



## THE UNITED KINGDOM'S DEPARTURE FROM THE EU: THE LATEST DEVELOPMENTS

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This regular paper produced by SPICe sets out developments in the UK's negotiations to leave the European Union which are expected to formally begin early in 2017.

Ahead of the UK Government's triggering of Article 50, the updates will provide information on the UK Government's approach to leaving the EU, along with details of the Scottish Government and the other Devolved Administrations positions. The updates will also provide information on developments within the EU with regard to the UK's departure. Finally the update will provide information on the key issues likely to be at play during the negotiations and in developing the UK's future relationship with the European Union.

As was clear during the referendum campaign and since the decision to leave the EU was taken, there is an abundance of information and analysis available, and this SPICe paper will try to cover the key issues by drawing on that information and analysis. This week's update includes a timeline of the key European events which may affect the route to Brexit along with details of the President of the European Parliament's visit to London.

### Timeline to Brexit?

Following a recent intervention from former European Council President Herman Van Rompuy, suggesting that [Substantive Brexit talks between the UK and the rest of the EU are unlikely to start much before the end of 2017](#) due to the French and German elections, it might be helpful to set out a timeline of upcoming European events which may have an effect on the UK's negotiations to leave the EU.

**Early 2017** – Theresa May has stated that the United Kingdom will not trigger Article 50 before the start of 2017. The current European Council President, Donald Tusk suggested last week that the Prime Minister had indicated that it was "[quite likely](#)" the UK would trigger Article 50 in January or February 2017.

Once Article 50 is triggered the UK has two years to negotiate its departure (unless it is unanimously agreed to extend this timeframe). If there is no agreement of the terms of departure and no agreement on extending the timeframe the UK will leave automatically at the end of the two year period.

**March 2017** – The Netherlands Parliamentary election is due to take place in March 2017. Current polling indicates that Geert Wilders, leader of the far-right PVV party could do well, and if his party wins the most seats its likely he'd call a referendum on the Netherlands future in the EU. [According to EJ Insight:](#)

"The next general election of the Netherlands is scheduled for March 2017. The whole of Europe will be watching the outcome. If the PVV becomes the majority party,

it is almost certain that it will launch a referendum on the issue of nation's membership of the EU. Once that happens, it will put the unity of the EU another rigorous test.

If the Dutch people also vote to leave the EU, it will not only have far-reaching implications for the Dutch themselves, but also for the British. It is because by that time Britain would no longer be alone in negotiating with Brussels its terms for leaving the EU, and the whole exit negotiation could turn into a square-off between the EU and a Euroskeptic coalition."

**April-May 2017** – The French Presidential elections are due to take place on 23 April 7 May 2017.

**August-October 2017** – The German Parliamentary elections must take place between 27 August and 22 October 2017.

Herman Van Rompuy has suggested that "Before the German elections and before there is a new German government, I think no serious negotiations will take place.

"You can always start with more technical matters, but the hardcore, the difficult topics, will be tackled after the constitution of a new German government and that will be October/November."

**May 2019** – The next European Parliamentary Elections will take place in May 2019. Unless the UK has left the EU at this point it's likely that UK Members would continue to be elected. However, the European Parliament's lead negotiator on Brexit, Guy Verhofstadt, has said [the EU needs to have an agreement on UK withdrawal before the next European elections in May or June 2019.](#)

Holding European elections in 2019 without a Brexit deal would be difficult, because 73 of the European Parliament's 751 MEPs represent the UK. After Brexit those seats will have to be axed or redistributed among the other 27 member states.

According to the BBC, Verhofstadt said:

"I want the UK to trigger Article 50 as soon as possible, so we can finalise these negotiations by 2019. I can't imagine we start the next legislative cycle without agreement over UK withdrawal."

During his visit to London this week, the European Parliament President Martin Schulz suggested that [it would not be good for the British to vote in Brussels elections while Brexit talks are ongoing.](#)

**October 2019** – The current European Commission's mandate will expire in 31 October 2019. At that point a new Commission with a new mandate will take over.

Given the Commission's key role in negotiating the UK's future relationship for the EU, the 2019 expiration of the current Commission's mandate may be a factor if Article 50 isn't triggered early in 2017 or if negotiations are extended (by agreement).

