

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.



The Brexit outcome, and why the EU will insist that 'Brexit means Brexit'

Madrid, November 6, 2018

Written up by Horatio Mortimer

As the Brexit negotiations enter the final stages, there has been much discussion of which side will swerve first in the game of chicken. A compromise seems so clearly in the economic interests of both the EU and the UK that everyone, including the market, seemed to assume that one way or another a deal will be struck at the last minute.

There are really two chicken games, and the first one is not taking place in the negotiations between the EU and UK, but rather a sub-game within the UK parliament. Both games however are on the same cliff-top, the approaching deadline of March 29 2019, when if nobody swerves, the UK will crash out of the EU without any transitional arrangements. One added excitement to the game is that the real deadline is sooner than March 29, because of the time it takes to ratify any agreement. Nobody is quite sure when exactly the real deadline is. The negotiations are careering towards the cliff edge, but before the edge is a steep slope, and at some point it will be impossible to stop in time. To further torture the analogy, if the negotiations are a bus heading toward the cliff, with the two sides in the front seats waiting for the other to grab the wheel and swerve, then on the UK side there is a scuffle about who gets to sit in the front.

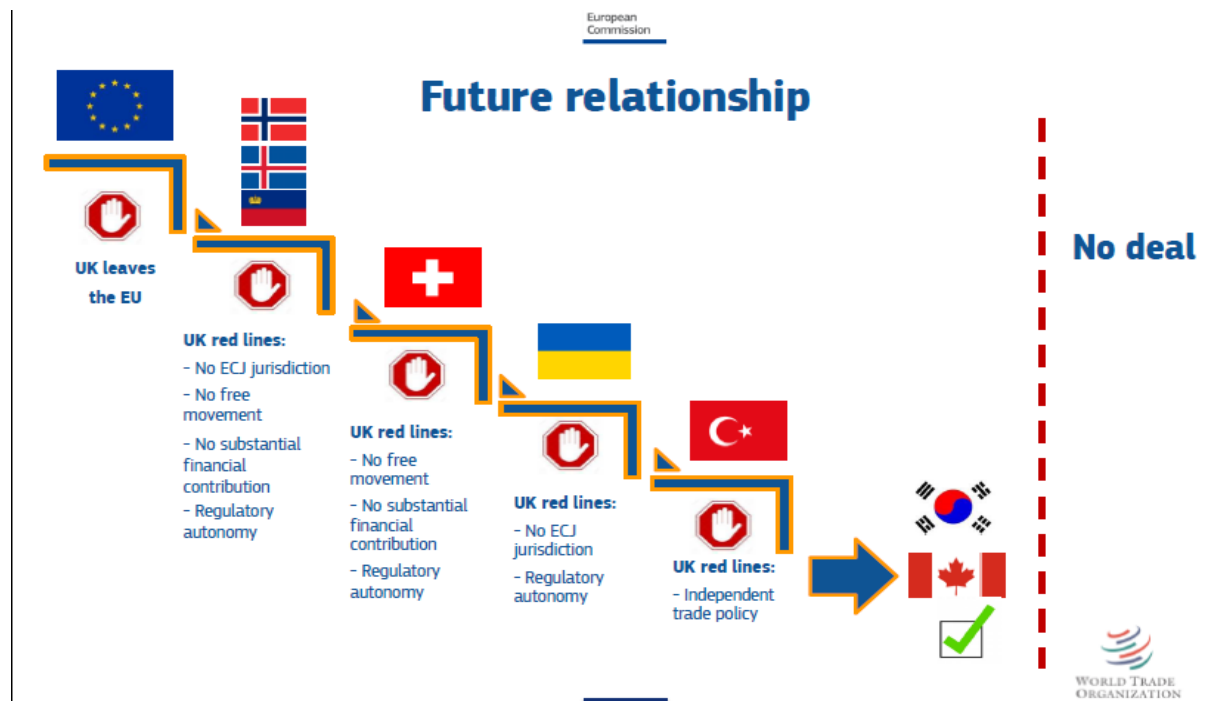
An effective strategy in a game of chicken is to convince the other side that you are willing to go over the cliff, either because you have some sort of parachute, or because you are not convinced there is a cliff at all.

