

Brexit

Brexit: the End Game



presentation by

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Motu Public Policy Seminar

5th December 2018

Wellington



What then?



Cameron

Tries to renegotiate membership arrangement



PM Cameron's (weak) deal

Sovereignty

- *It is recognised that the United Kingdom, in the light of the specific situation it has under the Treaties, is not committed to further political integration into the European Union*

Migrants and welfare benefits

- *four-year "emergency brake" on in-work benefits - and for new arrivals tax credits phased in over four years.*

Safeguarding interests of countries outside the eurozone

- *countries outside the eurozone, such as Britain, not required to fund euro bailouts but ... The single rulebook is to be applied to ensure the level-playing field within the internal market.*

Competitiveness

- *where feasible burden reduction targets in key sectors, with commitments by EU institutions and Member States.*

Basis underpinning Referendum BUT almost ignored as question was not "do you back this deal" rather "Should the United Kingdom remain a member of the European Union or leave the European Union?"

Cameron

Tries to renegotiate membership arrangement

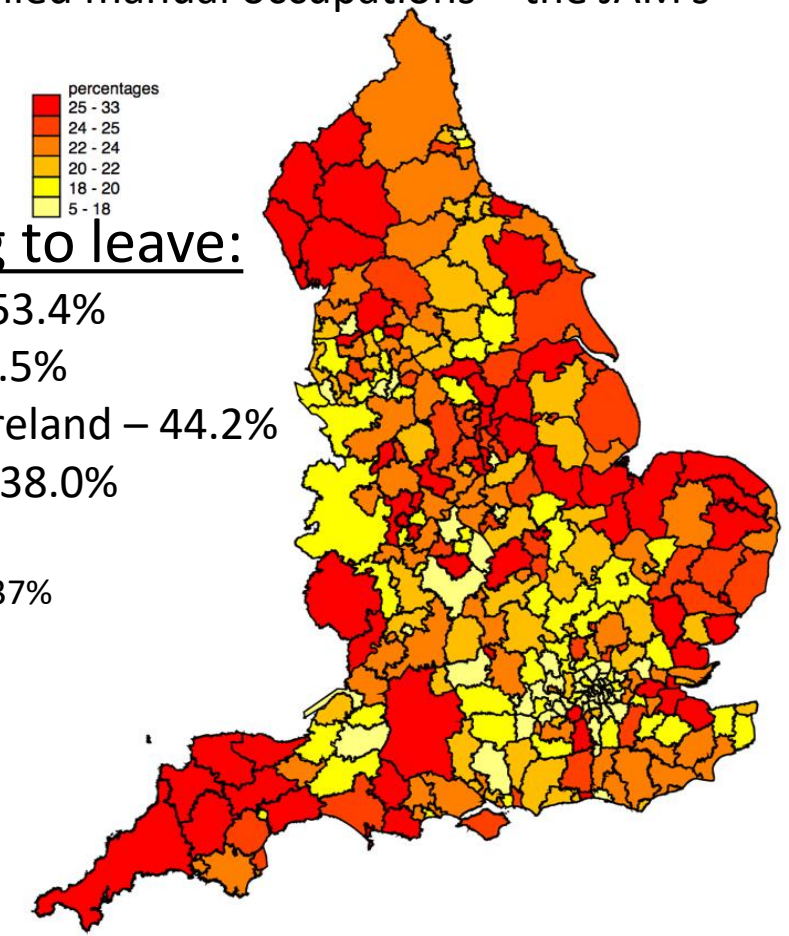
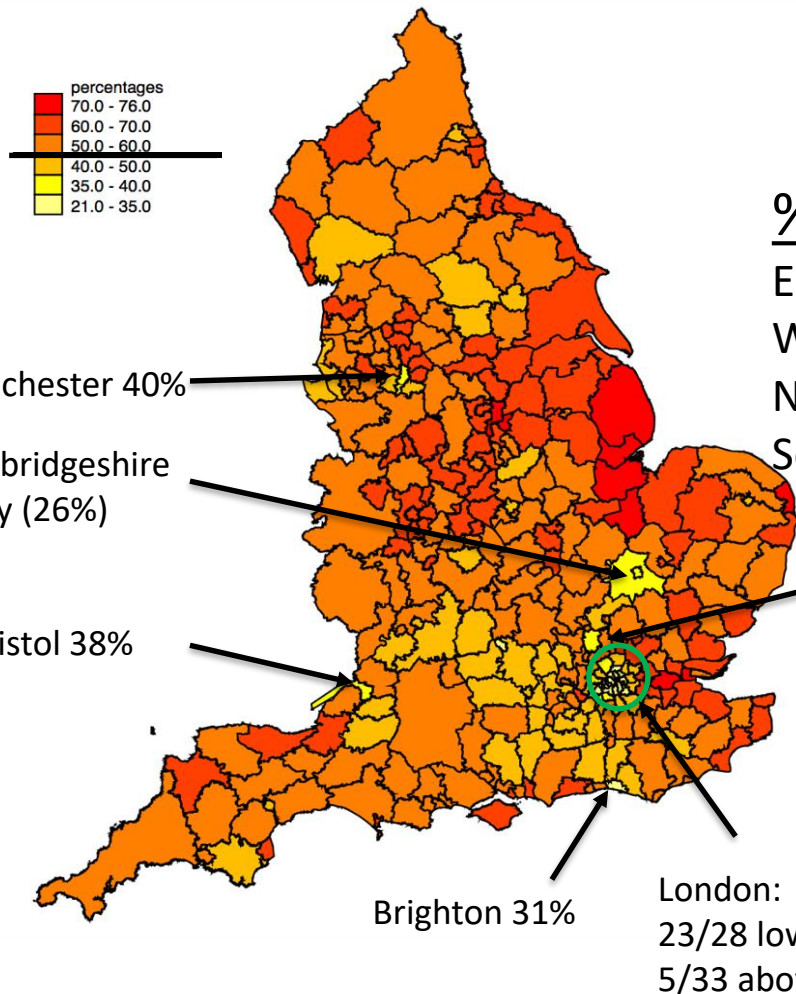
Britain votes 52/48 to Leave



