now articulated by Angela Merkel, which is that when you (the UK) are ready, you tell us what sort of relationship you want and then we can negotiate, but do not expect any compromise on core principles, specifically around participation in the single market. If you want that, you must accept EU regulation, sign up to free movement, and make a financial contribution.

That, of course, would be hard for anyone who campaigned to leave the EU to swallow. So what does this point to? Something must give. The ideological Brexiteer position does not have a majority in parliament and it is hard to see how even the Conservative Party could fully unite around it after a leadership contest. EEA membership still looks implausible, as even Jeremy Hunt recognises that the UK cannot sign up to free movement in its current form. This was basically the message that David Cameron delivered to his fellow European leaders at his farewell summit.

So what might a compromise look like? One possibility is partial participation in the single market, certainly for goods, but very possibly also for some services, with the UK also participating in some ‘horizontal’ programmes that are not sector-specific, such as the Horizon 2020 covering scientific research or the European arrest warrant. This would require the UK to accept EU regulation in the sectors included. A smaller financial contribution would also be required, particularly as programmes like Horizon 2020 are all about funding university research. It would also involve a deal on migration, perhaps with a ‘modified’ form of free movement that allows the UK to say it has established (some) control.

What’s in or out would not be for the UK alone to decide. That would need to be negotiated and the EU would be mindful of the risk of setting a dangerous precedent. But real negotiations require parameters. Of all the models discussed, this is the only one that has sufficiently many to allow the negotiation to reach a conclusion that is just about satisfactory for all sides.

