

The LSE Continental breakfasts are one element of a wider academic programme that aims to understand and inform the process of agreeing Britain's future relationship with the rest of Europe. The breakfasts are private, off-the-record meetings for a select group of distinguished individuals from around the world. They bring together LSE's most renowned academic experts with a diverse group of insightful and influential people to explore key issues shaping the European political landscape.

Meetings are held under Chatham House rules, so that opinions expressed may be reported but not attributed. These seminar-style events typically open with short presentations from two experts, one of which is usually a member of the LSE faculty, followed by open discussion among the group.

In these write-ups, issues raised in the discussions are collected into an essay including references to relevant research and exploring some questions in more depth. The authors are encouraged to elaborate and reflect, so they should not be read as an unvarnished record of the discussion.



## What challenges will Whitehall face during the Brexit negotiations?

*(London 18 May 2017, written up by Philipp Dreyer)*

As Britain leaves the EU and begins to form new relationships with the remaining 27 and the rest of the world, the negotiation of the new strategy rests substantially on its civil service. Whitehall's task of delivering the government's Brexit strategy is immense and unprecedented; not even the Prime Minister's abundant confidence in a successful 'BREXIT' has been able to dispel doubts as to whether Whitehall is adequately prepared for the task—and with good reason. The sheer scale of complexity of Brexit and its legislative consequences present numerous challenges to the civil service that the government would be wise not to underestimate.

One problem identified is Whitehall's shortage of capacity and expertise. There are not enough trade negotiators, economists, and policy analysts to successfully handle Brexit negotiations and simultaneously develop a coherent domestic policy strategy. A second problem is the lack of coordination between different ministerial departments, the Cabinet, and the wider public. Partly to blame is the creation of the Brexit ministry, which has led to an inefficient division of responsibilities and suboptimal working relationships in Whitehall. A growing concern here is that the FCO, the Bank of England, and the Treasury have been sidelined during the Brexit process. The lack of coordination has also become evident through Whitehall's reluctance to systematically engage with businesses, industry experts, or trade unions, which reflects the government's insistence on secrecy and a closed process of negotiation. Third, Brexit planning presents another considerable challenge for Whitehall, particularly because there is little clarity on what the default option of reaching no deal at the end of two years would entail for the UK and the EU. Improvisation, rather than deliberation, appears to be Whitehall's current approach to Brexit negotiations and policy development.

Given these challenges, it is not surprising that little progress has been made since the referendum. Many key questions have not yet been settled, and it is likely that the post-Brexit transition phase will be lengthy and aimed at preserving the status quo. Theresa May could do more to equip Whitehall with the necessary skills and infrastructure. This will require a coherent and detailed Brexit strategy which, in turn, will require that divisions between global free-marketeers and protectionists in the Conservative Party are put aside. For now, however, the prospects of getting more clarity on the government's positions on Brexit are slim.

### **Is Whitehall ready for the task of carrying out the government's Brexit strategy?**

Capacity is a problem both for Whitehall and Number 10; the lack of economic expertise and shortage in trade negotiators will prove to be an obstacle as Britain leaves the EU and sets out to rekindle its global relationships. Reaching a post-Brexit deal will be particularly tricky because Whitehall needs to work across departmental boundaries and find a common denominator between different actors with conflicting interests. Take for example the UK's agriculture and fisheries sectors. Despite their relatively small share of GDP, the political complexities involved in reaching a post-Brexit deal are enormous. Regional governments are already asking for assurances of a new financial settlement from the Treasury, anticipating a major shortfall in funding when subsidies from the EU's Common Agricultural Policy dry up.<sup>1</sup> The devolved administrations of Scotland, Northern Ireland, and Wales may threaten to block new trade deals with the US, Australia, and New Zealand if no efforts are made to assuage fears that cheap imports from abroad will undercut the regional fisheries and agriculture sectors.

These issues are compounded by uncertainty over whether Brexit means a new hard border in Northern Ireland. Following a recent unanimous agreement between the 27 EU leaders, Donald Tusk has emphasised the EU's continued support for the Good Friday Agreement and its commitment to avoiding a hard border in Ireland. How such a soft border would be managed in practice, however, is not clear yet. Regardless, the consequences of the UK leaving the customs union will be serious. The Northern Irish economy relies heavily on food and drink imports from its southern neighbour, which will be subject to high tariffs when the UK leaves the EU. To safeguard bilateral trade and inter-community relations, the British government must address the issues of tariffs and whether there will be a hard border after Brexit.