Who voted to leave (and why)?

% voting to leave EU

% skilled manual occupations – the JAM's



% voting to leave:
England – 53.4%
Wales – 52.5%
Northern Ireland – 44.2%
Scotland – 38.0%

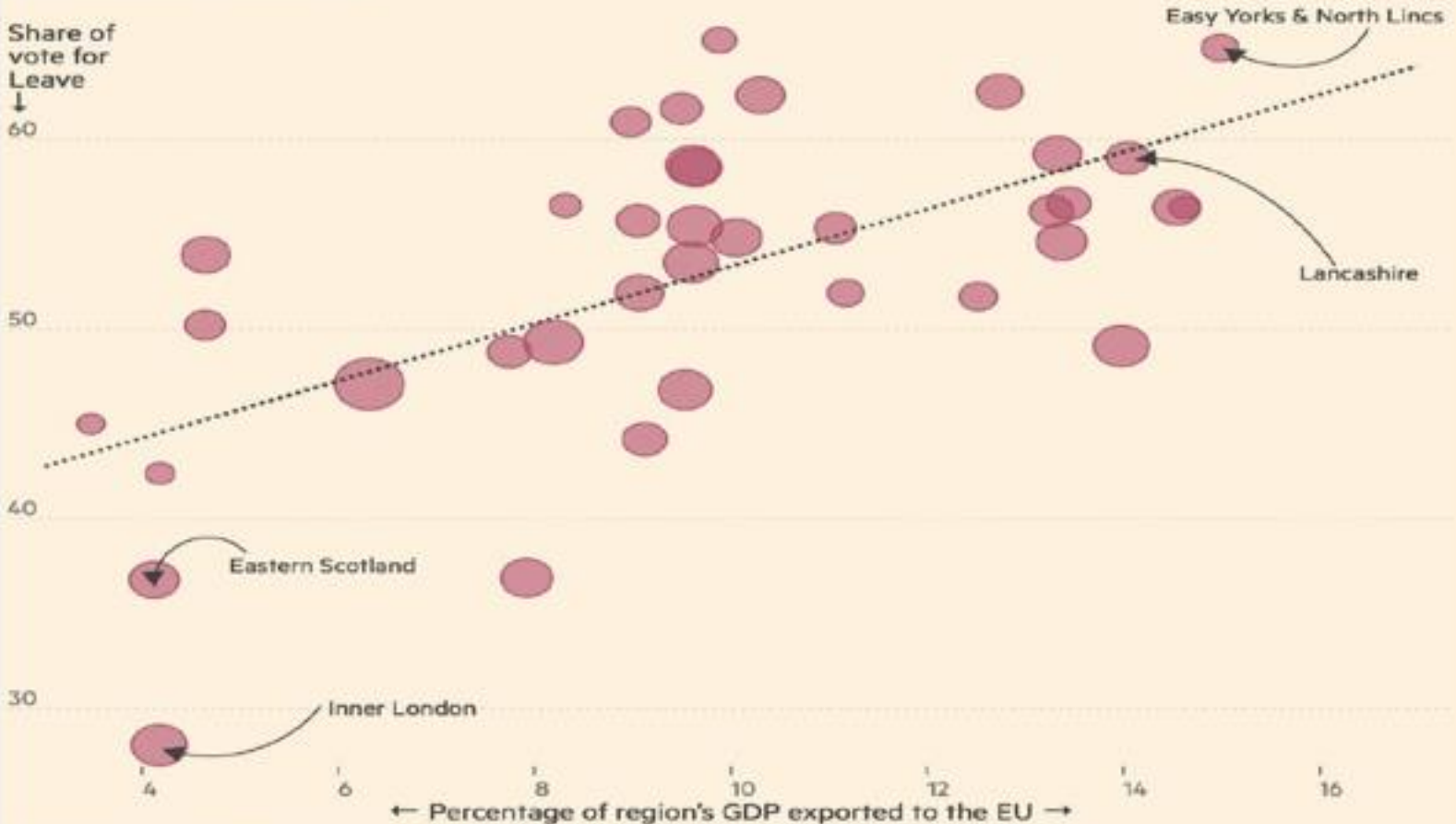
St. Albans 37%

Correlation: 0.70

Who will suffer most?

Leave vote was strongest in regions most economically dependent on EU

The regions with the highest share of votes for Leave also tend to be the most economically intertwined with the EU. A higher percentage of East Yorkshire & Northern Lincolnshire's economic output is sold to other EU countries than is the case for any other UK region, yet 65 per cent of its electorate voted to Leave



Referendum results: Press Association
EU trade research: John Springford, Phillip McCann, Bart Los and Mark Thissen
Graphic by John Burn-Murdoch / @jburnmurdoch

Cameron

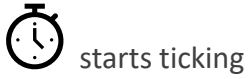
Tries to renegotiate membership arrangement

Britain votes 52/48 to Leave



Article 50 invoked

Britain to leave EU on 29th March 2019



10 DOWNING STREET
LONDON SW1A 1AA

THE PRIME MINISTER

29 March 2017

Dear President Tusk

On 23 June last year, the people of the United Kingdom voted to leave the European Union. As I have said before, that decision was no rejection of the values we share as fellow Europeans. Nor was it an attempt to do harm to the European Union or any of the remaining member states. On the contrary, the United Kingdom wants the European Union to succeed and prosper. Instead, the referendum was a vote to restore, as we see it, our national self-determination. We are leaving the European Union, but we are not leaving Europe – and we want to remain committed partners and allies to our friends across the continent.

Earlier this month, the United Kingdom Parliament confirmed the result of the referendum by voting with clear and convincing majorities in both of its Houses for the European Union (Notification of Withdrawal) Bill. The Bill was passed by Parliament on 13 March and it received Royal Assent from Her Majesty The Queen and became an Act of Parliament on 16 March.

