

EU Ready to Offer U.K. 'Super-Charged' Free-Trade Deal

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The European Union is set to offer the U.K. a free-trade deal deeper than any agreement that's gone before, but will reject Prime Minister Theresa May's demand for "frictionless trade," according to EU diplomats.

The EU's vision for future ties with Britain will contain "about 30-40 percent" of May's pitch for a wide-ranging trade and security deal, according to two of the diplomats. Chief negotiator Michel Barnier's team gave European ambassadors an outline of his proposal on Friday, and will formally present it to them -- at least in part -- on Wednesday.

Talks are accelerating -- and work is expected to continue through the weekend -- as both sides are racing to clinch a deal next month. The pound strengthened on Friday.

The offer falls short of what May wants, potentially making it harder to get the deal approved in the U.K. Parliament, where [she faces opposition on all sides](#). However, the document is expected to be vaguely worded, and with as much positive language as possible to help her sell it at home. Hardline Brexit-backers in her party might find it easier to vote for the EU's offer instead of the tighter ties sought by May, since they have been pushing for a regular free-trade deal all along.

The risk is that because the EU's plan doesn't include frictionless trade across the EU-U.K. border, it will focus more attention on the most controversial part of the divorce deal -- how to keep the Irish border open. It will make it even more important that the so-called [Irish backstop](#) is acceptable to the U.K. government and its [Northern Irish allies](#).

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The offer will be in the form of a non-binding declaration that will form part of the Brexit deal that officials want to wrap up by mid-November. It would offer the U.K. an unprecedented "super-charged" free-trade agreement, in the words of one of the diplomats.

Negotiators are making progress on the other part of the deal -- the legally binding terms of the [divorce](#) -- but agreement on that hinges on the specifics of a solution on the [Irish border](#). That could yet derail the process, the diplomats said. The U.K. is expected to present a new solution next week.

Both sides are hoping for a breakthrough in time for a dinner of EU leaders on Oct. 17. If all goes well, another summit will then be called for mid-November. The

European Commission is "working day and night" to make progress, President Jean-Claude Juncker said on Friday.

Juncker [told a group](#) of Austrian newspapers on Thursday he is optimistic that a deal can be reached and the EU's "will is unbroken to achieve an understanding with the British government," according to a report of the interview published Saturday. He reiterated that a "no deal" scenario would be bad for both the U.K. and the EU.

How Much Friction

The EU's draft on how Britain and the bloc will trade in future will probably run to fewer than 10 pages, three diplomats said, leaving negotiations for the full-blown trade deal to take place after the U.K. leaves in the bloc in March. U.K. officials say it will be much longer.

While it falls short of what May wants, it will be broader and deeper than any FTA the EU has struck with other countries and will include "add-ons." Some frictions in trade will be inevitable, diplomats said. Otherwise, it would undermine the integrity of the single market. To help May sell the deal at home, formulations like "as frictionless as possible" might work, however, according to one diplomat.

Europe's Ties That Bind

The bloc has long-standing pacts governing trade, immigration and currency
Channel Islands and the Isle of Man are part of the Customs Union

Source: The World Bank

The document is likely to say that there should be no trade tariffs or quotas with the U.K., diplomats said. In return the EU will demand stronger "level playing field" conditions to ensure the U.K. doesn't gain a competitive advantage in areas such as regulatory standards, labor law and state aid. This is the battle ground between the two sides, according to one of the diplomats. Pro-Brexit campaigners don't want to be shackled to EU regulations after the country has left.

The add-ons will include counter-terrorism cooperation, foreign policy and defense coordination, and other ways in which Britain and the EU will work together, such as on recognition of each other's social security and qualifications systems, agreements on transport connectivity and some reciprocal arrangements to allow people to work in each other's territories.

The outline of the political declaration has been drafted by the European Commission, and officials have discussed it with their British counterparts as part of the choreography of the broader deal, diplomats said. The final version will be considered a "joint statement."

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While attention has been focused on political drama at party conferences in the U.K., the two sides' lead negotiators, the U.K.'s [Olly Robbins](#) and the EU's [Sabine Weyand](#), have been carrying out technical work on the divorce agreement. Apart from the crucial section on the Irish border, that is almost finished, the diplomats said.

The focus next week is the so-called Irish backstop -- how to keep the Irish border open if the final EU-U.K. trade deal isn't deep enough to make frontier checks unnecessary. Although the EU initially rejected the U.K.'s bid for a backstop that kept the whole U.K. in the bloc's customs area, officials are looking at what parts of it can be salvaged. They now see grounds for compromise as long as the U.K. accepts some regulatory checks between Northern Ireland and the British mainland.

EU negotiators think that they will be able to respond positively to the U.K.'s new proposal on the border expected next week. But there are still wrinkles to iron out, an EU official said after Friday's meeting, and it will hinge on May's ability to keep her Northern Irish allies onside.

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— *With assistance by Dara Doyle, Helene Fouquet, Gregory Viscusi, Patrick Donahue, Arne Delfs, and Suzi Ring*

(Updated in ninth paragraph with more comments from Juncker.)

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