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Brexit: Triggering Article 50 The EU without the UK and the UK without the EU

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As the 60th anniversary of the Treaty of Rome approaches, UK Prime Minister Theresa May has confirmed she will trigger Article 50 by the end of March and begin Britain's formal process of exiting from the European Union (EU) - a move which has now received Parliamentary approval. Questions arise about what the UK will look like without 'Europe' and vice versa.

Brexit timetable

Mrs May will trigger Article 50 in the next few weeks - starting a process that must be completed within two years. Marine Le Pen's unlikely election in France's presidential elections would undermine all predictions and timelines, though potential delays caused by lengthy coalition negotiations following Dutch and German elections have been overstated. Lead EU negotiator Michel Barnier and UK representatives would likely continue discussions regardless. Realistically negotiations must be concluded in 18 months as results must be put before the European Council, the European Parliament, the UK Parliament and possibly national parliaments before March 2019. Efficiency will mainly be determined by whether negotiations over Britain's exit and over future relations with Europe can be carried out simultaneously rather than consecutively.

UK negotiating strategy

The UK will seek an arrangement akin to a no-fault divorce arrangement with minimal further financial implications beyond division of assets. Beyond that, it will pursue a single comprehensive free trade agreement covering goods and services leading to autonomy over migration issues, leaving Court of Justice of the European Union jurisdiction and tariff-free single market access. The UK will aim for minimising the further interim period for dealing with unsettled issues after March 2019 to two years. Achieving any of these is highly unlikely. Red lines include repatriating migration policy and leaving CJEU jurisdiction – the latter complicated by the need to police any potential free trade area.

EU negotiating position

Member states, the European Parliament and the Commission will all have different perspectives – leading to an absence of coherent strategy or red lines. Unanimity will not be required for the Article 50 deal as ratification will be by qualified majority voting. Many are in favour of an amicable deal though not to the extent that would leave the UK in a better position than before. Internal market access will likely not be permitted without preserving the key principles of freedom of movement and CJEU authority. As yet, it is impossible to see how the parties' incompatible positions can be bridged. Negotiations will exceed 18 months and Britain could leave without any deal.

Critical dimensions of a possible 'hard' Brexit

Single market access will be complicated by tariffs, regulations, rules of origin and the loss of the passporting system. Both service and manufacturing industry futures look dubious. Creating a flexible economy, comparable to Singapore, following a hard Brexit, would require fundamental restructuring around different service and manufacturing industries. Workforce retraining, portable employment rights and high levels of private investment will be necessary. Corporate

and income tax rates would be low requiring budgetary cuts and deregulation – the consequences of which could be severe. Brexit voters – older and unskilled workers – would likely be hurt most. Skilled, university-educated and young workers would be most in demand and likely be located in London and the South-East. Remaining unskilled jobs would be the ones currently occupied by immigrants – such as farm work and social care. Current low productivity rates could only be improved through increasing research in industries of the future such as robotics and biochemistry. One possible model would reward productivity with higher pay and cut welfare – forcing unskilled workers back into the labour market. A hard Brexit would ultimately lead to greater globalisation despite the wishes of many of its supporters.

A ‘messy’ middle ground Brexit is more likely – where a broad and vague interim framework allows for different sectors to move at different paces. United States policy on tax reform and financial deregulation could affect private investment in the UK and cause some institutions to move from London to New York.

Q & A Session

Future UK passporting access

UK sectors will only retain passporting in the unlikely event of continued European control of the financial sector where it is subject to EU regulations and law. Regulatory offshoring of the City of London is economically attractive but politically unfeasible. Regulatory equivalence as it currently exists would be a dissatisfactory alternative with consequences for City of London sectors such as investment banking.

City of London future

Future regulatory frameworks and US policy will affect the City of London’s future. Euro-clearing mechanisms and the Eurobond trade sectors are most likely to leave while questions around the continued presence of foreign banks remain. Financial-related sectors such as consultancy and legal services may also consider moving – particularly in the event of a hard Brexit.

EU Reform

Desirable reform efforts will likely face challenges in the wake of Brexit and the rise of populism on the continent – whether in relation to budget integration, political integration, a 2-speed union or rebalancing institutional power. Tensions will also continue with some member states in favour of repatriation of power – though their position is significantly weakened by the loss of the UK. Economic integration would be facilitated if it was led by Germany – though the extent of political will to do so is unclear.

Scottish independence and Irish re-unification

Brexit has materially improved the prospects of Scottish independence by providing an intellectually plausible reason for a second referendum and potentially greater chance of success. Prime Minister Theresa May will likely allow it but only after Brexit in 2019. She may attempt to separate the independence narrative from the Brexit one – in which case the oil industry and flailing Scottish Labour Party will be central issues. Trade dependence on the rest of the UK may provide an economic argument against independence. Potential Scottish EU accession could be complicated by member states’ own separatist fears.

Irish re-unification would require majority support in Northern Ireland, which is unlikely in the near future given current demographics. Brexit will challenge the interdependence of the economies and reducing the openness of the borders will lead to administrative inconvenience at a minimum. Despite this, the dynamics for collaboration in the Northern Ireland peace process remain strong.

EU nationals in the UK and UK nationals in the EU

Ensuring rights for EU nationals in the UK is ostensibly at odds with the government's commitment to ending uncontrolled immigration. Economic dependence on resident EU citizens and human rights concerns will likely mean the issue will be resolved – the government have already stated it is a high priority.

Risks for small and medium enterprises

Brexit could be especially harmful for SMEs due to their dependence on cheap skilled immigrant labour. Sectors particularly affected include catering, manufacturing and agriculture industries. Growing sectors, such as hospice care and cleaning, surrounding an aging population are notably occupied by certain immigrant groups. It is unclear how this labour gap will be filled post-Brexit.

Post-Brexit investment in human capital and research

The government may encourage technological development outside the South-East and focus on positioning the UK as a global leader in disruptive technologies and machine learning rather than attempt to retrain the labour force in a short time period.

Defence cooperation and NATO

Brexit will not have a significant impact on NATO in the near future. Britain may wish to emphasise its loyalty as a European state to NATO and business and commercial interests may operate differently. NATO faces bigger challenges from international aggression and uncertain US support.

Early general election and referendum

Prospects of an early general election are minimal – Theresa May's position is strong despite her slim parliamentary majority due to the weak state of the opposing Labour Party. Anticipation of electoral troubles down the line due to negotiation stagnation could cause May to change her mind – though repeal of the Fixed Term Parliament Act would be necessary.

Another referendum on the final Brexit deal is unlikely though circumstances could change if it becomes clear that Brexit under the negotiated terms will lead to disaster.