Today, therefore, I am writing to give effect to the democratic decision of the people of the United Kingdom. I hereby notify the European Council in accordance with Article 50(2) of the Treaty on European Union of the United Kingdom's intention to withdraw from the European Union. In addition, in accordance with the same Article 50(2) as applied by Article 106a of the Treaty Establishing the European Atomic Energy Community, I hereby notify the European Council of the United Kingdom's intention to withdraw from the European Atomic Energy Community. References in this letter to the European Union should therefore be taken to include a reference to the European Atomic Energy Community.

Article 50 process

- Article 50 invoked end March 2017
 - UK leaves the EU end of March 2019
- EU has ***consistently*** had a two-stage approach:
 1. Negotiating a post-March 2019 transition period of some 2 years involving: 'Divorce' bill; Northern Ireland Border; EU citizens rights; trade and EU laws
 2. Trade and Customs arrangements but only after (1) is concluded
- Withdrawal Agreement (November 2018) was mostly about (1)
 - But UK consistently stalled on (1) and wanted to get straight into (2)
 - caused consternation and confusion in UK and EU
- Light weight political declaration (November 2018) is more about (2)
 - But although high on aspiration, low on specifics, it could have major influence on how MPs vote on December 11th

Matters for Withdrawal Settlement

- Divorce Bill:

- In late 2017, FT thought:

- the EU exit bill to require Britain to cover at least its commitments under the long-term budget... **That would take the total to €64bn in gross terms and €40bn net.**

- In event they were right and its hardly caused a stir!



- EU citizens rights

- Both parties wanted existing EU nationals in UK to maintain rights (agreed 2018); UK wanted end to free movement of labour (agreed but maybe privileged rights for EU citizens - part of stage 2 negotiation?)

