Brexit: In or Out?

Implications for the EU, the UK, and the US
“Great Britain has lost an empire and has not yet found a role. The attempt to play a separate power role — that is, a role apart from Europe, a role based on a ‘special relationship’ with the United States, a role based on being head of a ‘commonwealth’ which has no political structure, or unity, or strength — this role is about played out.” - Dean Acheson (December 1962, speech at West Point)
The UK’s Historical Relationship with the EU
A reluctantly acceding state

- A number of factors contribute to the lack of interest in joining the European Communities in the 1950s: some of them resonate to the present day.
- 1956-71: imperial decline and reluctant reconciliation to diminished status - other options are not available.
- 1961: first EC application.
- Joins EC in 1973 under Conservative government, with domestic elite and public opinion sharply split.
On accession, the UK quickly sought to re-negotiate its membership terms under Labour government. In-out referendum based on ‘new’ terms in 1975 called by the Labour Party. ‘In’ prevailed 67% with 64% turnout.

‘Battles’ of the 1980s and 1990s - the budget, CAP reform, the ‘social dimension’, and deepening of European integration

UK did much to advance differentiation and gained more opt-ins/opt outs than any other member state.

The UK blamed Brussels for decisions, general reluctance to accept the necessity of working within a quasi-federal system.
HOWEVER the UK was always:
1) to the fore in pressing the further opening of the internal market;
2) had a good record in implementing EU legislation;
Under Labour (1997-2010) the UK government pursued:

• A more positive approach to ‘Europe’

But:

Although ‘the mood’ was more positive, there were few specific policy differences with the preceding Conservative governments, other than signing up to the Social Chapter and co-pioneering the CSDP.
Between May 2010-May 2015, UK govt in coalition Cons/Liberal Democrat government.

‘Europe’ was the issue that divided these parties more than any other.

The Conservatives had to tone down their Eurosceptic inclinations as the price for LibDem support.

The Conservative ‘mainstream’ position favored EU membership, but on a restricted basis.
Prior to the 2016 referendum, the UK was in several respects viewed as being a quite ‘normal’ member state:

- advancing its own priorities
- to the fore in helping to develop important policy areas
- the ‘rise’ of other ‘awkward’ member states
- the increased use of differentiation in the EU
- part of the centre-right majority in the European Council/Council (although not in the European Parliament)
Prior to the referendum: Still an ‘Awkward Partner’? Failure to Lead?

The UK was still perceived as being the most Eurosceptic state because of:

- its stance on institutional/policy process issues
- its unwillingness to join the eurozone
- its remaining largely outside of Schengen
- its Lisbon Treaty opt ins/opt outs and its hopes for more
- its seeming inclination to ‘naturally’ back the US
- Eurosceptic-inspired actions of some national politicians
- domestic political opinion
The Referendum
Leavers and Remainers
The Road to the Referendum

- The Conservatives entered the 2015 May general election committed to holding a referendum on the UK’s continued membership of the EU.

- The referendum was held for domestic party political reasons: not because the Government wished to consult the British people.

The referendum question was:

‘Should the UK remain a member of the European Union or leave the European Union?’
The Referendum result, and explanations for it

The key, generally accepted, explanations for the result are a mixture of several factors:

- national identity issues
- migration
- Cameron’s inability to secure anything other than symbolic concessions in the negotiations that preceded the referendum
- the (vehemently pro-leave) role of the print media
- Jeremy Corbyn’s lacklustre campaign for Remain
- but there are also highly individualist reasons for one’s vote-e.g. ‘send the EU a message’
- Russian interference? (false information)
The Short-Term Consequences of the Referendum Outcome in the UK

David Cameron resigned and was replaced as Prime Minister by Theresa May. Her mantra became ‘Brexit means Brexit’.

- The prospect of a second vote on Scottish independence was enhanced.

