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The Brexit process and its impact on EU policies and institutions

Since the EU membership referendum of 23 June 2016, the United Kingdom's withdrawal from the EU has generated considerable interest among both researchers and public servants. Literature on the consequences of Brexit started to surge even before the referendum, and the momentum continues to this day. A common feature of all these contributions is that they have been producing estimates without knowing anything about how the future relationship between the EU and the UK will exactly look like. Hence, their tendency to focus on some headline outcomes like an X or Y percentage fall in economic growth, household income, foreign trade or business investment by a given year (typically by 2030). These papers derive from the assumption that the UK will, under any scenario, inevitably suffer as a result of Brexit. They usually consider three different scenarios: a “soft” one (Norway or Swiss model); a “hard” one (a fall back to WTO terms); and a “semi-hard exit” lying somewhere in between the two extremes (Dhingra et al. 2016; Schoof et al. 2015).

Some early analyses of Brexit even contained guesses on both short- and long-term, the latter being devoted to the three above scenarios, while short-term guesses predicted economic uncertainties, holding back spending decisions and deterring FDI (Kierzenkowski et al. 2016). The least that can be said is that short-term guesses did not really come true. An illustrative example of the relationship between econometric models and reality was when the

* Centre for Economic and Regional Studies of Hungarian Academy of Sciences, Institute of World Economics, Research Group on European Integration, e-mail: somai.miklos@krtk.mta.hu.

Bank of England had to upgrade its forecasts for UK GDP growth for 2017 significantly for the second time in just six months, mainly due to resilience of consumer spending following the vote for Brexit. We can also bring up the analysis made by the Treasury in 2016 about the “immediate and profound shock” a mere vote to leave was to represent to the British economy, which has actually proved to be completely incorrect.

Another type of literature that has developed since the Brexit vote consists of sectoral analyses, the authors of which (much like those responsible for general analyses) know nothing about the nature of the future relationship between the EU and the UK. But since they are based on the worst-case scenario, they have at least the advantage of giving serious warnings to decision-makers about the risks that a no-deal scenario would entail. For example, these papers reveal that among value-chains car industry would be one of the industries to be most seriously damaged by the introduction of WTO-tariffs in trade with the EU. Interestingly, it is not the British car industry that would suffer the most, but the German one which, by putting 18,000 jobs at risk, “would see a sharp decline in its profits due to the pronounced sales slump in its premium brands” (Deloitte 2017). To mention another example, for the European meat industry a hard Brexit could “result in the loss of at least 32,000 jobs”. The UK being primarily a premium market, the magnitude of the shock could be much greater than the one caused by the Russian food import ban in 2014, as it would be more difficult to find alternative markets for the diverted products (UECBV 2017).

In a different approach, one can find that studies have first focused on the reasons and the outcome of the referendum, afterwards what would Brexit entail for the British economy as a whole, and finally sector-specific analyses. The area that has gained very little attention so far is the impact that the UK’s exit may possibly make on the EU’s institutions and policies. The aim of this study is to be a part of a remedy for this situation.

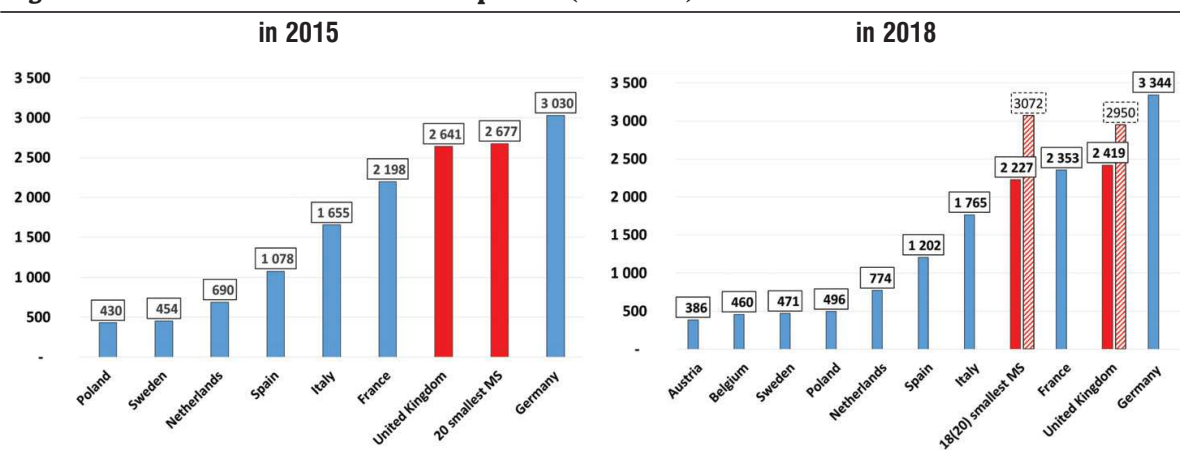
2.1. Brexit’s possible impact on the EU

Acknowledging that in order to assess the impact of Brexit on EU policies, “it is inadequate to simply take the UK out of the equation”, on the basis that

the behaviour of other actors will not change (de Ville, Siles-Brügge 2019), and given the fact that, at the time of writing this paper, there is yet no valid final agreement between the parties which creates a huge uncertainty surrounding the UK-EU future relationship (especially concerning trade), we are trying to draw some conclusions from facts, and facts alone.