**May 2020** – If there is no early dissolution, the next UK General Election will take place in May 2020. If the UK has not left the EU at this point or if no agreement has been reached as to the UK's future relationship with the EU then these may be issues during the election campaign.

**January 2021** – The current Multiannual Financial Framework (MFF) will expire at the end of 2020 as will the EU's funding programmes. Whilst negotiations for the new MFF and funding programmes will start sometime before the end of 2020, if the UK has not left the EU when the new MFF and programmes begin the UK may continue to play a role in contributing to the MFF and participating in the Funding Programmes.

### **European Parliament President's visit to London**

From 22- 23 September, the President of the European Parliament [visited London](#) for meetings with the Prime Minister, the Leader of the Opposition and the Mayor of London. According to a [European Parliament press release](#), during his meeting with Theresa May, Martin Schulz told the Prime Minister that once Brexit negotiations begin the European Parliament will be a responsible and active partner.

Schulz also outlined what he thought would be the greatest challenges during the negotiations, namely trade and the issue of preserving the freedom of movement of goods, people, services and capital. He also discussed why the Parliament believes article 50 should be triggered as soon as possible.

In an [interview with Sky News Political Edition Faisal Islam](#), Martin Schulz suggested that The UK is asking for a Brexit deal that is "not feasible" for the EU. The MEP told Sky that:

"access to the single market without freedom of movement is the request of the UK Government and that is for sure not feasible for the European Union".

Schulz also stated that any Brexit deal would require the consent of the European Parliament. According to Sky, Schulz said:

"I would strongly advise [the UK] to involve [the] European Parliament from the earliest possible moment - and that means from the first day,"

Schulz also reiterated his call for the UK to trigger Article 50 "as soon as possible".

### **Following the Bratislava Summit**

Last week's [Update](#) included details of the outcome of the EU27's Bratislava Summit which was the first time the Member State Governments had met (without the UK) to discuss the future direction of the EU.

Writing for the London School of Economics blog, Dalibor Rohac - a research fellow at the American Enterprise Institute, has suggested that the [future of the EU without the UK looks bleak](#). In particular, Rohac suggests that the [Roadmap](#) agreed at the summit suggests the EU's efforts to boost the economy will suffer as a result of the UK's departure:

"Nowhere was the absence of the UK's pragmatic, pro-market voice more evident than in the discussion of economic questions in the Roadmap. I have argued elsewhere that sluggish economic performance gives fuel to populism on both left and right. It is, therefore, a matter of urgency that the EU become a vehicle for economic dynamism, not a drag on it. Unfortunately, the document gives little indication that the EU will go above and beyond business as usual

Europe needs to do better. It needs an aggressive strategy to dismantle the existing regulatory barriers that are still dividing markets between the member states. It needs to review existing EU regulations, especially where they are hampering the innovation

and growth of new industries. To survive, the Eurozone needs a sustainable model for fiscal governance, involving either some degree of federalization or binding fiscal rules. On all of these issues, the Bratislava Roadmap remains silent.

This is not a coincidence. In the past, it was the UK that was behind many of the EU's liberalizing reforms, including the Single European Act. Without its presence at the table, the Nordic and Baltic states are already fighting an increasingly uphill battle against the forces of the status quo. The lack of any mention of TTIP is telling too, especially in light of the flak which the negotiations have taken in recent months. Instead, Europeans are only offered a largely meaningless promise of a "robust trade policy that reaps the benefits of open markets while taking into account concerns of citizens".

### **Theresa May on Brexit, Scotland and the future of the UK**

On 26 September, Holyrood magazine published a column written by the Prime Minister which addressed [Brexit, Scotland and the future of the UK](#). In the article, the Prime Minister set out the opportunities her Government believes are offered by Brexit:

"We have an exciting chance to forge a new role in the world. Scotland's status will not be diminished by that; it will be enhanced. We will go out into the world with the aim of being a leader in global free trade, one that makes the most of our advantages, from the financial expertise of Edinburgh to the shipbuilding prowess of the Clyde and the globally renowned food and drink produce of Scotland's countryside."