- A heated debate ensued in the UK over: when to table Article 50 (it was tabled March 29, 2017); whether the tabling could be by the Government alone or whether it needed the authorisation of Parliament; what should be the UK’s negotiating aims.
Initial EU negotiating stances

• The EU appointed Michel Barnier as chief negotiator, who decided (with European Council approval) that the exit negotiations would, ideally, be divided into three phases:

*Phase 1*: core/red line matters (notably: citizens’ rights, the Irish border, the ‘divorce settlement’)

*Phase 2*: all other matters (notably, future trade relations)

*Phase 3*: ratifications (including by the EP)
EU-UK Negotiations
Future economic relationship

UK leaves the EU

UK red lines:
- No ECJ jurisdiction
- No free movement
- No substantial financial contribution
- Regulatory autonomy

UK red lines:
- No free movement
- No substantial financial contribution
- Regulatory autonomy

UK red lines:
- No ECJ jurisdiction
- Regulatory autonomy

UK red lines:
- Independent trade policy

ZOPA
May’s red lines produce CETA/South Korea-EU or no deal

No deal
Options for the UK

When actually 7 options could have been possible (with all sorts of variations within each). The desirability of each has, and is still being, vigorously disputed within the UK. These are listed in order of ‘hard Brexit’ to ‘no Brexit’:

1. No EU-UK agreement, with the fall-back position being use of WTO trading terms (Hard Brexit)

2. Canada Plus - modelled on CETA

3. Withdrawal Agreement (May’s Agreement) - includes an Irish Backstop and avoids hard Brexit by agreeing a transition/implementation period

4. Customs union + Single Market à la carte (Labour Party’s proposal)

5. Common Market 2.0 (Norway - EEA, temporary customs union)
   (EEA + permanent customs union

6. Norway Plus) (Softest Brexit)

7. Revoke Article 50, remain in EU and lead on differentiation (multispeed Europe)
Explaining the Five Options: Economic and Political Integration Model

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Removal of Internal Tariffs on Goods</th>
<th>Common External Tariff</th>
<th>Free Flow of Capital, Labor &amp; Services</th>
<th>Harmonization of Social &amp; Economic Policy (e.g. regulations, fiscal controls on member state budgets)</th>
<th>Single Currency &amp; Fiscal Federalism</th>
<th>Common foreign &amp; common defense policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization Type</td>
<td></td>
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<tr>
<td>Free Trade Area</td>
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<td>x</td>
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<tr>
<td>Customs Union</td>
<td></td>
<td></td>
<td>x</td>
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<tr>
<td>Common Market</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
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<tr>
<td>Economic Union</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Monetary Union</td>
<td></td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Political Union</td>
<td></td>
<td>x</td>
<td>x</td>
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</table>
May’s Agreement with the EU

On 25 November 2018, the EU and the UK signed two documents:

1) A legally binding withdrawal treaty to take effect on March 29 2019. It focuses on: a financial settlement; citizens’ rights post Brexit; no hard border in Ireland. An interim ‘transition or implementation’ period up to December 2020 (which can be extended 1-2 years by mutual consent) was created. The transition period is designed to give time for the UK and the EU to both adjust to the UK’s exit from the single market.
May’s Agreement - During the transition/implementation period the UK:

a) Keeps many existing arrangements with the EU in place
b) Continues to abide by existing and new EU rules (because it will have equal access to EU markets)
c) Will leave the EU’s institution, but subject to the CJEU (and thus be a ‘rule-taker’)
d) The four freedoms stay in place
e) Irish backstop - guarantees an open border between NI and the Republic of Ireland until a satisfactory arrangement can be found to comply with the 1998 Good Friday Agreement (EU red line)
   ‘Border in the Irish Sea’: NI’s Democratic Unionist Party (DUP) and Tory Brexiteers oppose because it will involve NI having different rules than the UK once the UK begins to transition out of the single market & NI will be subject to oversight by the European Commission & the CJEU. Brexiteers want the UK to be able to exit the backstop unilaterally.
f) UK would remain in the customs union until at least July 1, 2020
   (Brexiteers oppose: would prevent the UK from negotiating its own trade deals during this period)
g) UK will pay approximately £40 billion into the EU budget through at least the end of 2020.
2) A 26-page political declaration setting out a framework for future UK-EU relations.
   a) FTA and other sectoral arrangements of mutual interest
      *Why not join EFTA?* May argued the UK could negotiate its own trade deal with the EU on better terms than EFTA
   b) Undecided whether British citizens living in EU countries will be granted free movement.
   c) Fishing rights - undecided
   d) Joint UK-EU arbitration panel
   e) NI - technology & facilitation will be negotiated