- NI-Irish border

- As expected it has turned out probably biggest issue

- EU wanted no customs border with 



- Role of European Court of Justice

- UK wanted to end jurisdiction (get back “our independence”)



Cameron

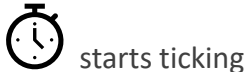
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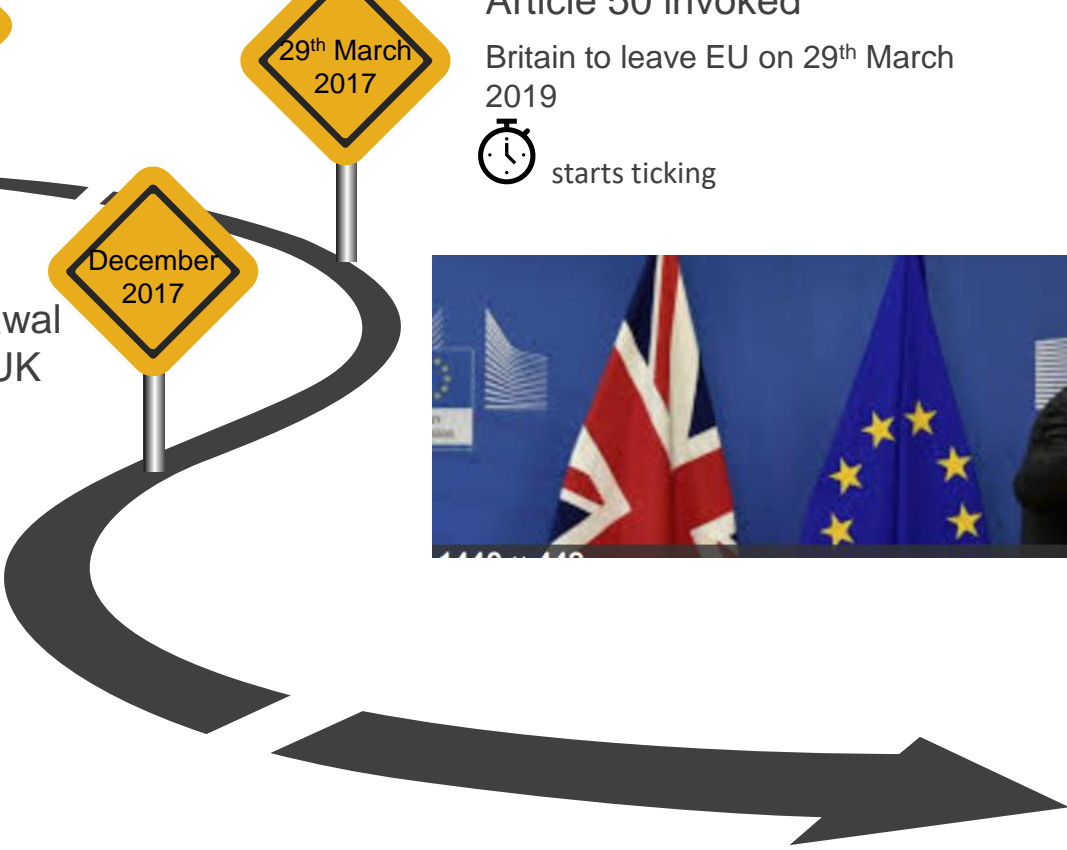
Article 50 invoked

Britain to leave EU on 29th March 2019



Principles for Withdrawal agreed between EU/UK

Agreed Northern Ireland backstop



Principles for Withdrawal Agreement between EU/UK

“

In the absence of agreed solutions, **the United Kingdom will maintain full alignment** with those rules of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation, the all-island economy and the protection of the 1998 Agreement.”

- On 8th December 2017 UK Government agreed to the ‘backstop’ which when ‘fleshed-out’ in November 2018 meant:
 - If after the transition period (during which UK remains in Single Market and Customs Union), there is no trade deal:
 - UK remains in EU Customs Union
 - No tariffs on goods trade
 - UK unable to set tariffs from other countries lower than the EUs
 - Northern Ireland to stay aligned to some rules of EU Single Market
 - So goods coming into NI need checking (so-called ‘border’ in Irish Sea)