Both sides seem confident it will be the other that lurches for their shared steering wheel and veers away from the cliff edge. The following discussion looks at some factors that make it very difficult for each side to compromise. ⁱ ⁱⁱ

The UK Politics of a Brexit Deal

In her [Lancaster House Speech](#) in January 2017 Theresa May called for a Brexit deal with "the freest possible trade in goods and services" without crossing certain UK 'red lines'. These included ending the jurisdiction of the European Court of Justice; ending free movement; and permitting the UK to make its own trade agreements. The EU responded with the famous [Barnier staircase](#) diagram, with each step down representing a further move away from EU membership and showing which countries currently occupy each

step. Below each step are listed the red lines that would be crossed if the UK occupied that step.



On the step just below full EU membership is the ‘Norway’ model. This allows Norway to strike its own trade deals, but it remains bound by ECJ rulings, and allows free movement. The next one down is the ‘Swiss’ model. This is a set of bilateral agreements, so it gives more choice of which parts to belong to. However, in exchange for market access it must implement EU laws – something that is sometimes called ‘autonomous adoption of EU law’, and includes free movement. In 2014, the Swiss voted in a referendum to curtail free movement, but the EU said it was in breach of their agreements, and under the arrangement, a breach of any one of the over 100 bilateral agreements undoes the whole system. Inevitably the Swiss had to find a way of negating the referendum result to avoid taking a substantial economic hit. Ukraine and Turkey live on the next two steps, but Ukraine is subject to ECJ rulings, and Turkey is in a customs union and so cannot have an independent trade policy. The bottom step, just above the floor of a ‘no-deal’ WTO trade relationship, is the ‘Canada’ model, which is consistent with all of the UK red lines.

However, as Canada is outside the Single Market, trade between Canada and the EU is likely to remain far from seamless. Quotas and tariffs for agricultural products will remain, and the free-trade agreement does not cover services. Although it eliminates tariffs on goods, it does not require regulatory alignment, and so standards of goods need to be checked at the border. Furthermore, as the UK imports mostly goods from the EU, and mostly exports

services, this is disadvantageous for UK businesses. However, many of the more hardline leavers would prefer a Canada-type agreement because their main concern is to free the UK from EU regulations. They argue that this would enable Britain to trade freely with the rest of the world, and allow British people to buy and sell from countries without blocking or taxing trade in goods from places with lower safety, labour and environmental standards, including the United States and China.

Since one of the EU negotiating priorities has been to prevent a hard border in Ireland, under a 'Canada' model the border controls would have to move to the Irish Sea, keeping Northern Ireland within the Single Market. Theresa May has said that a Canada deal is worse than a 'no deal', because it would effectively break up the United Kingdom.