### **Scottish Parliament debate on the Economy and the EU Referendum**

On 20 September the Scottish Parliament [debated the impact on the Scottish economy as a result of the EU referendum](#). Following the debate, the Parliament passed the following motion by 87 votes to 29:

"That the Parliament welcomes the overwhelming vote of the people of Scotland to remain in the EU; notes that leaving the EU is widely expected to have a negative impact on economic growth, public sector revenues, access to labour, inward investment and opportunities to export, as well as threaten essential economic and social protections; recognises that a third of the Scottish economy is now overseas-owned leaving the Scottish economy more at risk from the consequences of leaving the EU than any other part of the UK; recognises the continued resilience of Scottish business and the urgent need to support and stimulate the economy in the wake of the EU referendum; notes the initial steps taken by the Scottish Government, and believes that it should take further action to support Scotland's economy, and calls on the UK Government to bring forward a substantial stimulus package to boost business confidence, keep the Scottish economy moving, end austerity and endorse the vital importance of growing an inclusive, productive and sustainable economy with more jobs and fair work."

### **Scottish Parliament European and External Relations Committee**

On 22 September, the Scottish Parliament's European and External Relations Committee continued its inquiry into [The EU Referendum and its Implications for Scotland](#) by taking evidence on Intergovernmental Relations from Nicola McEwen from the Centre on

Constitutional Change at the University of Edinburgh and Akash Paun from the Institute for Government.

During the evidence session, Akash Paun told the Committee that [the Scotland Act may need to be revisited due to Brexit "cutting across" devolved areas](#). According to the BBC News report of the evidence session:

"Mr Paun said the Brexit process was "likely to reopen far more elements of our internal territorial constitution than anyone has quite got their heads around yet", and warned that the legislation setting out Holyrood's powers may need to be reassessed.

He said: "We may come out of this with a very different set of constitutional arrangements both for governing the distribution of powers between different governments and also in areas where the UK takes back competence from Brussels.

"We may need new arrangements for coordinating policy between the levels of government as well.

"I think the UK government certainly hasn't quite realised the whole box of issues that this opens up.

"I think it's pretty much inevitable that the design of the constitutional settlement and the Scotland Act will need to be revisited as part of this process.

"Some people have wondered if you could simply remove the reference to EU law or go for a minimal approach like that, but because of the nature of our membership of the EU winding its way through almost every area of domestic policy, by pulling out it's going to fundamentally change the individual devolution settlements and the relationship between the nations of the UK."

Following his appearance before the European and External Relations Committee, Akash Paun published a blog on the Institute of Government website examining what might happen [if the UK and devolved governments can't agree on Brexit](#). On the possibility that one of the Devolved bodies might reject outright the terms of Brexit, Akash Paun wrote:

"Outright rejection of the terms of Brexit by one of the devolved bodies would take the country into dangerous territory. For Westminster to ignore the Scottish Parliament (or another devolved assembly) and press ahead regardless would be to flout established convention, triggering a potential constitutional crisis as shared understanding of the 'rules of the game' break down.

But the UK Government is unlikely to concede a veto power to Scotland, Wales or Northern Ireland over the terms of Brexit, since that could weaken their hand in both levels of negotiations – with the EU and with the devolved nations. Also, since Article 50 sets a two-year limit on negotiations, if the UK ultimately fails to reach internal consensus about the terms of Brexit before time runs out, it would risk exiting without any negotiated terms."

### **Welsh Assembly calls for continued access to the Single Market**

On Wednesday 21 September the Welsh Assembly debated a Plaid Cymru motion on the importance of full membership of the European single market to the Welsh economy. The motion was rejected by the Assembly with an amended motion stressing the importance of

access to the single market being carried by 40 votes to 7. The text of the successful [amended motion](#) was:

To propose that the National Assembly for Wales:

1. Notes the importance of access to the EU Single Market for the Welsh economy.
2. Calls for clarity on the Welsh Government's position on the free movement of people between the UK and the EU, post the UK leaving the EU.
3. Welcomes the interest in establishing new trade agreements between the UK and other countries around the world.
4. Calls on the Welsh Government to work with the UK Government to ensure the best deal for Wales.

### **The UK Parliament's response to the decision to leave the European Union**

The UK Parliament has indicated it is ready to establish scrutiny committees to examine the work of the Department for Exiting the EU led by David Davis and the Department for International Trade led by Liam Fox. These Committees are expected to be established once the House of Commons resumes after party conference season.

