

U.K. Ministers Fear Bloody Chapter in May's Brexit Thriller

[Tim Ross](#)

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A statue of Winston Churchill, former British prime minister, stands near the Houses of Parliament.

Photographer: Luke MacGregor/Bloomberg

As she departs the sweltering heatwave that's hit London this summer for a break with her husband, Theresa May is -- for now -- in a position of relative safety.

The U.K.'s rolling Brexit crisis is temporarily becalmed and the British prime minister can afford to take a holiday. What's certain, though, is that the peace will not last.

When Brexit talks resume in Brussels in mid-August, British and European officials will have just 10 weeks to finalize the complex set of international negotiations before their October deadline. That's because they need to leave time to ratify whatever agreement emerges in both the U.K. and European Parliaments before Britain exits the bloc on March 29 next year.

It's a tough ask and in private, ministers and senior officials in May's team are terrified that the negotiations will fail.

That would mean the U.K. crashing out of the EU with no deal, disrupting trade, creating chaos in financial markets, blocking manufacturers' supply chains and

potentially causing shortages of food and medical supplies. It could be an economic and political crisis unparalleled in the U.K. since World War II.

'Historic Catastrophe'

"I have near zero optimism because I think it is going to be very messy," said one senior minister, speaking on condition of anonymity because the matter is so sensitive. The prospects of getting an agreement are slim, the minister said. "If we crash out without a deal, it's going to be a historic catastrophe."

May's difficulties boil down to having too many audiences to please, with each holding passionately to principles that can't easily be reconciled. If she's to succeed, she must negotiate both a divorce and a future trade deal that keeps pro and anti-Brexit wings of her party happy, while also satisfying the European Commission and 27 other EU governments, who want to protect the integrity of the bloc. EU leaders have agreed to add Brexit to the agenda for an informal meeting Sept. 20, to be hosted by Austria.

There's almost no overlap in the aims of any of these groups.

Negotiations have stalled because May's ministers couldn't agree on what to ask for in a future trade deal with the EU, and the U.K. is fighting with the bloc over how to avoid a hard border with Ireland after Brexit.

May's Blueprint

On July 6, May thought she'd found [the answers](#). She rounded up ministers to her Chequers country residence, forcing them to agree to a compromise plan that would keep close trade ties with the EU. Business groups welcomed the blueprint and the pound strengthened.

Yet Cabinet unity was short-lived. After just two days, David Davis quit as Brexit secretary [in protest](#) at the plan. Former Foreign Secretary Boris Johnson followed on July 9, [resigning](#) because -- like Davis -- he could not defend a policy he saw as a betrayal of the 2016 referendum vote for a clean split from the EU.

Even so, May pressed ahead. She published further details in a 98-page dossier, including a complex customs proposal in which the U.K. would collect the EU's tariffs on goods entering Britain.

The aim was to keep trade with the bloc flowing freely while still liberating the U.K. from the EU's formal customs union, a necessity if the government is to deliver on what it sees as the key prize of Brexit: free-trade deals with countries around the world.

Barnier Bites

But on Thursday, the EU delivered a potentially knockout blow.

At a [press conference](#) in Brussels, the EU's chief Brexit negotiator Michel Barnier said May's customs proposal would never be acceptable. "The EU cannot -- and the EU will not -- delegate the application of its customs policy and rules, VAT and excise duty collections, to a non-member who would not be subject to the EU's governance structures," he said.

Barnier's verdict left May cornered. Her aides regard her carefully-constructed policy as the only one that could win over feuding factions in her party, and also secure broader parliamentary approval. May faces pressure from as many as 80 other euroskeptic Tories to toughen up her plan and pursue a hard divorce -- or even abandon talks altogether and leave with no pact in place.

"Walking away with no deal would be a complete and utter disaster, but a lot of hard-line Brexiteers are basically saying 'damn them,'" said Conservative lawmaker Keith Simpson. "They need to explain about what will happen to jobs and the economy."

EU Strategy

The EU appears to have its sights on a different prize. Barnier told May that he'd be happy to make a better offer on trade than the bare-bones deal currently on the table -- if she abandons her stance on leaving the bloc's customs union.

It was a provocative intervention. Not only is it a key red line for May and included in her party's election manifesto, but her main political opponents -- Jeremy Corbyn's Labour Party -- have pledged to enter a customs union with the bloc.

As Barnier will also know, there are at least a dozen pro-EU Tories who are ready to defy May in favor of keeping a customs union. If even a few more join them, May could lose a vote on the issue and see a central plank of her Brexit strategy overturned.

That may be Barnier's aim, though it also carries a significant risk for him. If May is forced to accept a customs union, she would almost certainly suffer a fresh bout of Cabinet resignations, and probably a leadership challenge from pro-Brexit Tories who could force her out.

Escape Route

Can May avoid the looming trap?

Some members of her government are more optimistic, predicting Parliament would not allow the U.K. to crash out of the EU without an agreement. If no deal is struck

by January, moderate Conservative and Labour lawmakers could put aside their differences to save the country from an economic collapse, two ministers said.

Informal discussions have already taken place, though they amount to little more than “conversations in the corridor,” one minister said, adding that for collaboration in the national interest to work, the threat of a no-deal Brexit -- and a chaotic general election -- would have to be imminent.

And even then, the minister warned, “it will need a magic moment of vision” to save the prime minister, and the country, from disaster.

(Updates with details of EU leaders’ meeting in seventh paragraph.)