Cameron

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🕒 starts ticking

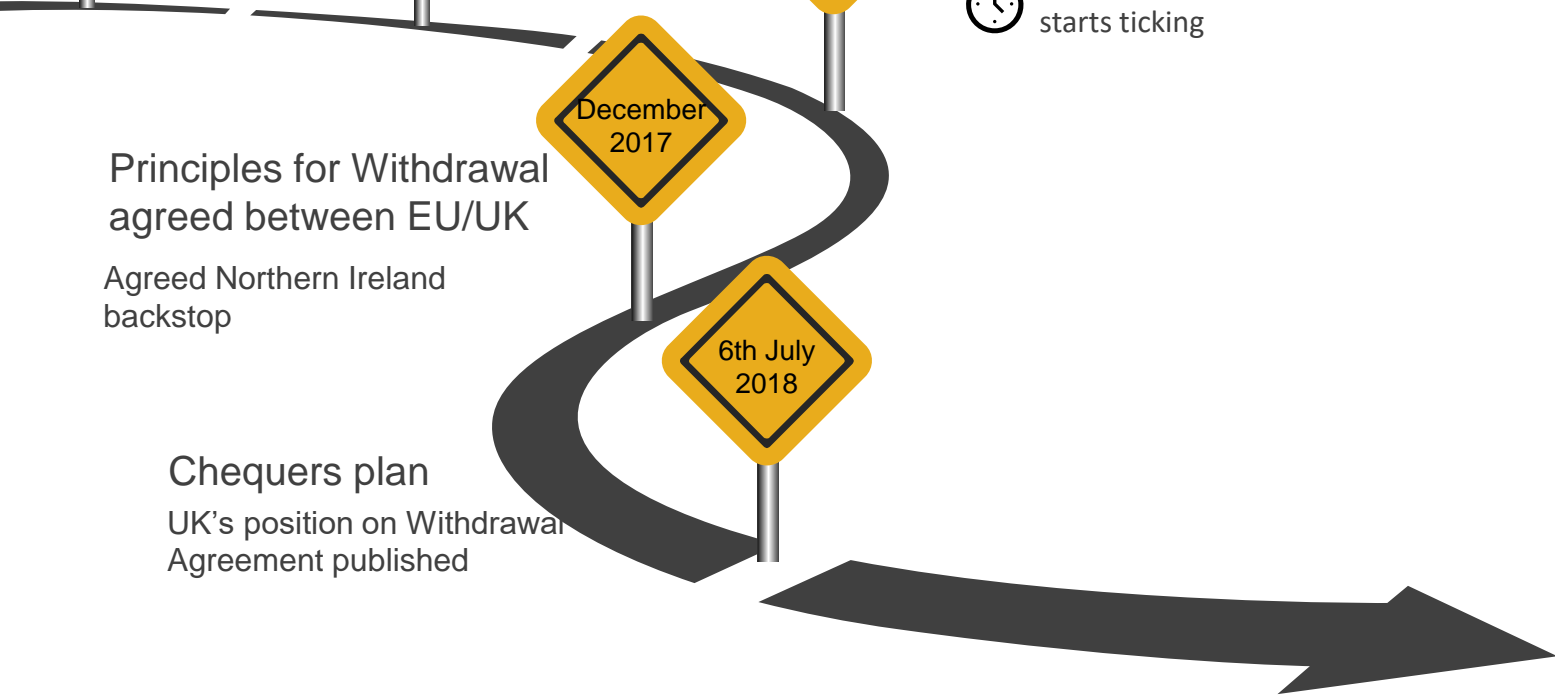


Principles for Withdrawal agreed between EU/UK

Agreed Northern Ireland backstop

Chequers plan

UK's position on Withdrawal Agreement published



Chequers Plan



- PM's September 2017 position (Florence speech):
 - Leave Single Market
 - Regain control over law-making, migration, and end budget payments
 - Leave Customs Union
 - CU prevents UK from negotiating own trade agreements with other countries
- Poor reception in Brussels and not compatible with 'backstop' agreed in December 2017.
- Main outcome of Chequers plan involved **major compromises** to get EU to agree to a new approach to trade that:
 - Gives UK 'frictionless' trade in goods
 - Effectively a Customs Union with EU
 - But with UK free to strike trade deals with other countries
 - Collect tariffs for EU for goods destined to continent
 - On services allow access to EU market
 - Where EU judges UK's regulatory regime is "equivalent"
 - Avoids hard border in Northern Ireland
 - UK to sign up to "common rule book"
 - Covering product standards, EU customs code, 'rules of origin', State aid issues
 - » All goods entering UK would have to meet EU standards
 - » ECJ to have a role in policing rule book
 - » Effectively regulatory alignment with the Single Market



Objections to Chequers



- From EU
 - Frictionless trade only possible in Single Market & Customs Unions
 - Not going to allow ‘cherry-picking’ – privileged access without obligations of free movement of people, full regulatory alignment (adjudicated by ECJ)
 - Not going to delegate the application of its customs policy to non-member
 - Anyway too complicated
- From Brexiteers
 - Abandonment of leaving SM and CU
 - Vassalage to EU
 - Following rule book
 - Role of ECJ
 - Cannot pursue truly independent free trade policy
 - No role in setting policy/rules