These negotiations could take several years.
This would be modeled on the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU. It’s an historical agreement because it is a ‘behind the border’ agreement that includes:

- Ability to bid on public procurement contracts
- Access to services, but hundreds are excluded
- Financial services sector mainly about regulations rather than market access - expected to have little impact except over the long run for Canadian and European financial institutions to follow their customers into each other’s markets
- Geographic Indications
- Joint committee of Canada and EU reps, and specialist subcommittees which will discuss and advance areas of mutual recognition (especially important in automobile, pharmaceuticals, chemicals and the licensed professions)
- Investor-State Dispute Settlement (ISDS) arbitration panel
- Eliminates 98% of tariffs between Canada & the EU
Comparison of Trade

Canada-EU Trade

- 10% of Canada’s external trade with the EU
- 2% of EU’s external trade with Canada
- Total trade between EU & Canada is C$85b

Canada’s main trade with the EU is in precious stones & metals, machinery, mineral ores, mineral fuels & oils, aircraft parts, and pharmaceuticals (see slides on the economic relationship later in this slide deck)

UK-EU Trade

- 44% of UK’s exports with the EU (£274bn)
- 53% of UK imports are from the EU (£341bn)
- UK exports £27bn in financial services (out of £90bn in services exported to the EU). It will difficult to reach agreement on financial services because it’s an industry other EU member states are eager to eliminate UK competition.

- UK exports motor vehicles & parts largest sector, followed by chemicals - these are heavily regulated industries.
- Therefore, it is likely the UK will need to be a regulator ‘taker’ rather than ‘decider’.
Why CETA style agreement is inadequate for UK-EU trade relations

- Hard border between Northern Ireland (NI) and the Republic of Ireland
  - Rules of Origin (ROOs) - customs controls still needed (& lots of paperwork)
  - Technology not available to speed up customs checks - costly and many years to implement
Labor’s Proposal: Customs Union and Swiss à la carte single market (‘bespoke deal’)

Considered impractical on many grounds:

1. The Labour Party Manifesto claims the UK will be able to make its own trade deals with other countries, but trade experts suggest the EU will not agree to this if in customs union.

2. The UK will pick and choose which elements of the single market it would like to apply (e.g. social, consumer protection), without accepting free movement of persons. The Swiss were unable to get this deal.

3. Each time the EU adopts any change to EU law in an area, UK must adopt - rule taker.

4. Quite difficult to manage with various UK-EU panels comprised of experts from the various sector - civil service nightmare

5. The UK is not Switzerland - much more complicated to manage (and Swiss situation is already overly complex)
Common Market 2.0: European Single Market with temporary customs union

