

Details of EU meeting that blew away May's Brexit plan were suppressed before crucial Chequers summit



Slides from a briefing on the eve of Theresa May's Brexit summit are said to have been suppressed

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The European Commission briefing given to top EU Brexit officials on July 5 this year was political dynamite, driving a coach and horses through a fundamental part of Britain's expected negotiating strategy.

Delivered by Michel Barnier's top economic adviser on the eve of the crunch Chequers summit, the European Commission laid out what it saw as the hard economic arguments against allowing the UK to remain in the EU single market for goods only.

Citing detailed examples from cars to chemicals, sources briefed on the meeting say that Stephanie Riso explained why European Commission economists believed accepting the British plan would do real damage to the EU single market.

The presentation, which preceded Chequers and the subsequent White Paper, went to the heart of the British pitch to align tightly with EU rules on goods, while remaining free to diverge on services.

The slides warned that allowing this request would leave the UK free to seek a competitive advantage that, over time, would cost the EU dearly.

On cars, Ms Riso argued that 20-40 per cent of the value of a vehicle was in information technology, research and development, financial services and distribution - all areas where the UK could potentially undercut the EU.

On chemicals, she argued that 69 per cent of the value was linked to production and processing methods on which the UK would be free to diverge, to the incremental benefit of British industry.

The conclusion was that over 15 years, UK alignment on goods alone would have an impact on the EU approximately equal to the impact of a "no deal" exit for the UK - some 8-9 per cent of GDP.

Agreeing to such a deal would, the Commission warned, allow Britain to essentially achieve via Brexit what David Cameron had failed to get in his renegotiation with Brussels - allowing the UK to have just “three and a half” of the EU’s four freedoms of goods, services, capital and labour.

According to the source, Ms Riso concluded that the slides would be sent around to EU member states and then published the next day - July 6, the day of the Chequers meeting. But they were never published after an intervention at the “highest level” by the British side.

The question is why, and what it means for the Brexit negotiations as they enter their most critical phase, as both sides search for a deal this autumn that will conclude the Article 50 divorce pact, and open the door to full blown trade negotiations.

One clue is in the reaction of the Belgian, Dutch and Italian representatives at the meeting, who are understood to have cautioned the Commission on the political sensitivity of the situation, and to have urged a careful reaction to the coming UK White Paper.

In short, the member states prevailed on the Commission not to publish a document that could have torpedoed Mrs May’s grand Brexit gambit before it even left the harbour.

The UK side will be hoping that Europe’s “understanding” in not publishing the damning Commission assessments could herald a shift in the Brexit negotiations, in which more pragmatic EU member states take the lead from the “theological” EU Commission.

Following the publication of the White Paper there were reports - quickly denied - that some countries, including Germany, were “softening” towards some of the ideas put forward in the White Paper.

The UK’s implicit “offer” to Europe is that alignment in goods - where the EU runs a £95bn surplus with the UK - will avoid disruption to supply chains and be of obvious benefit to EU business, while leaving the UK flexibility on services and people.

It is this grand bargain that is at the heart of the Chequers deal, and on which the UK has mounted a huge diplomatic charm offensive this summer - and which Mr Barnier has been clear the EU cannot accept.

Only hours after Mrs May had used a speech in Belfast to demand that the EU “evolve their position” in kind, Mr Barnier gave a press conference in which he openly questioned why the EU would engage in costly UK proposals.

“There’s not an awful lot of justification for the EU running the risk of weakening the single market,” he said. “That is our main asset.”

That was a view backed up this month by Claus Grube, the former Danish ambassador to the UK and a known Anglophile, who warned that the UK was misjudging how flexible the EU could be.

He dismissed the White Paper as “a creative, but un-balanced combination” of single market rights with free-trade agreement obligations “to the benefit only of the UK” - arguing that the Brexiteers’ stated desire to diverge presented a clear risk of competitive distortion.

Mujtaba Rahman, the lead EU analyst at the Eurasia Group, is equally sceptical of the UK’s sales pitch that a single market for goods is beneficial for both sides.

“This fundamentally misjudges the EU’s deeply held view — which is echoed in Berlin and Paris — that a single market for goods will not be in its political or commercial interest,” he says.

Mrs May is now trying to find a way past that Commission orthodoxy, partly hoping that it will not be shared by all EU member states who may think that the Commission’s fears about UK divergence on services are overblown.

But this is looking tough. After Ms Riso's presentation, it is understood that France, Germany, Denmark and Austria all chimed in supporting the conclusions, with Austria adding that data from car companies like BMW had drawn similar conclusions.

John Springford, the economist at the Centre for European Reform think-tank, believes that the UK could circumvent some of the Commission objections by agreeing to yet deeper alignment.

At present the UK has agreed only not to dilute existing social and environmental regulations, for example, but has given no guarantees it will implement new regulations in the future.

"If they did that, then a lot of these questions could be put to bed," says Mr Springford. "But the EU will insist this is clearly 'locked in' if they are ever to accept Chequers, or something like it."

Whether Mrs May can sell that level of ongoing alignment is far from clear, as clamour among Conservative Party grassroots grows against the Chequers plan.

Chris Grayling, a Brexiteer who supports the Chequers plan, admitted on Wednesday it was difficult to convince voters it was the right way forward, but told the Today programme he accepted having "alignment on technical specifications of manufactured goods" as the "price to pay" for a relationship with the EU.

Such grudging language will do little to inspire trust in Brussels, Paris, Berlin who are expected to pass a verdict on the British gambit at the informal EU leaders' summit in Salzburg on September 20.

Already in Whitehall there is talk of a "pivot to a Canada-style deal" if the EU rejects the Chequers hybrid deal - a move which would instantly beg the question of how to avoid the customs border in the Irish Sea which Mrs May has so emphatically ruled out.

Of course, there is one answer to that question: namely joining a custom union with the EU - which is one step which Mr Barnier and the European Commission have very clearly not ruled out.

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Lloyd Barnes 15 Aug 2018 10:01PM

So there you have it. Even the EU agrees that if we are truly free we will prosper as we become more competitive.

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B Carter 15 Aug 2018 10:03PM

@Lloyd Barnes

Actually, that's a very good point!

If I read this right, this paper says that if we leave the EU on WTO, we will flourish!

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May is lying to us about Brexit. She is trying to con us into accepting leaving in name only. It will not work.

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Captain Mainwaring 15 Aug 2018 9:50PM

"European Commission economists believed accepting the British plan would do real damage to the EU single market."

Real damage to the political vested interests that still cling to the insane notion that a federal Europe is attainable more like.