

EUROPE

Brexit Talks to Intensify as Prospect of Deal Improves

The pound surged Thursday on the prospect of a deal and continued to rise following Donald Tusk's remarks



Britain's Secretary of State for Exiting the European Union Stephen Barclay, left, greets European Union chief Brexit negotiator Michel Barnier before their meeting at the European Commission headquarters in Brussels, on Friday. PHOTO: FRANCISCO SECO/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Laurence Norman in Brussels and Max Colchester in London

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European Union and U.K. officials will intensify Brexit talks in an attempt to reach an agreement on Britain's split from the bloc before a leaders' summit next week, fueling hopes that a yearlong impasse over Britain's departure from the trade bloc may soon end.

European leaders and British Prime Minister Boris Johnson gather in Brussels on Oct. 17 to try to hammer out a deal to seal Britain's divorce with the trade bloc before an Oct. 31 deadline. Mr. Johnson has said he is determined to take Britain out of the EU by the end of the month, even if a deal isn't secured.

Both sides have been in informal talks for weeks on a possible deal the leaders would consider at the summit. But following a meeting Thursday between Mr. Johnson and Irish Prime Minister Leo Varadkar, diplomats and other officials said talks will step up over the weekend.

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However, European diplomats cautioned that a deal was far from guaranteed and that significant obstacles remain to an accord.

Still, the unexpected optimism coming from top EU officials of a breakthrough in the Brexit logjam sparked a rally in the British pound and U.K. stocks.

“Yesterday when the Irish Taoiseach and the U.K. Prime Minister met they both saw - for the first

time - a pathway to a deal,” said European Council President Donald Tusk during a news conference in Cyprus on Friday morning, using the Irish moniker for the leader. “I have received promising signals from the Taoiseach that a deal is still possible.”

On Friday, Mr. Johnson also sounded cautiously optimistic. “There is a joint feeling that there is a way forward that we can see a pathway to a deal” Mr. Johnson said to reporters. “That doesn’t mean it’s a done deal. There’s work to be done.”

According to officials familiar with the situation, the U.K. has presented fresh ideas to resolve the problem of how to prevent a hard border emerging between Northern Ireland, which is part of Britain, and the Republic of Ireland, an EU member.

Investors have long fretted that a failure to find a deal to quit the EU could result in an abrupt and economically damaging split with the EU. The fresh optimism sent British banking stocks soaring, with some local lenders gaining over 10%. The pound rose 1.7% against the dollar, extending gains it made on Thursday after the meeting between Messrs. Johnson and Varadkar at a wedding venue near Liverpool.

“This changes everything – We now expect a deal,” JP Morgan Chase & Co. analysts wrote in a note.

Despite the investor exuberance, European officials warned that talks may still not result in a deal.

Mr. Tusk said the U.K. “has not come forward with a workable, realistic proposal” that could break a monthslong stalemate over the terms for Britain’s exit from the EU.

Even if a deal is reached between EU leaders, Mr. Johnson must secure approval in the U.K. Parliament, where he has a minority. A British law forces the Johnson government to request another extension—the fourth since the original March 29 deadline for a split—if a deal isn’t agreed by Oct. 19.

A central challenge for both sides is to find a way to avoid a hard border between Northern Ireland, which is in the U.K., and the Republic of Ireland, which is in the EU, after Brexit. Both sides worry the introduction of border checks would be economically damaging and could undermine the peace that came with the Good Friday Agreement.

Officials say that some progress has been made to address the Irish conundrum. The British offer revolves around a form of customs partnership for Northern Ireland, according to diplomats, which would effectively see Northern Ireland remain in both the U.K.'s and the EU's customs unions.

According to that proposal, if Britain exits the EU without a new trade agreement with the bloc in place, customs checks could be carried out alongside regulatory checks on goods arriving on the island of Ireland from Britain, effectively putting a border between the EU and the U.K. down the Irish Sea.

Because both the Republic of Ireland and Northern Ireland would remain in the same customs zone, it would reduce the need for customs checks — and therefore no border — between the two countries.

Moreover, according to officials, Mr. Johnson has also suggested he could compromise on his insistence that the Democratic Unionist Party, a small Northern Irish party allied with his Conservative Party, would have the power to scratch such an arrangement in the future.

The DUP has long resisted the idea that its province could be subject to different governance than the rest of the U.K. Without their support in Parliament, Mr. Johnson is unlikely to have the votes to get an eventual deal approved.

Moreover, one European diplomat familiar with discussions cautioned that the new British position remained very unclear, making it hard to assess whether it can form the basis of a deal.

Mr. Tusk added that “there is no guarantee of success and the time is practically up. But even the slightest chance must be used. A no-deal Brexit will never be the choice of the EU.”

Corrections & Amplifications

Donald Tusk is president of the European Council. An earlier version of this article incorrectly stated he was president of the European Commission. (Oct. 11)

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