The need to forge new trade deals will also be a key task for Whitehall when Britain leaves the EU. Although the government has laid out a clear trade policy strategy in a recent IFG paper, Whitehall is in desperate need of trade negotiators, industry experts, and policy analysts.<sup>2</sup> Ideally, trade negotiations are conducted using a standard tool of economics – game theory. Competing objectives of different countries need to be assessed prior to negotiations to identify the win-win, lose-win, and lose-lose scenarios. The departure point of the Brexit negotiations must be a careful analysis of how the default option of reaching no deal will affect both the UK and the EU. The government should then set out a 'no deal'

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<sup>1</sup> <https://www.ft.com/content/35376b8e-fe9e-11e6-96f8-3700c5664d30>

<sup>2</sup> <https://www.instituteforgovernment.org.uk/publications/taking-back-control-trade-policy>

Brexit contingency plan to facilitate a more sensible and perhaps stronger negotiation strategy. Whitehall's shortage of economic expertise and capacity, however, mean that negotiations cannot be led in such a rational and well-considered way. Even if the positions of the 27 EU member states were known in detail, the task of aggregating and weighing these positions up properly requires heavy political analysis, which is short in supply. Instead, a hand-to-mouth approach is more likely to prevail.

### **Beyond Trade Deals**

The burden on the civil service will only intensify in the coming years. One participant noted that trade constitutes just a small part of the negotiation process, as the outcome of Brexit will depend on over a thousand other international agreements that are separate from trade. In addition, the CBI has estimated that Britain will need to set up over 34 domestic versions of the EU regulatory watchdogs to be able to continue trading with the EU post-Brexit.<sup>3</sup> A new agency that scrutinises regulatory changes and resolves disputes will also be necessary. Participants agreed that the Great Repeal Bill will achieve exactly the opposite of what it promised: Brexit will lead to a substantial increase in red tape. All policy areas currently regulated by the EU will need to be replicated, as competition rules will apply to both EU and UK levels. The extra regulation will be a burden on the economy, and the only silver lining will be the sharp increase in business for the big consultancies.

Theresa May's reorganisation of Whitehall and the creation of the new department for exiting the EU (DExEU) and department for international trade (DIT) were aimed at facilitating policy-making during Brexit negotiations. There are strong concerns, however, that this redesign of the government machine is clunky and cumbersome. One participant, for example, mentioned strong tensions between DExEU and other departments at Whitehall, which are frustrated by the lack of competence and collaboration. The result is an increasing gap between civil servants, who are acutely aware of the complexities involved in the Brexit negotiations and the enormous requirements of structural reform, and ministers, who display bottomless optimism and even cockiness about the future of Britain outside the EU.

Although such tensions are common, the new Brexit departments have added to the confusion over how the civil service should prepare for the negotiations and have masked the absence of other important actors. Particularly alarming is the lack of involvement of the Treasury and the Foreign Office in the design of the policy strategy. Participants suggested that the government's Brexit strategy could be delivered more effectively from the Cabinet Office, but with continuous involvement from the Treasury and the Foreign Office.

### **Why does the government not engage more systematically with public actors, such as industry experts, policy analysts, and economists?**

Given Whitehall's lack of sectoral expertise and capacity to effectively carry out Brexit, it is surprising that the government does not seek assistance from a wider range of public actors, such as businesses, EU experts, economists or policy analysts. One participant voiced concern that offers by industry experts to help with Brexit negotiations had been ignored and

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<sup>3</sup> <https://www.ft.com/content/64d30780-10b5-11e7-b030-768954394623>

declined. Others commented that businesses needed to put more pressure on the government and become more involved in trade negotiations through Brexit advisory groups.

The current lack of public engagement can be partly attributed to the government's fear of revealing its negotiation strategy. This resistance to openness, however, is ill-founded and cannot be sustained for long. Because of the EU's commitment to full transparency and the need to communicate among 27 member states, negotiations will largely take place in public. Pressure on the government to communicate a clear Brexit strategy will also grow as the country heads towards an uncertain future.

To increase the capacity and expertise of the civil service, the government should therefore engage more systematically with public actors. The fixed period of Brexit negotiations means that decisions need to be made quickly, which goes against the culture of government and Parliament to deliberate and analyse policy in detail. Nevertheless, the need to equip Whitehall with additional trade negotiators, policy analysts, EU experts, and industry experts is becoming more and more evident. By marginalising experts, the Treasury, and the Bank of England during the negotiations, Downing Street is avoiding the key question: where is the economics? Addressing that question will be difficult, and the answers are unlikely to be the ones the government wants to hear.

The enormous scale of complexity of taking Britain out of the EU means that little will be settled by "Independence Day". At the moment, a mere framework of a framework exists, which means most details will be left to be sorted out later. It is expected that the transition will be long and that the status quo will be largely preserved. This does not mean, however, that the government and Whitehall can sit back and relax; a long transition carries the risk of permanence, while chaos would result from reverting to WTO terms. For now, the best course of action to prepare for Brexit is to bring in outsiders, increase the capacity of the civil service, and engage more strongly with public groups.