According to the data for the year preceding the referendum (2015), the UK was the 5th largest economy in the world, and the second largest in the EU (IMF online). Brexit does not simply mean that one of the Member States (MS) has made use of the opportunity offered by Article 50 of the Lisbon Treaty, and kicked off the process of quitting the EU. It means that a country with an economic size equal to that of the smallest 18 to 20 MS wants to leave the integration (Figure 2.1). Although the situation has changed by 2018 – mostly because of the quick depreciation of the pound sterling vis-à-vis both the U.S. dollar and the Euro in the run-up to and following the referendum – the departure of the United Kingdom would still cause significant economic damage and downsizing for the European Union.

Figure 2.1. GDP at current market prices (EUR bn)



Source: Eurostat 2019a (the striped columns indicate UK GDP in 2018 calculated at pound euro exchange rate 2015, as compared to the GDP of the 20 smallest EU MS).

With Brexit, the balance of power among the main groups of MS, and consequently, the orientation of the common policies will certainly change. Trade policy, in particular, may shift towards protectionism. While, under the Council's qualified majority voting system, currently both liberal and protectionist groups of MS are able to block decision-making, in the future,

with the loss of the UK's vote, only the protectionist one will be able to continue to do so. Not only will this certainly affect Britain's future access to the single market, but it will also have implications on how liberal all of EU's future bilateral trade agreements with third countries would be. As one of the UK's main inputs to the European project has always been pushing for trade liberalization, it is feared that Brexit might make the EU less open (Booth et al. 2015).

The other main issue, apart from trade policy implications, is budget, i.e. how Brexit will affect the European budget (direct impact), and the common policies which are based on it (indirect impact). Even if some argue that "the financial savings for the UK would be negligible and the impact on Member States would be manageable" (Nunez-Ferrer, Rinaldi 2016), Brexit could have serious consequences for the EU finances. It should not be forgotten that the UK is the second largest net contributor to the common budget. Over the last 5 years (2014-2018), the UK's average annual net contribution (after rebate) was EUR 9.56 billion (author's own calculation based on Eurostat 2019b), representing circa one fifth of all net contributions and one fourth of the total of net benefits – i.e. that part of the redistributed resources that can be allocated to particular MS. This amount is close to EUR 67 billion when projected over the normal 7-year budget period of the EU.

Brexit's impact on EU policies can already be felt. The Commission's draft proposals concerning the next Multiannual Financial Framework (MFF) for 2021-2027, published in May 2018, are based on the assumption of a clean/hard Brexit – i.e. the UK not being part of either the customs union or the single market – and they do not include any contribution from the United Kingdom (European Commission 2018). In principle, there are two ways to make up for lost money – by cutting back expenditure on common policies or increasing MS contributions – and the draft proposals explore both. Spending on the two most important EU policies (agricultural and cohesion), which together currently account for more than 70% of the total, would be cut by 5% at current prices (i.e. approximately 15-20% in real terms). A change to make the less developed MS of the EU periphery unhappy, since so far they could easily make good use of such programs (unlike other kinds, like research and innovation). So, while the MFF negotiations are already difficult without taking Brexit into account, to make matters worse, the Commission (and the EP even more so) wants to increase the overall size of the budget. Nevertheless,

the Germans (who's natural allies in this field are the Austrians, the Danes, the Dutch and the Swedes) were quick to indicate that the Commission's proposal would cause their annual net balance vis-a-vis the EU budget to rise by an average of circa EUR 15 billion, which they thought would be unrealistic (Federal Ministry of Finance 2018). Certainly the distribution struggles within the EU-27 over both funds and charges are getting even fiercer (Becker 2019).

Concerning other consequences of the UK's withdrawal from the EU on European, policies and institutions we can mention that the European Medicines Agency has already been moved to Amsterdam and the European Banking Authority to Paris. Also, the Council presidency order had been revised (i.e. brought forward by six months) after the UK's decision to relinquish the Council presidency in the second half of 2017. Furthermore, without the ability to rely on Britain's military power, diplomatic network, intelligence capabilities and other soft power competencies EU's foreign policy would be less influential at the world stage. So, Brexit is likely to undermine the EU's prospect for becoming a leading global actor (Patel, Reh 2016). Finally, there is a risk of "contagion", a dread of Brussels' bureaucracy. Hence, their strategy to avoid the precedent of an easy withdrawal, lest other MS follow suit. This leads us to our other main topic, the Brexit negotiations.