The Institute for Government has published two blogs by Hannah White examining [Parliament's role in the Brexit negotiations](#) and why [A 'supersize committee' could hamper Parliament's scrutiny of Brexit](#).

A number of Committees in both the House of Commons and House of Lords have established inquiries linked to the UK's decision to leave the European Union. These include:

[House of Commons European Scrutiny Committee Post Referendum Consultation](#)

[House of Commons Scotland Affairs Committee Scotland's Place in Europe](#)

[House of Commons Welsh Affairs Committee Implications for Wales of the EU Referendum Result](#)

[House of Commons Public Administration and Constitutional Affairs Committee Lessons Learned from the EU Referendum](#)

[House of Commons Environmental Audit Committee The Future of the Natural Environment after the EU Referendum](#)

[House of Commons Energy and Climate Change Committee Leaving the EU: Implications for UK Energy Policy](#)

[House of Commons Brexit and health and social care inquiry](#)

[House of Lords European Union Committee Brexit: UK-Irish Relations](#)

[House of Lords European Union Committee Brexit: Parliamentary Scrutiny Inquiry](#)

[House of Lords EU External Affairs and EU Internal Market Sub-Committees Brexit: future trade between the UK and the EU inquiry](#)



The [sub-committees](#) of the House of Lords European Union Committee are also conducting a number of evidence sessions following the UK's decision to leave the EU including:

[Fisheries Policy after Brexit](#)

[Brexit implications for environment policy examined by committee](#)

[Brexit implications for energy and climate change policy](#)

[Brexit and Financial Services](#)

### **Civitas Report - UK-EU trade and jobs linked to exports**

[Research undertaken by Civitas](#) and published last week examined the number of jobs linked to exports both in the UK and in other EU member states. IN particular the analysis sought to “provide a new estimate for the amount of UK jobs linked with exports to EU countries and, for comparison, estimates of EU jobs linked to exports to the UK, on a country-by-country basis”.

According to the author of the research, Justin Protts, the analysis shows that, whereas 3.6 million UK jobs are linked with exports to the EU, 5.8 million EU jobs (excluding the UK) are linked with EU exports to the UK. In addition, the research shows that 22 of the 27 remaining EU member states have more jobs linked with exports to the UK than the UK has linked with exports to those member states.

### **Office of National Statistics says Brexit has not affected the economy**

A report by the Office of National Statistics (ONS) has concluded that whilst “the EU referendum vote on 23 June 2016 had an immediate impact on the stock market and currency as expectations about the UK's trade position and wider economic relations with the EU and the rest of the world changed significantly” at this stage [the decision to leave the EU has not had a major effect on the economy](#). According to ONS Chief Economist Joe Grice:

“As the available information grows, the referendum result appears, so far, not to have had a major effect on the UK economy. So it hasn't fallen at the first fence but longer-term effects remain to be seen. The index of services published soon and the preliminary estimate of third quarter GDP, published at the end of October will add significantly to the evidence.”

The preliminary estimate of third quarter GDP for the UK, to be published on 27 October will give a further indication of whether the referendum result has had wider impact on the economy.

### **OECD September Forecasts**

The Organisation for Economic Development's (OECD) [Interim Economic Outlook](#) published on 21 September has suggested that whilst UK economic growth in 2016 has largely been insulated from the shock of Brexit, it will slow in 2017. The OECD wrote:

“The United Kingdom vote to leave the European Union on 23 June led to high volatility in financial markets and a marked rise in news-based measures of uncertainty. While markets have since stabilised, sterling has depreciated by around

10% in trade-weighted terms since the referendum. For 2016, GDP growth has been supported by a strong performance prior to the referendum, even though business investment contracted. Developments to date are broadly consistent with the more moderate scenarios set out prior to the referendum and reflect prompt action by the Bank of England in August. However, GDP is projected to slow to 1% in 2017, well below the pace in recent years and forecasts prior to the referendum. Uncertainty about the future path of policy and the reaction of the economy remains very high and risks remain to the downside. In the longer term, the UK's future trading arrangement with the EU and other partners will be critical to its economic prospects."

