



### BREXIT: UK AND EU AGREE ON TERMS FOR TRANSITION PERIOD

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*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



**In March 2018, EU and UK agreed on a significant part of the Brexit deal that will lead to a smooth withdrawal of UK from the European Union. This comes as a major development after Britain voted to leave EU in 2016.**

The key aspects of the agreement announced in Brussels include:

- The transitional period will last from Brexit day on March 29, 2019 to December 31, 2020;
- EU citizens arriving in the UK between these two dates will enjoy the same rights and guarantees as those who arrive before Brexit. The same will apply to UK expats on the continent;
- The UK will be allowed to sign its own trade deals during the transition period and will remain a party to existing EU trade deals with other countries;
- The UK's share of fishing catch will be guaranteed during transition, but UK will effectively remain part of the Common Fisheries Policy, yet without a direct say in its rules, until the end of 2020;
- Northern Ireland will remain part of the single market and the customs union in the absence of other solutions to avoid a hard border with the Republic of Ireland.<sup>1</sup>

<sup>1</sup> "The UK and EU agree terms for Brexit transition period," *BBC News*, March 19, 2018, <http://www.bbc.com/news/uk-politics-43456502>.

One of the main sticking points of the Brexit talks so far has been the border issue between Northern Ireland, which is part of the United Kingdom, and Ireland, which will remain in the European Union.<sup>2</sup> The issue of Northern Ireland is a contentious one; considering that Northern Ireland was torn apart by strife for 30 years until the Good Friday agreement was made which ensured a soft border. Hence, any deal that favors a hard border between Northern Ireland and Ireland would not only jeopardize the two-decade-old peace process that put an end to sectarian strife in the north, but will further add fuel to the fire of growing polarization in UK.

Britain's main negotiator, David Davis, and his European Union counterpart, Michel Barnier, described the legal text as "decisive step", but added that it was "not the end of the road".<sup>3</sup> It is being reported that both sides have agreed to submit proposals on the final trade deal by fall this year. Moreover, Britain has also agreed to pay a £39 billion (\$55 billion) "divorce bill" to settle UK's past financial commitments to the European Union. Both sides have also expressed their consent that they seek zero tariffs on goods and agriculture.<sup>4</sup> However, London still needs to seek special concessions from the EU for its booming aircraft, auto and financial industries that form a huge chunk of its economy.

It seems that Britain will have to go an extra mile in order to achieve favorable deals not just with EU member countries, but also with non-EU countries. Some of the countries have already indicated their reluctance to provide special concessions to UK post Brexit. Recently, French President, Emmanuel Macron has taken a strong stance against providing any special concession to UK in any area. Similarly, Japanese Minister for Public Diplomacy and Media, Shinichi Iida, clearly stated that trade deal with EU is a greater priority for Japan than deal with UK.<sup>5</sup> Considering the fact that a lot of Japanese auto manufacturing companies are situated in UK, hence, UK's membership of the customs union is a prime concern for Japan as it gives them frictionless access to and from the UK and EU, with large numbers of components crossing boundaries all the time.<sup>6</sup> It is worth mentioning here that in 2015, Japan was the 11<sup>th</sup> largest buyer of UK exports. It owns about 1,100 businesses in Britain which account for 140,000 jobs. Therefore, it would be in Japanese interest to relocate to any

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<sup>2</sup> Stephen Castle, "U.K. Reaches Brexit Transition Deal With E.U.," *The New York Times*, April 19, 2018, <https://www.nytimes.com/2018/03/19/world/europe/uk-brexiteu.html>.

<sup>3</sup> Ibid.

<sup>4</sup> "Brexit: Not Going As Anyone Had Expected," *Forbes*, April 16, 2018, <https://www.forbes.com/sites/miltonezrati/2018/04/16/brexit-not-going-as-anyone-had-expected/#5db9cd0d620f>.

<sup>5</sup> Lizzy Buchan, "Brexit: Japan says trade deal with EU is a greater priority than deal with UK," *Independent*, April 01, 2018, <https://www.independent.co.uk/news/uk/politics/brexit-japan-shinichi-iida-trade-eu-theresa-may-a8280021.html>.

<sup>6</sup> James Blitz, "Japan's worries over Brexit," *Financial Times*, February 16, 2018, <https://www.ft.com/content/786c8efe-1304-11e8-8cb6-b9ccc4c4dbbb>.

of the EU member countries in case Britain decides to move out of the customs union after the transition period, severely hurting Britain's car industry.

In order to minimize the negative economic impacts of Brexit, Theresa May has recently started making efforts to enhance trade ties with Commonwealth countries. However, it's worth considering that UK cannot rely solely on the commonwealth countries to compensate for the lost trade opportunities in post Brexit scenario. Considering that in 2015, about 44% of UK goods and services went to the EU while the entire rest of the Commonwealth received around 9% of UK exports; UK needs to ensure that it comes up with some innovative trade agreement with EU in order to protect its economic interests in the long run.

Although this transition agreement is not legally binding, but it comes at a time when May's government is in desperate need of gaining confidence of the business community who have been threatening to relocate their operations to other European countries amid uncertainty over Brexit.