EU member states are also EEA members.
<table>
<thead>
<tr>
<th>Movement</th>
<th>Canada + (no transition period)</th>
<th>May’s Withdrawal Agreement (post transition period)</th>
<th>Customs Union + Swiss à la carte single mkt (Labour Party)</th>
<th>Common Mkt 2.0 (EEA or ‘Norway’) - customs union temporary</th>
<th>Norway + (Customs Union &amp; Single Market)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Movement</strong></td>
<td>Ends Free Movement of capital, goods, and persons. Customs checks</td>
<td>Ends Free Movement of capital, goods, and persons. Customs checks</td>
<td>CU: Brussels sets tariffs (CET). Swiss have had to accept free movement of persons as price for access to the single market.</td>
<td>Single Market. No customs checks, but must prove Rules of Origin in exporting goods to the EU and duties apply for non-EEA goods.</td>
<td>Customs Union (with EU) &amp; Single Market with EU (joins the EEA)</td>
</tr>
<tr>
<td><strong>Irish border</strong></td>
<td>Costly customs controls, ROOs, no technology exists to avoid hard border between NI &amp; ROI</td>
<td>Backstop - NI remains in the customs union &amp; single market until solution agreed</td>
<td>A concern - freedom of movement of goods only - other freedoms must be negotiated</td>
<td>Not an issue, see above</td>
<td>Not an issue, see above</td>
</tr>
<tr>
<td><strong>Regulations</strong></td>
<td>Mutual Recognition to be agreed in some sectors</td>
<td>MR to be agreed in some sectors</td>
<td>Swiss have become rule-takers</td>
<td>Rule taker</td>
<td>Rule taker</td>
</tr>
<tr>
<td><strong>Free trade</strong></td>
<td>UK negotiates its own PTAs, excluded from the some 56 PTAs the EU has negotiated. UK will need to redraft existing agreements with the WTO.</td>
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<td>EU’s Common Commercial Policy (CCP) is its external trade policy will be negotiated by the European Commission and UK represented by the EU in the WTO.</td>
<td>UK negotiates its own PTAs. Apply own tariffs on non-EU/EEA goods &amp; services and areas with negotiated exceptions (e.g. agriculture).</td>
<td>Same as customs union</td>
</tr>
<tr>
<td><strong>Arbitrators</strong></td>
<td>Investor-State Dispute Settlement, no CJEU</td>
<td>EU-UK arbitration panel</td>
<td>Panels of EU-UK authorities</td>
<td>Panels of EU-UK authorities or EEA in the event UK enters the EEA</td>
<td>Panels of EU-UK authorities</td>
</tr>
<tr>
<td><strong>Payment</strong></td>
<td>No contribution to EU budget</td>
<td>No contribution to EU budget</td>
<td>Customs duties to Brussels</td>
<td>VAT, GNI-based contribution, perhaps would be ½ of current</td>
<td>Customs duties to Brussels, VAT, GNI-based contribution, , perhaps</td>
</tr>
</tbody>
</table>
Impacts
The Government’s long-term economic analysis of exiting the EU, released in November 2018, showed that compared to the level of projected GDP if the UK stayed in the EU:

- 1.4% lower in 15 years if the UK joined the EEA*
- 4.9% lower under a conventional trade agreement
- 7.6% lower in a no-deal scenario (reverting to WTO rules)

*These projections are based on there being no UK-EU customs union, replication of EU international trade agreements with third countries that the UK is currently party to, and the successful negotiation of trade agreements with the USA, China and other leading economies.
Non-trade consequences of May’s deal for the UK

- Whatever the outcome of the trade negotiations, less favourable access to the internal market for UK-based firms will have damaging implications not only for trade but also for inward investment.

- Exclusion from EU decision-making forums, even in policy areas that the UK prefers to continue participating in: e.g., many aspects of the Area of Freedom, Security & Justice - Dublin regulation for the return of irregular migrants to the country they first entered & the European Arrest Warrant - the Common Foreign & Security Policy, and the Common European Defence Policy), the Galileo satellite programme
Global Britain? Political Fallout from Leavers?

Did Leavers vote for a ‘Global Britain’?

The UK should be...

- **Voted Leave**: Inward-looking 40%, Outward-looking 60%
- **Working class**: Inward-looking 50%, Outward-looking 50%
- **Aged 45+**: Inward-looking 50%, Outward-looking 50%

*Source: Global Future*
The US and the UK - the highest level of special? Or ‘awkward inbetweenner’?