### **Reuters survey of European businesses**

A survey of European business associations by Reuters suggests that European based business believes the [UK should only get full market access \(including for financial services\) if the UK accepts freedom of movement rules](#). According to Reuters:

"More than 20 European business associations and companies interviewed by Reuters say they back their governments' position that Britain's banking sector can only enjoy EU market access post-Brexit if the country still follows the bloc's rules...

...interviews with companies and trade bodies across Europe suggest the most important thing for business leaders is maintaining a single market with a single set of rules that includes the four freedoms: free movement of workers, capital, goods and services.

They are less concerned about losing access to the City of London.

Companies including Deutsche Post, Daimler and Fiat Chrysler said they did not see significant disruption if the City loses free access to the EU market.

"We have taken a very clear line that the integrity of the four freedoms must be observed and that there is no cherry picking," said Markus Beyrer, Director General of Business Europe, the umbrella body for the biggest EU business federations."

"This is a very clear message we get from our constituency."

### **LSE Blog: Germany and the EU can't afford to drive a hard bargain over Brexit**

Although the UK Government is yet to trigger Article 50, debate has already begun on the relative strengths of the negotiating positions of both the UK and the EU. Writing for the London School of Economics blog, Gunnar Beck has suggested that [the EU's negotiating position, led by Germany isn't as strong as is generally assumed](#). According to Beck, Germany's relative economic weakness as a result of the Eurozone bailouts it has supported and the value of trade with the UK means that the EU position is not as strong as previously imagined. Beck writes

"Germany seems to be softening her stance on Brexit. On 17 August Michael Roth, Germany's Minister of European Affairs said: "Given Britain's size, significance, and its long membership of the European Union, there will probably be a special status which only bears limited comparison to that of countries that have never belonged to the European Union."



On the strength of economy and reliance on trade, Beck wrote:

“With subdued domestic demand, Germany and the EU depend on trade-induced moderate growth including close trading relations with Britain. Nine EU countries send at least 5% of their total exports to the UK. In Germany, whose economy is highly export-dependent, that percentage is about 7.5% of total exports. In 2015 Germany’s trade surplus with the UK alone was a staggering €51bn, about 20.5% of Germany’s entire trade surplus...

...Moreover, the EU as a whole is not in a position to withstand further financial turmoil which would be the inevitable concomitant of difficult and protracted Brexit negotiations. Italy’s banks are neck-deep in non-performing loans (NPLs). Official data estimates the total amount of NPLs at around €200bn at around 8% of total loans. However, Wells Fargo, the U.S. investment bank, put the NPL ratio as high as 15% of their loan portfolios or around €350bn. Banca Monte dei Paschi alone, according to the ECB, had nonperforming loan exposure of at least €46.9 billion in 2015.

ECB President Draghi is well aware of the EU’s fragility. According to ECB and Italian political sources, he has assured his former colleagues at Goldman Sachs and other investment banks that Germany cannot do anything to put trade relations at risk. Due to ongoing euro crisis measures and increasing costs of her refugee policy, Germany’s economy and public finances are likely to weaken while German unemployment should start rising again from next year.

Of course, the EU’s negotiating position will not be determined by Germany alone but a compromise. However, Draghi also reportedly expressed confidence that French and Commission resistance to concessions to Britain could be overcome and that, in return, Merkel was open to agree to French demands for a eurozone finance ministry after the 2017 German election and to make available additional bail-out facilities for Italy’s moribund banks which, like previous bail-outs, can be largely kept off the government’s balance sheet.

These factors mean that according to Beck, the UK Government has a stronger hand in negotiations:

“If the UK government plays its hand well and offers minor concessions, it will be able largely to choose its terms of renegotiation. By postponing the official start of withdrawal negotiation until 2017 Theresa May has made a promising start.”

### **Five reasons why the EU will make life impossible for Theresa May after Brexit – and five reasons why it should think again**

Further speculation on the negotiations was provided in an article in the Daily Telegraph published on 20 September which [examined how the negotiations might develop and who’s negotiating position is stronger](#).

The article examines five factors which will influence the negotiations and how they might play out. The five factors discussed are:

- Europe’s instinct for self-preservation
- Bitterness in Europe towards the UK
- Article 50 hands all the power to the EU

- The UK economy needing access to the EU more than the other way round
- Freedom of movement being non-negotiable

Taking into account the factors which will influence the negotiations, the article concludes that:

“We are in for a rocky negotiation, most likely.

