

## ***UK and EU agree terms of post-Brexit transition period***

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The UK and the European Union (EU) have agreed on the terms of the transition period for after the UK leaves the EU. The transition period will last for 21 months from the planned Brexit date, from 29th March 2019 until 31st December 2020, and will effectively maintain the status quo of the EU single market and customs union. This year, the UK began negotiations with the EU about future relations after Brexit, and there were fears that the schedule of negotiations could be delayed by wide differences of opinion between the two parties. However, an EU summit was held on 22-23 March with the aim of reaching an agreement, and this was reached after the UK made concessions in numerous areas (chart 1). In particular, the agreement included no clear provision for extension of the duration of the transition period desired by the UK, belying UK expectations of securing sufficient negotiation time.

The decision on the handling of the border between Northern Ireland, which is part of the UK, and the Republic of Ireland, which is part of the EU, has also been postponed. The EU has proposed that in the event that the UK proposes no valid solution to avoid a hard border, Northern Ireland will remain within the single market and the customs union "common regulatory area" (an area subject to EU regulation), and agreed on this with the UK side. The establishment of a "common regulatory area" would effectively separate Northern Ireland from the UK, and there is strong opposition to this in the UK, particularly from the Northern Irish Democratic Unionist Party (DUP) which is currently supporting the ruling Conservatives from outside the Cabinet. Having said this, it is also difficult to reconcile exiting the customs union with the policy of avoiding a hard border between Northern Ireland the UK. So far, the EU has been taking the initiative on the negotiations over this issue.

The negotiations on a new free trade agreement (FTA) between the EU and the UK are expected to begin in earnest soon, and based on the agreement on the terms of the transition period, it seems increasingly likely that the UK will be pressed into making numerous concessions in the negotiations. The EU asserts that the "Four Freedoms" of movement for people, goods, services and capital are indivisible, and that UK "cherry picking" will not be tolerated. This is likely to be strongly reflected in the negotiations for a new FTA.

Table 1: Terms of Transition Period Agreed Between UK and EU

	UK	EU	Agreement
Duration	Roughly 2 years with potential for extension	29th March 2019 - 31st December 2020	29th March 2019 - 31st December 2020 *No clear provision for extension
EU Regulation	Demand the right to veto EU decisions made during transition period	The UK will be bound by all EU regulation during the transitional period, with no influence on the policy making process	The UK will be bound by all EU regulation during the transitional period, whilst only being consulted in the policy making process
Freedom of movement	Set up new immigration system	Freedom of movement should apply to migrants entering the UK during the transition period	EU citizens arriving to the UK during the transition period to be granted same rights as those arriving before it
FTA negotiations with third countries	Formal FTA negotiation possible (for implementation after transition period)	UK can negotiate FTA with third countries, but cannot conclude them within transition period	UK can negotiate and ratify FTA with third countries during transition period
Northern Irish border	Consent to avoid a hard border in Northern Ireland but not to a "common regulatory area"	If no valid solution is proposed by the UK to avoid a hard border, Northern Ireland will remain in a "common regulatory area" with the EU, within the single market and the customs union	If no valid solution is proposed by the UK to avoid a hard border, Northern Ireland will remain in a "common regulatory area" with the EU, within the single market and the customs union

Source: European Commission, various news sources, MUFG Bank Economic Research Office

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