

Sunak 'Brexit' deal; a new dawn for UK/EU



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Research Report

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PM Sunak moves to improve UK/EU relations

Following four months of negotiations the UK and EU agreed this week to a series of measures to improve the 'democratic deficit' contained in the 2019 Brexit Protocol.

The key terms of the "Windsor Framework" are:-

*the 'Stormont brake' allows the UK a 'veto' over any new EU laws applying to trade in Northern Ireland if sufficient politicians in the province object to them. The EU stressed this is an 'emergency mechanism'.

*European Court of Justice retains the final say on single market issues.

*The elimination of the Irish Sea border for consumer goods sold in supermarkets, or canteens or items purchased online.

*A new 'green lane' for traders scrapping the trade restrictions between Northern Ireland and Great Britain making it easier for medicines (authorized by UK regulatory authorities to enter Northern Ireland), chilled meats and pets to move over the Irish Sea.

*UK sets VAT rates, alcohol tax and state aid rules for Northern Ireland.

*Some of the Brexit protocol is to be rewritten to improve understanding.

*EU to start the process of ratifying the UK's associate membership of Horizon Europe's £85bn research programme and drop seven EU infringement proceedings after the UK's decision to dis-apply the protocol in 2021.

The Irish government has welcomed the new proposals as the start of a more constructive UK/EU relationship – a view echoed elsewhere, and an opportunity to end Northern Ireland's political vacuum.

The context for the 'Windsor deal'

When Rishi Sunak became PM, his party's broad support was very weak, it trailed Labour by 27 points. Recent polls have pointed to the gap having since narrowed to 21 points. That is still considerable, but at least a start has been made.

Public awareness of the Windsor agreement is low. YouGov said 72% of the public had between 'limited or no awareness'. The Windsor agreement is not going to win the 2024 election, but it does at least give Sunak some domestic progress.

Somewhat surprisingly given their previous track record, well known

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Brexiteers, Steve Baker, David Davis and others have given the ‘thumbs up’ to the Windsor deal.

Much has changed since 2016. Gone is the UK’s confidence and superior smugness that looked down its nose at the EU. This was the main feature of the Cameron years. Recent global crises, a new Cold War, the Liz Truss fiasco, the cost of living crisis, the realization that 13 years of cheap money is over, has focused minds.

The thinking in Westminster is the 2024 election will likely see Kier Starmer in no.10. That has serious implications even for the most insular members of the Conservative party. A recent Electoral Calculus poll gave Labour 400 seats v Conservatives at 84. Whilst other polls have given Labour as low as a 14% lead – this is still very considerable.

The job must be in the remaining time to prevent a Labour landslide on the scale of the 1997 election, where the Conservatives effectively lost the next three elections in one night. Even if PM Sunak leads a ‘caretaker’ government, a narrow loss is infinitely better than a landslide loss. Hence the priority to let Sunak build momentum, allow time for inflation to come under control, allow time for the war to end, (hence a foreign policy success) and a ‘feel good’ factor to emerge.

Another issue is the guiding hand of America that made Northern Ireland a priority for PM Sunak. President Joe Biden has made clear on numerous occasions the sanctity of the 1998 Good Friday Agreement as a pillar of US foreign policy.

Since the Windsor Framework was announced the White House has sung its praises; *“today’s announcement between the UK and EU on the Windsor Framework is an essential step to ensuring the hard earned peace and progress of the Belfast Good Friday Agreement is preserved and strengthened. I appreciate the efforts of the leaders.....to protect Northern Ireland’s place within the UK’s internal market as well as the EU’s single market to the benefit of all communities in Northern Ireland.”*

Conclusion

If the most contentious thing about the Windsor Framework is that King Charles III was part of the post deal ‘celebrity attendance’ – then that proves MP’s are struggling to find anything too problematic! The agreement is essentially market neutral and sterling has barely budged.

The next general election must be held by 24 January 2025. According to the new Conservative chairman Greg Hands the poll is likely in H2 2024. What if this is the start of a serious bounce for Sunak/ Hunt? Investors for now, remain focused on inflation data and global interest rates, but the chance the Conservatives have bottomed out is worth pondering. What if this is the start of Sunak starting down the road of improving UK access to the EU single market? That might help investors more.

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