- In a joint press conference with May and Trump (July 2018), Trump called the UK-US relationship ‘the highest level of special’

- UK will become more dependent on ‘the special relationship’, which may produce:
  - US insistence on opening up the UK market to hormone beef, GMO food, and US phytosanitary practices (SPS), and the employment of ‘scientific assessment’ rather than the EU’s ‘precautionary principle’ - this is already evident from the February 2019 publication from the Office of the US Trade Representative - US-UK negotiation objectives

- More pressure on the UK to increase defense spending. The US has (long) pressured the UK to spend more than the NATO minimum of 2% so that by 19/20 the budget is 2.13% of GDP (compared to 2.06% in 2015/16).
Impact on the US

Can the UK supply what the US wants?

• Can the UK provide the same quality of intelligence when it will no longer be involved in the EU. UK civil servants, politicians, and civil society interests will no longer attend the hundreds of meetings and groups conducting EU business.

• The US will need to rely more heavily on other EU member states for intelligence. There is something to the idea that the US is from Mars (hard power) and the EU is from Venus (soft power). The UK offers a mixture of both to the US.
New BFF of the US?

**Germany** has a ‘special relationship’ with Russia, making Germany a less reliable partner for the US.

**France** - can France replace the UK in terms of military leadership in the EU? France re-joined the NATO integrated military command structure in 2009 and has been demonstrating a willingness to use military force (Iraq, Syria, Libya, Mali). Can French and American intelligence operations become more integrated?

**Poland** - can Atlanticist Poland play the same role as the UK has in the EU as the Atlanticist ‘camp leader’?
Impact on the EU

- a reduction in the size of the internal market
- a reduction in the capacity of EU external policies
- a reduced international standing
- increased Euroscepticism among the EU-27? - the Brexit crisis in the UK has had the effect of diminishing Euroscepticism in other EU member states
- an increased decision-making capacity of the EU ‘inner core’? - the implication for Germany to exercise more power may raises concerns with other member states
What’s Next?
Brexit Timeline
Government seeks renegotiation

**EU renegotiates**
- Parliament vote on new deal
  - Passed
  - Renegotiated deal implemented

**EU refuses**
- Government reconsiders options
  - No deal
  - General election
  - Vote of no confidence
  - Referendum
  - Cancel Brexit
  - Further delay
Referendum options

A non-binding referendum, question to be determined

Amendment to hold a binding referendum on a deal or remaining in the EU

Legislation approved by Parliament

MPs back deal, subject to referendum results

Referendum held

Public backs deal

UK leaves EU

Public votes to remain

Government reconsiders options

No deal

General election

Vote of no confidence

Renegotiate

Cancel Brexit

Further delay
Government proposes election

Two-thirds of MPs approve

- General election

Fewer than two-thirds of MPs approve

- Government reconsiders options
  - No deal
  - Renegotiate
  - Vote of no confidence
  - Referendum
  - Cancel Brexit
  - Further delay
Vote of no confidence is called

**Government wins**

- Government presses on with plans

**Government loses**

- Is there a clear alternative government?
  - Yes → PM resigns, replacement appointed
  - No → Can any government win a confidence vote within 14 days?
    - Yes → No general election: New or old government continues
    - No → General election
Revoke, Remain, Reform?

The UK could have pursued differentiation from inside the EU. Many of the CEECs are Atlanticists and also seek more flexibility within the EU - they do not wish to be bound to AFSJ or EMU, for example.

Federal & Quasi-federal systems cannot function with ‘anything goes’ flexibility.

The UK could be a powerful voice from inside the EU to lead and shape differentiation. This road is still open for the UK if it chooses to accept this challenge and learn from its mistakes, but the damage to the British body politic caused by the 2016 referendum may have permanently closed this option.
GROUND CONTROL TO MAYBOT
CHANCES OF BREXIT TURNING OUT WELL:

- NONE
- NONE, BUT IN YELLOW
WE NEED IMMIGRANTS

... to dilute this gene pool.