

Florence speech falls short on the details of a bespoke arrangement with the EU



*Theresa May stepped in to lead the discussion on what the UK hopes to achieve from its Brexit negotiations with the EU. **Swati Dhingra** and **Josh De Lyon** (CEP, LSE) argue that her Florence speech has set the tone for details that are yet to come.*

On trade, the PM reiterated that the UK would be outside the Single Market and the Customs Union after Brexit. The UK would not pursue off-the-shelf arrangements, like those of Norway and Canada, as models for a future trade deal with the EU. The PM acknowledged that the Norway model would provide high levels of market access but it would also require free movement of people and adopting many of EU's rules (without having a say in them). The Canada model would overcome these two issues, but it would not go very far in maintaining market access, particularly in services trade. Perhaps this suggests a desire to pursue a new deal somewhere in between Norway and Canada, in terms of rights and obligations. Just like previous government papers, the PM's speech, however, falls short on the details of a workable bespoke arrangement that the UK could pursue.

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What is clearly spelled out in the Florence speech is the need to negotiate a future regulatory arrangement with the EU. This is the right approach because businesses face substantial costs when they have to deal with different rules and regulations across markets ([Dhingra and Datta 2017](#)). For example, there are no tariffs in the services sector and the main trade costs faced by foreign service providers come from restrictions on operating rights and establishing compliance with national standards. Modern trade deals are mostly about how to get governments to agree on a set of rules and regulations to ease cross-border trade and investment.

One day after Brexit, UK businesses will be compliant with EU rules

The UK is in a unique position, it is starting from the same rulebook as the EU. One day after Brexit, UK businesses will, therefore, be compliant with EU rules. The difficulty faced in the negotiations and beyond will be how to maintain this regulatory equivalence.



Theresa May in

Florence. Photo: [YouTube](#), Public Domain.

Mrs May stated that many EU laws will be carried into UK domestic law but that, of course, some regulations will change. Regulatory equivalence would cease when the UK starts to move away from EU standards. To maintain market access for their businesses, the UK and the EU would need to agree on a new set of standards and put in place mechanisms to ensure that future domestic policies do not undermine mutually recognized standards.

There is no concrete proposal in the PM's speech or in earlier government papers regarding this. The concern from the perspective of the EU is that, as policies in both markets evolve, the UK's regulatory regime need not remain compliant with EU standards. With the UK out of the EU, the judicial process for enforcing compliance with standards would also need to be re-created. Agreeing on provisions that preserve commitments to mutually recognized standards is what makes modern trade deals challenging and time-consuming.

new arrangement with the EU: a tight balancing act between market integration and national sovereignty

The PM plans to buy time by implementing a time-bound arrangement which would largely replicate EU policies – membership in the Single Market, the Customs Union and the European Court of Justice. At the end of this transition period, the new arrangement will, like other modern trade deals, have to do a tight balancing act between achieving market integration and preserving national sovereignty.

This post represents the views of the authors and not those of the Brexit blog.

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