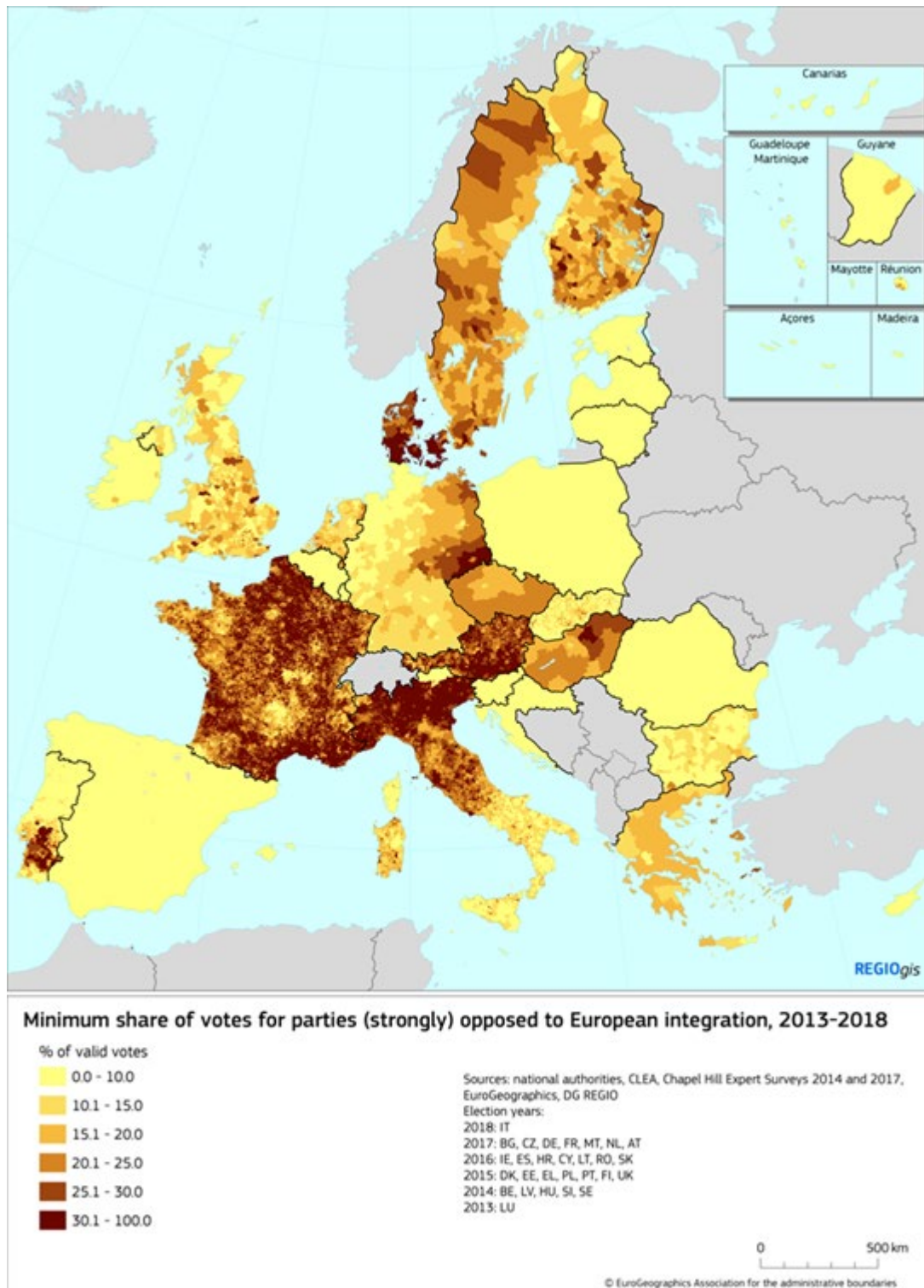
The decision about the final relationship has yet to be decided, but the draft Withdrawal Agreement produced by the negotiators has been vehemently rejected by some of the hardline leavers because it binds Northern Ireland to remain in the transition, where it would continue subject to all EU rules until both sides are satisfied that a solution has been found that does not require an Irish border. So as to prevent the creation of a hard border between Britain and Northern Ireland, there is also a provision to allow the UK as a whole to remain within the European customs union, where, so as to maintain fair competition among European firms, it will be bound to abide by EU environmental standards, tax and labour policy, as well as rules that limit state aid. In effect it means that the EU can force the UK to choose between implementing a border between in the Irish Sea between Britain and Northern Ireland and remaining indefinitely within the transition agreement where it is subject to rules it has no say in. Furthermore, the political declaration, which is a non-binding part of the agreement suggests that this will be the basis of negotiation for the long term relationship.

Thus the draft agreement breaks through two of Theresa May's red lines. Although it establishes an arbitration panel to resolve disputes, ultimately it leaves the UK subject to rulings of the European Court of Justice; and it seems to imply that the UK will remain indefinitely within an EU customs union, and not be free to make its own trade agreements. The concession from the EU is that it is granting the UK access to the Single Market for goods without accepting the full *acquis*, including free movement of people. Reducing immigration seems to be Theresa May's uppermost political objective, having promised continually to reduce net immigration throughout her years as Home Secretary, establishing a 'hostile environment' for immigrants, and sending out vans advertising a hotline for people to report people they suspected to be in the UK illegally. She seems to have interpreted the referendum result as primarily a vote against free movement. The EU is extremely reluctant to allow open access to the single market without accepting free movement, as well as the whole gamut of EU law. As a result, the market access for Britain will be, in all likelihood, much less comprehensive than for Northern Ireland. The inescapable ramification of this is that there would still have to be border checks for goods crossing the Irish Sea.

Labour have said they will vote against the agreement, given that a majority of Labour voters and members want a second referendum, and the Labour leadership's main complaint about the EU is the limit on state aid, which this agreement maintains. Many of the hardline Brexit campaigners are unhappy with the deal, and are campaigning to renegotiate it, either with the current Prime Minister or a new one. Some prefer to crash out and then negotiate. Labour also claim they could renegotiate a better deal. Unless a large number of both hardline leaver and Labour MPs reverse their positions, Parliament will reject the agreement.

The EU have said that they will not renegotiate. The bus continues towards the cliff edge.