Going forward, assuming acceptance of Withdrawal Agreement, these issues are unresolved and will not ‘go away’

- Will determine both the pace and the outcome of post-March 2019 negotiations

Cameron

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Chequers plan

UK's position on Withdrawal Agreement published

Withdrawal Agreement ratified at EU Summit



Withdrawal Agreement


- Central issue is the ‘backstop’
 - If after the transition period (when UK remains in Single Market and Customs Union), there is no trade deal:
 - UK remains in EU Customs Union
 - No tariffs on goods trade
 - UK unable to set tariffs from other countries lower than the EUs
 - Northern Ireland to stay aligned to some rules of EU Single Market
 - So goods coming into NI need checking (so-called ‘border’ in Irish Sea)
- If backstop invoked
 - UK cannot unilaterally withdraw from it without EU consent
- PM says it won’t apply as a trade deal can be done
 - In 2 years?
 - Given the objections to Chequers?
 - Big constitutional issues around Northern Ireland being treated differently to Great Britain
 - Scotland would like the same deal?

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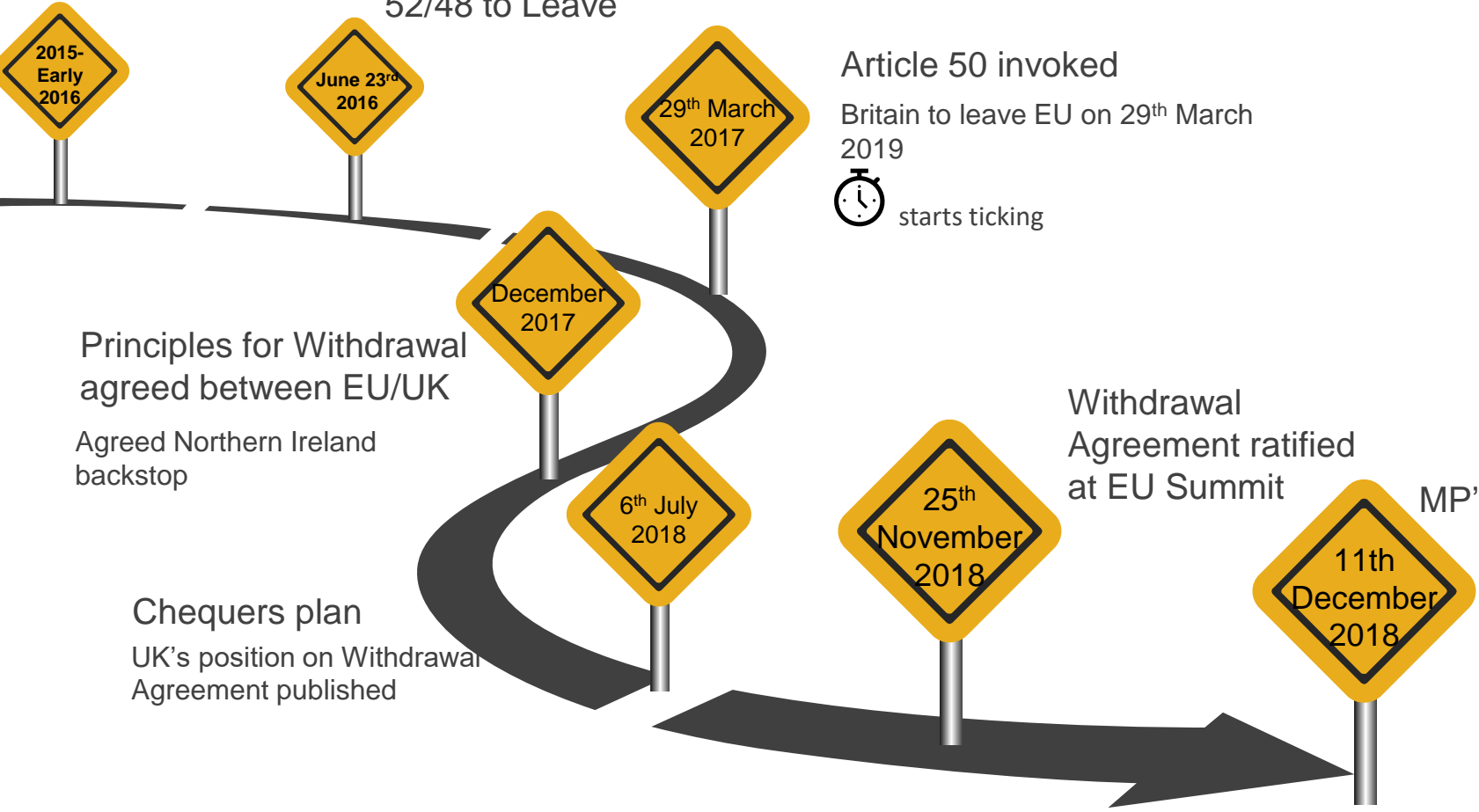
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Chequers plan