Europe believes it can make an example of Britain to deter others from leaving, perhaps even to the point where – Simon Tilford notes – where they believe Britain might blink at the last moment.

But that could be to fatally underestimate Mrs May's determination to go through Brexit, at any cost, or risk poisoning a generation of British politics.

As Prof Anand Menon, director of UK in a Changing Europe, which researches the UK-EU relationship, puts it: the outcome of the negotiation will be a contest between the "functional and political".

And the history of EU negotiations suggests there's a dangerous risk that politics will win out.”

### **Universities Post-Brexit**

The Guardian newspaper has published a number of articles over the last week examining the potential impact of Brexit on the higher education sector. Key issues covered include loss of EU funding and the end to freedom of movement.

On 25 September, Margaret Wintermantel the head of the academic exchange service DAAD, which represents more than 300 higher education institutions and student bodies across Germany, published an opinion piece stating “[Britain's universities depend on open borders – Brexit has us all worried](#)”. The article focussed on the impact of staff and students from across the EU who chose to make their home in the UK:

“Higher education, probably even more so than the NHS, is dependent on talented academics from across the rest of Europe. Of the academics teaching and researching at British universities, about 55,000, or 30%, are from outside the UK – and 32,000 are from the European Union, of whom 5,250 are German.

The ties between British and German academia are particularly close: about 14,000 Germans currently study at British universities – some of Erasmus exchange schemes, some as students for the length of a full degree. They make up 11% of the British student body, the largest group of non-British European students in the UK.

Many of these students will be the bridge-builders of tomorrow – as politicians, researchers, artists, diplomats or chief executives. After the US, Germany is the UK's most important trading partner.

But unless the right priorities are set now, the consequences of Britain's vote to leave the EU could put this winning collaboration at risk.”

In a related piece the staffing issue was also covered in another article published on 25 September which suggested that “[Brexit fears may see 15% of UK university staff leave](#)”

according to Margaret Wintermantel. The article also covered the value of UK universities access to EU research funds stating:

“Britain is the second-largest recipient of EU research funds after Germany, receiving €9.5bn (£8.2bn) in the past decade, compared with Germany’s €9.8bn.

The Treasury has said it will underwrite existing EU-funded projects, including bids to the €80bn Horizon 2020 programme, for the life of the grant and beyond Brexit if necessary.

But many academics say this covers the bare legal minimum of what is needed and Britain urgently requires longer-term strategies for academic funding and immigration if its universities are to retain their world-leading role.”

A blog by Anne Corbett, the author of the LSE Commission Report on the Future of Britain in Europe on Higher Education and Research examines the ways in which the UK’s universities can stay internationally competitive in the wake of Brexit arguing “[But we can’t do it alone: the future of British universities post-Brexit](#)”. According to Anne Corbett:

“The post-EU case revolves around Britain’s standing in various global Top 10 rankings. Britain is currently second only to the US as the favoured destination for international students. It has an enviable record of achievement in research impact as measured by cross-border co-authorship in which the US is the most sought-after partner. Britain on the more changeable innovation index, developed by Cornell University, is currently in second place to Switzerland...

...But Top 10s can be misleading. No system of higher education and research can be purely national. The challenge is to create viable forms of transnational collaboration for higher education and research, a strategy which requires institutional back-up and funding as well as ideas.

It is likely the UK government and the sector will be thinking in terms of how to strengthen four of the existing strands of its internationalisation policy.”

The four prosed highlighted strands are:

- Keeping the UK as an attractive destination for international students
- Expanding delivery of UK higher education overseas
- Strengthening bilateral arrangements
- The development of the ‘Anglosphere’

## **Migration Watch Report**

On 21 September, Migration Watch published [A limit on work permits for skilled EU migrants after Brexit](#). The paper argues that:

“An annual limit for highly skilled migration from the EU should be set at a level that allows for the renewal of the current stock, together with some room for expansion. We estimate that the annual limit should be set at 30,000 a year. Eliminating lower-skilled work could reduce net EU migration by around 100,000 a year.”

**Iain McIver**  
**SPICe Research**