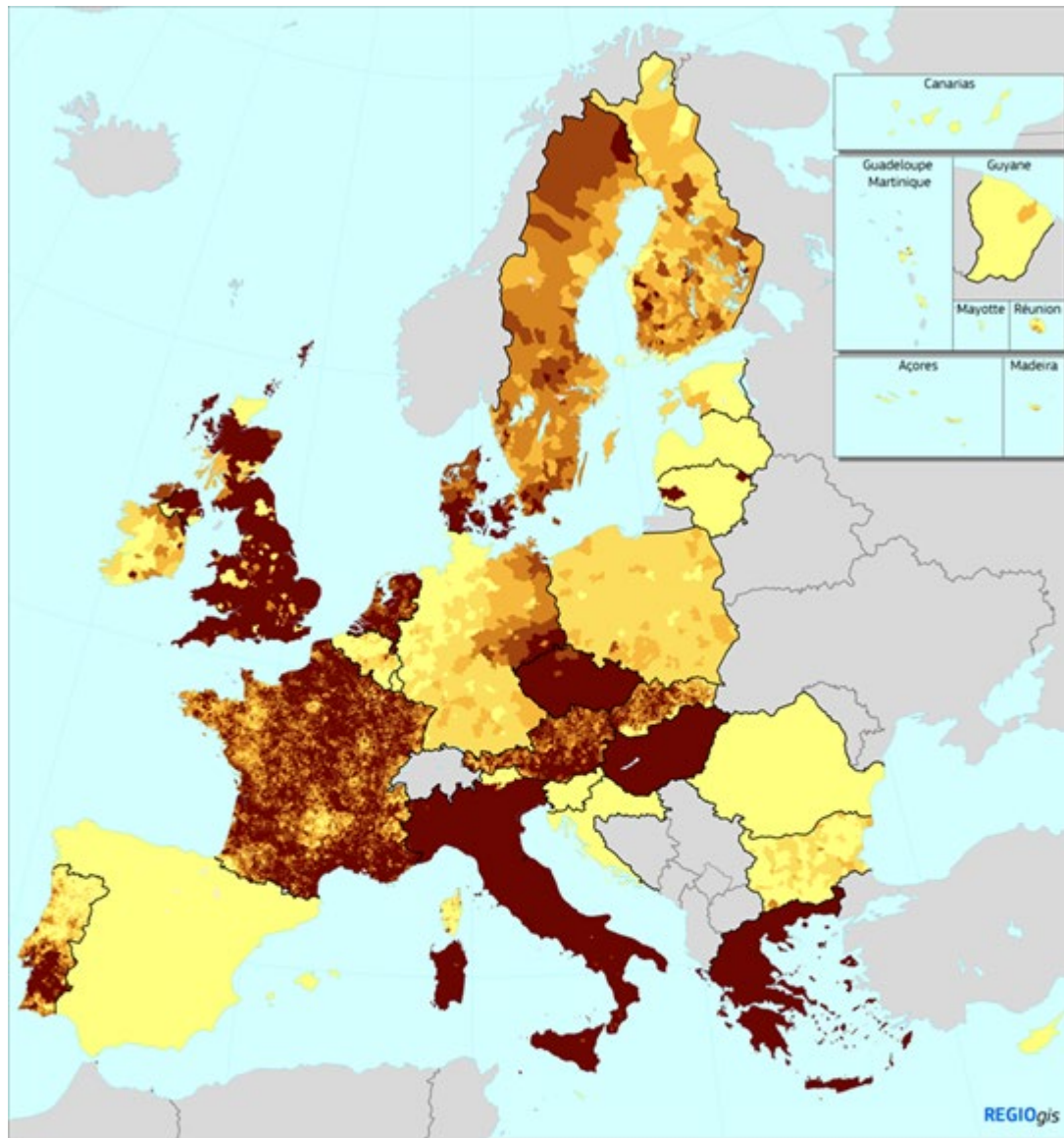
The EU politics of the Brexit deal



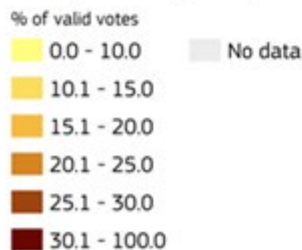
Source: Dijkstra, Poelman and Rodríguez-Pose (2018)

A [wave of nationalist populism](#) is sweeping across the western democracies, threatening not only the prospects for European integration, but also economic and political stability right across the continent. 'Populist' is a disputed term, but here and in general, it is used to describe anti-system parties that claim to represent 'the people' against an elite

establishment that is deaf to their concerns. The EU and the project of integration is an easy target for populist parties; so much so that Euro-scepticism can be used as a variable to measure populism across Europe: the more populist a party, the more anti-EU. These parties represent close to 30% of the vote in Denmark, Austria and France. If parties only somewhat opposed to European integration are counted, then they represent 50% of the vote in Italy, Greece and the UK, and even higher in Hungary.