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Withdrawal Agreement ratified at EU Summit

MP's Vote



Vote by MPs on 11 December



- PM has held firm
 - Arguing deal is best we can get

	Party	Seats
• EU will	Conservative	315
• She has	Labour	257
– Taki	Scottish National Party	35
– End	Liberal Democrat	12
– taki	Democratic Unionist Party	10
• Part of	Independent	8
– "We	Sinn Féin	7
mo	Plaid Cymru	4
– "It r	Green Party	1
'Re	Speaker	1
– "To	Total number of seats	650
dea	Working Government Majority *	0
– Seems un		
• Over 10		
• Labour		
• DUP is c		
• SNP is opposed		

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d this
vote 'no'

What then?

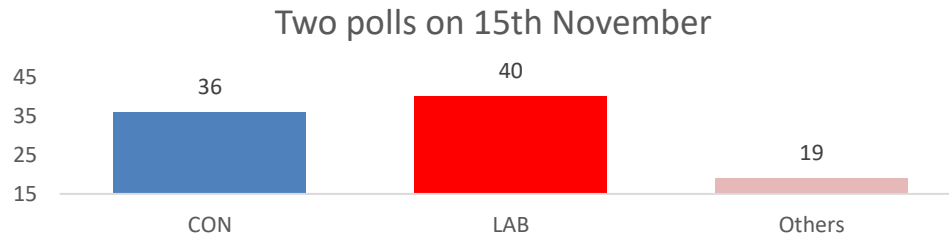


Three scenarios if withdrawal voted down

- No-deal Brexit
 - 28th November both HM Treasury and Bank of England set out consequences
 - Supermarkets may run out of fresh food; lorry delays; medicines run out.



- Snap General Election



- A second referendum (People's Vote)



How Brexit will affect UK growth

Figures estimate impact on GDP 15 years after the UK leaves the EU



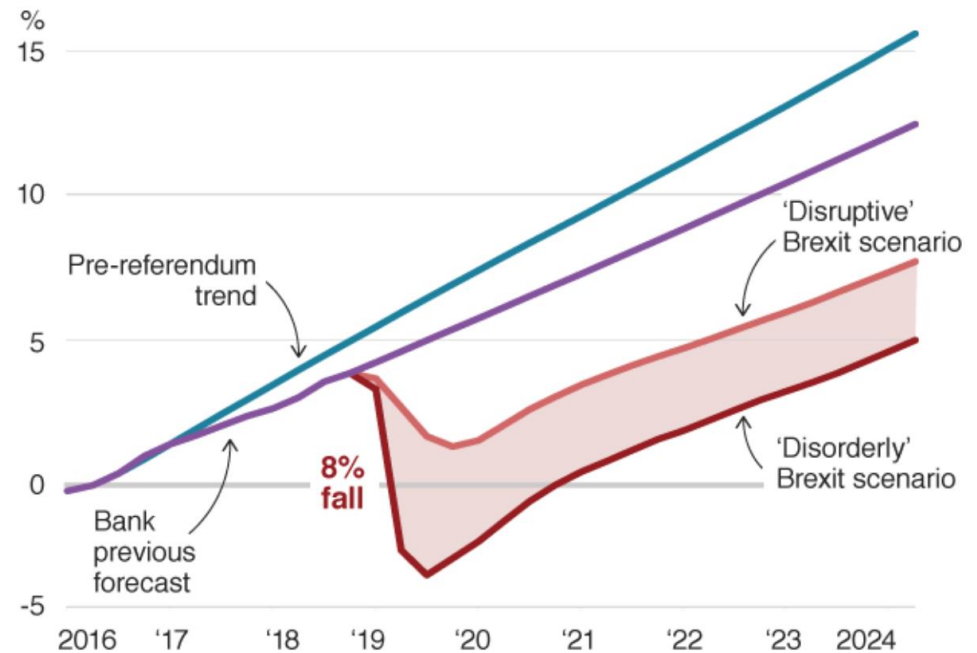
Note: Each scenario has a range of outcomes, these figures show the middle point assuming 100% reduction in migration.

Source: Office for National Statistics, Bank of England

BBC

What does the Bank think could happen to UK growth?