### **Will divisions between the 27 EU member states give Theresa May an advantage in the negotiations?**

A recent study of MEPs' attitudes in the 2014-19 European Parliament finds that the EU's member states are divided on many immigration-related issues, such as plans to establish a common EU policy on economic migrants from third countries or to restrict EU migrants' access to public services.<sup>4</sup> It was suggested that divisions between the 27 member states would give Theresa May an advantage in the Brexit negotiations, particularly on the issue of free movement. In addition, the ruling by the ECJ last week that certain parts of the Singapore-EU free trade deal will require no ratification by individual member states is seen as a boost for the UK government, as it opens the possibility to strike narrower trade deals in the future.<sup>5</sup>

However, attempts to exploit tensions within the EU may backfire. Polls show that the vast majority of EU citizens supports protecting the unity of the remaining EU27, rather than

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<sup>4</sup> <http://mepsurvey.eu/uncategorised/meps-attitudes-in-the-2014-19-european-parliament-key-findings-from-the-european-parliament-research-groups-survey/#.WR80susrKHs>

<sup>5</sup> <https://www.ft.com/content/9a0c9d04-9c6d-34f8-a7e2-dba202d29c25>

building a new economic relationship with the UK.<sup>6</sup> Brexit simply is not as much a priority for the EU as it is for Britain. In the end, the important negotiations are likely to come down to the three M's: Merkel, Macron, and May. The UK should perhaps not expect much leeway from France, as Macron will be primarily concerned with addressing structural problems in France and the Eurozone to stall the rise of far-right populism.

The opposite might also be the case. Macron's victory is also a victory for the EU, and this may mitigate the need to send a signal to other member states that flirt with euroscepticism. So we should not jump to conclusions on what the outcome of the French presidential election means for Brexit.

### **How will divisions within the Conservative Party affect Whitehall's ability to ensure effective and coherent policy-making?**

Since the referendum last year, observers noted that the government's efforts to outline a domestic policy strategy have been surprisingly modest. Of course, Britain is legally prevented from negotiating new trade agreements while still a member of the EU. On the domestic side, however, the government could do much more to alleviate economic post-Brexit uncertainty. Several domestic policy areas that will affect the outcome of Brexit are currently side-lined.

A skills strategy, for example, would be an important domestic policy, given the commitment to reduce immigration and that the vote to leave the EU was interpreted as being driven by those who were left behind by globalisation. Yet no skills strategy has been developed so far. Similarly, there are currently no plans for a UK-specific migration policy even though the government has repeated its intention to bring net immigration down to the tens of thousands a year. Nor has a new agricultural policy been worked out as Britain moves away from the EU's Common Agricultural Policy.

The lack of domestic policy is worrying and highlights at least two major challenges. First, Britain needs structural reforms as it leaves the EU; but the slimmed down civil service is not prepared to embark on such a large-scale mission when the government has not even outlined a coherent policy framework. Second, the absence of clear domestic policies reveals a deep conflict within the Conservative party between global free-marketeers and protectionists.

To illustrate the trade-offs, consider the implications of the much-needed skills strategy. If you take seriously the plans to restrict immigration, a feasible skills strategy will have to comprise adult learning and re-training. Traditionally, however, such programmes have been costly and have not worked particularly well. Is the government willing to tolerate a larger deficit only to bring down immigration?

Similarly, the need to reform the agricultural sector reveals tensions between support for global free trade and protectionist instincts of many ministers and MPs. Will the government prioritise free trade agreements that lead to cheap imports into the UK, even if this will hurt the domestic agricultural sector? These questions are not settled yet within the Conservative

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<sup>6</sup> <https://www.eureporter.co/economy/2017/05/15/brexit-poll-shows-that-eu27-citizens-put-their-interests-ahead-of-any-future-deal-with-the-uk/>

party. Agriculture is a small part of the UK economy, but hugely symbolic in this context. It is important that these questions are debated also as part of an engagement process with the wider public, which should involve the devolved, local, and regional governments, businesses and unions, policy experts, and economists.

## **Conclusion**

Whitehall faces numerous challenges during the Brexit negotiations and beyond. Capacity and expertise are in short supply; more trade negotiators, economists, and policy analysts are needed to complete the daunting task of taking Britain out of the EU. Moreover, the setup of the new Brexit department and the division of responsibilities are not well-suited to conduct negotiations and develop a coherent domestic strategy that will counter the adverse effects of leaving the EU. Managing this process from the new Brexit department, rather than letting the Cabinet Office take on the role of coordination, has led to suboptimal working relationships. For example, side-lining the Foreign Office, the Treasury, and the Bank of England during the Brexit talks means that important resources are not taken advantage of. Further, the government has prioritised keeping its negotiation tactics secret at the expense of marginalising public actors, such as businesses, industry experts, or trade unions. Finally, Whitehall's Brexit planning appears to be short-sighted and erratic instead of being conducted in a rational and deliberative manner. Negotiations should proceed from the default option of reaching no deal after two years, but this scenario and its potential consequences have not been considered in detail.

Brexit is unlikely to become a success unless these challenges are taken seriously. Although the referendum took place almost a year ago, there has been little progress in developing a coherent and pragmatic strategy to take Britain out of the EU and form relationships with the rest of the world. Whitehall has been unable to settle many of the key issues. This makes it likely that the Brexit negotiations end with a prolonged transition deal, which will largely preserve the status quo. Alternatively, the UK will need to revert to trading under rules set out by the WTO. Both options are undesirable but can be avoided if Whitehall increases its capacity and expertise, coordinates more effectively between its departments, engages with public actors, and assumes a more deliberative and rational approach to negotiations and policy development.