

Intelligence MEMOS



From: Daniel Schwanen and Jeremy Kronick
To: The Hon. Chrystia Freeland, Minister of Foreign Affairs
Date: June 15, 2017
Re: **BREXITING SOFTLY WITH CETA**

With a seemingly clear path to a large majority in Parliament – and thus a strong hand in impending Brexit negotiations with the EU – British Prime Minister Theresa May called a general election, which took place on June 8. Unfortunately for Mrs. May, the election delivered a hung Parliament.

As a result, May’s threat of a “hard Brexit” – at the limit leaving the EU without a deal – has lost credibility. Instead, it appears a “soft Brexit,” reflecting a broader consensus within the UK, is the way forward. This is the better approach in our view.

What, then, would a post-Brexit arrangement look like? As we have [previously](#) pointed out, various options exist. One is the Swiss-EU model. Switzerland is not part of the EU, but has a series of arrangements that ensure equivalency of standards and cooperation permitting open trade in goods and services, including EU “passporting” rights for Swiss financial institutions. The Swiss are also able to uphold some local preferences in hiring, although not an overall quota for EU workers.

Restrictions on the movement of people were a key objective of pro-Brexit forces. While the EU has chafed at Switzerland’s wish to maintain some restrictions on the movement of people, the election this year on the continent of pragmatic governments that are pro-EU but open to reforming some of its arrangements, could open the door to a Swiss-like arrangement with the UK.

Nevertheless, there is a real possibility that Brexit negotiations may not terminate satisfactorily prior to the current deadline of March, 2019, in order for the UK to exit the Union.

In this context, Canada, which has an important stake in the stability of its relations with Europe, should reiterate to its UK and key continental partners that despite the understandable focus on Brexit talks, now would be a good time to ratify the Comprehensive Economic and Trade Agreement between Canada and the European Union, or CETA, which was approved by the EU Parliament in March. The CETA is scheduled to come into provisional effect on July 1, 2017, with respect to the bulk of the agreement which is under EU (as opposed to member states) jurisdiction.

This would pave the way for Canada, the EU and the UK to continue to apply CETA as a trilateral agreement once Britain has exited the Union. CETA is the most advanced trade agreement negotiated by the EU, and it would be much better for both the UK and the EU to treat the former as a successor to this agreement than to have their relationship revert back to basic WTO rules. This would not be automatic, as for example quotas affecting certain commodities would need to be apportioned among the three parties. But the template and zero tariff lines and rules of origins could be adapted relatively easily to a UK outside of the EU. By ratifying the CETA early, the UK can significantly reduce the risk of disruption to its future relationship with the EU, should Brexit talks prove unable to conclude within the set time frame.

This is something that the UK should consider favourably, given its dependence on foreign capital inflows. And it would help pave the way for a “soft Brexit” which would be in the interest of all, including Canada.

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