UK GDP under different scenarios



Source: Bank of England

BBC

HMT:

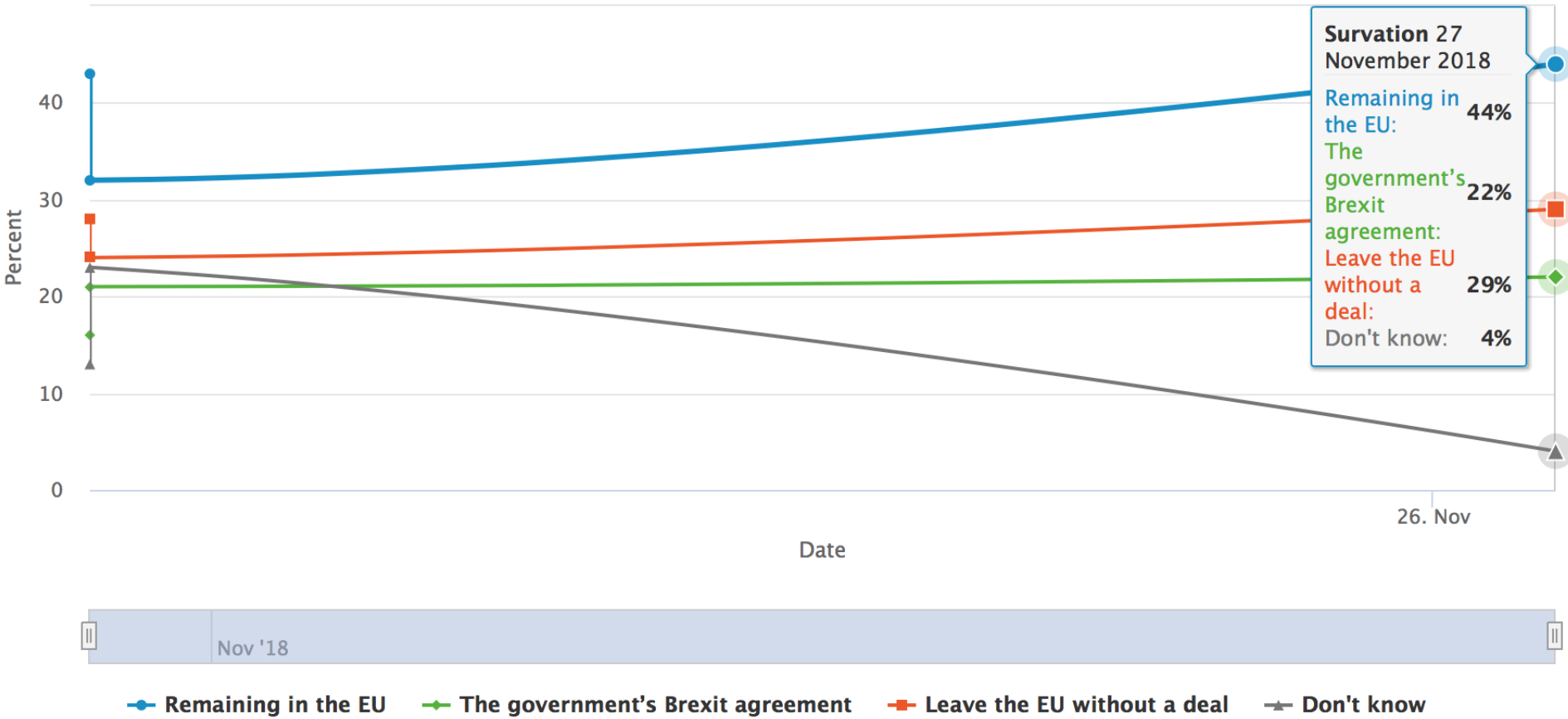
- Similar on no-deal
- Note, no advantages to Brexit under any scenario



Disorderly (no-deal) means in 2019:

- GDP falls 8%
- House prices fall 30%
- Unemployment 4.1% → 7.5%
- £ down 25%; inflation up to 6.5%

From 15/11/2018 To 27/11/2018



Source: NatCen Social Research



If I were a betting person:

- No deal Brexit is PM's fall-back and MP's likely would never be forgiven
- Snap General Election
 - Conservatives loose and Corbyn PM: Labour says it wants to stay in "a" customs union, and stay as close to the single market as possible (Brexit all but doesn't happen)
- People's Referendum
 - Hard to see how this is triggered
 - If amendment added to 11th December motion could fail and this option likely a 'once-only' chance
 - If happened could be major political instability

So

MP's by narrowest of margins vote for Withdrawal Agreement





Thank you

Asian markets hit by Brexit vote

At close, June 24