Minimum share of votes for parties somewhat opposed, opposed or strongly opposed to European integration, 2013-2018



Sources: national authorities, CLEA, Chapel Hill Expert Surveys
 2014 and 2017, EuroGeographics, DG REGIO
 Election years:
 2018: IT
 2017: BG, CZ, DE, FR, MT, NL, AT
 2016: IE, ES, HR, CY, LT, RO, SK
 2015: DK, EE, EL, PL, PT, FI, UK
 2014: BE, LV, HU, SI, SE
 2013: LU



© EuroGeographics Association for the administrative boundaries

Source: Dijkstra, Poelman and Rodríguez-Pose (2018)

The consensus theory is that the support for these parties comes from globalisation's losers. People without the skills and education to compete in a global economy, who are

undercut or outperformed by imports or immigrants. Older people in particular have been thought to be less adaptable to economic and cultural change, and more reactionary.

Other factors that are also sometimes associated with populist support are unemployment, inequality and lack of geographical mobility.

Rural areas, medium sized towns and small cities that have suffered from rising unemployment, relative declining incomes, and are caught in a 'middle income trap', where they lack the skill clusters to compete with the high-value added economic regions, and yet are not cheap enough to compete with low-cost industrial regions.

Immigration is often identified as a major driver of the 'geography of discontent', and a catalyst of populist politics.

However, new researchⁱⁱⁱ analyses these various factors, and points to an economic-geographical explanation for populism. The key is found in the so-called 'places that don't matter' (Rodríguez-Pose, 2018)^{iv}. It is the formerly prosperous places that have experienced protracted economic decline, brain drain, and a sense that all opportunity is elsewhere. Once long-term decline is taken into account, low income is not a factor. Poorer regions that have not experienced industrial and economic decline show a much lower increase in the populist voting share. In regions with similar levels of economic decline, the richer ones are more populist.

Ageing is also a surprisingly weak factor. Declining areas have older populations, but once that is taken into account, older people are not more likely to vote for populists. Immigration into a constituency seems to slightly increase the vote for very extreme parties, but leads to a small decrease in the total populist anti-European integration vote. The research also finds a very weak link between the distances from national capitals to votes against European integration. Level of education is however confirmed as a strong predictor, with the less educated much more likely to vote for populists.

For the European Union, the long-term solution is to create development policies that create real opportunity in these forgotten places, in other words, something better than the palliative care of transfer payments and low-skill public sector jobs.

In the short term however, one thing that would not be helpful is to allow the UK to free-ride on the single market, because there is a real danger that that could further invigorate populist movements that would threaten European disintegration and leave Europe with no single market to ride on, free or otherwise.

European governments and the European institutions are keenly aware of the threat from populists, and therefore will make the integrity of the single market their priority, sending a strong message that to leave the EU is to lose access to the single market. For that reason, they will be very unwilling to compromise in the Brexit negotiations, even if it results in allowing the bus to go over the cliff.

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*Introductory remarks **Chair

ⁱ *Cultures of Negotiation: Explaining Britain's hard bargaining in the Brexit negotiations* Benjamin Martill and Uta Staiger Dahrendorf Forum IV Working Paper No. 04 14 September 2018 <http://www.lse.ac.uk/ideas/Assets/Documents/Dahrendorf/Cultures-of-Negotiation.pdf>

ⁱⁱ Hix, S. (2018) *Brexit: Where is the EU–UK Relationship Heading?* JCMS: Journal of Common Market Studies, 56: 11–27. <https://doi.org/10.1111/jcms.12766>.

ⁱⁱⁱ Dijkstra, L., Poelman, H. and Rodríguez-Pose (2018). *The Geography of EU discontent*. Forthcoming.

^{iv} Rodríguez-Pose, A. (2018). *The revenge of the places that don't matter (and what to do about it)*. Cambridge Journal of Regions, Economy and Society, 11(1), 189-209. <https://doi.org/10.1093/cjres/rsx024>