2.2. Lessons from the negotiation process

The decision to leave the EU made by the British people in June 2016 had caused panic throughout the (economic-political-media-scholar/adviser) elites of both Britain and the EU27, as they felt that Brexit, whatever form it would take, was going to hurt their interests. In order to avoid such a scenario they started by launching a widespread campaign to frighten people with the likely negative consequences of Brexit well before the referendum.

Part of this strategy was to develop a Brexit-related narrative. The notions of "soft" and "hard" Brexit have been widely used in the media – but also in the institutional and scientific community – the former referring to a combination of maintaining single market (and/or customs union) membership with UK control on migration from the EU, while the latter meaning leaving without a deal and falling on WTO terms concerning the future trade relations. In

reality, it would be more accurate to call these scenarios as a “messy” or “clean” Brexit. A messy Brexit, apart from being totally unacceptable to the EU – as undermining the core principle of indivisibility of the four freedoms – would mean that the UK law remains under the jurisdiction of the European court of Justice, billions in annual payments to the common budget continue, and practically no meaningful trade agreements with third countries can be concluded. And, to crown it all, the UK would have no say in the future of the EU policies, rules and regulations. On the contrary, under a clean Brexit, the UK would regain control over laws, borders and money, and also the ability to conclude free trade agreements with third countries, including the EU (Halligan, Lyons 2018).

The negotiations followed the agenda set by the EU, first discussing issues which were of importance to the EU (citizens’ rights, Irish border, financial settlement). In other words, the British were to accept paying the EUR 45 billion exit check without even knowing what market access they would get in return. Even worse was the artificial magnification of the importance of the Irish border issue, which has become a trap: either Northern Ireland (or the UK as a whole) would remain in the EU customs union, or the permeability of the land border between Northern Ireland and the Republic of Ireland, and hence the peace process, would be jeopardized.

Subsequent delays in the Brexit process were eventually caused by a split within the Conservative Party, when a growing number of ministers (two of them chief negotiators) had realized they had been bypassed by the Prime Minister in her consultations with the European Commission. The deal brought home from Brussels by the May government has then been rejected three times by the House of Commons (on 15 January 2019, on 12 March 2019, and on 29 March 2019), especially because of the unacceptability of the so-called backstop arrangements. The arrangements were to come into force in the absence of a trade deal at the end of the transition period and would have created a single EU-UK customs territory from which the UK could not have withdrawn unilaterally (see Article 20 of the Irish Protocol). The absence of a clause allowing withdrawal on notice is unprecedented in trade treaties (Howe 2018). Indeed, the original protocol would have resulted in a trap: if there is no agreement, the UK could have remained indefinitely in the EU customs union which would have prevented her from benefiting from one of Brexit’s most important benefits, i.e. to conclude mutually beneficial bilateral

trade agreements with third countries. Although the Johnson government, which replaced the May government in mid-July 2019, has, in this respect, significantly improved the deal, the uncertainty surrounding the Brexit process, especially the EU-UK future trade relations, has not yet disappeared.

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The foundation of democracy is that the minority accepts to be ruled by the majority. The real problem with Brexit is that politicians and the establishment in general (both in the UK and the EU) have never accepted the verdict of the British people in the referendum. So far, they have done everything to frustrate, stop, reverse, or at least slow down the process.

The 2016 referendum on Brexit had the largest popular vote ever (17.4 million people voted to leave) in the UK. The constituency make-up of votes – 406 Leave constituencies versus 224 Remain constituencies – was even more astonishing. If this had been a General Election, a majority of 164 would have emerged, meaning a very strong government, like the first two Blair Governments were (majorities of 179, 167) and not rivalled by any other since World War 2 (Llewelyn 2019).

In the UK Parliament, however, Remainers have always outnumbered Leavers – just as in publicly broadcasted debates Europhiles have always outnumbered Eurosceptic panelists¹. In today's Britain, Brexit is no longer about whether it is worth leaving the EU, but about restoring democracy. For the sake of both the UK and the EU, the best would be to compromise on a real, mutually advantageous deal on future trade relations.

Abstract

The present paper focuses on two main areas: first, it seeks to assess the impact of British withdrawal on various common policies (like trade policy and common budget) and institutions; second, it draws attention to the fact that the way in which Article 50 negotiations were conducted in itself provides a great deal of insight into

¹ An analysis of the composition of panels for two key BBC programmes (*Any Questions* and *Question Time*) found that Leave supporters had been greatly under-represented in the period from June 2016 to December 2017. Balancing on the basis of whether panellists voted for Leave or Remain, both programmes favoured Remain by about 68% to 32% (IEA 2018).

the very functioning of today's EU. The process suffers from a multitude of problems which have largely contributed to the fact that criticisms about the EU proved to be justified in the eyes of a significant part of the British society, ever more determined to quit. Against this background, the future of the EU depends, to a large extent, on the ability to draw the right lessons from Brexit and find the best ways to move forward.

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