D-DAY: TOWARDS BREXIT

Few issues have been more debated recently in the UK and the EU, in political and economic circles, in the press and the public that the referendum held on June 23 asking the British people to decide whether to remain in, or to leave “for good” the EU. And nobody expressed more eloquently the dilemmas that the UK then faced that Prime Minister David Cameron when, barely two days before the referendum, he made an impassioned plea to his fellow citizens to consider their children’s futures before voting on whether their country should stay in or withdraw from the European Union after decades of membership.

“I want to speak very directly to those of my generation and older,” Cameron said in a direct address from outside his official residence at 10 Downing Street on Central London on June 21. “Do think about the hopes and dreams of your children and grandchildren. They can’t undo the decision we take. If we vote out, that’s it. It is irreversible. We will leave Europe for good. And the next generation will have to live with the consequences.”

As if anticipating the new battle to come, and showing the radicalism of their opposite positions, shortly after Cameron was delivering his call in favour of the UK staying within the EU, former London Major Boris Johnson got a standing ovation from his supporters after his closing statement in a BBC debate on the referendum, when he declared: "Thursday (23 June) can be our country’s independence day" if Britain voters favour the leave option at the referendum. As he put it repeatedly during the last days of the campaign, “the ideal position for us is to take back control tomorrow - of huge amounts of money, so we can spend it on our priorities, of our immigration system, take back control - fundamentally - of our democracy.”

Prime Minister Cameron spoke to no avail. In a decision that left no doubts about their wishes, Britons voted in favour of their country leaving the EU – the Brexiteers won the referendum in numbers larger than most polls had predicted. The official results were announced in the early morning of June 24 by the electoral authorities: almost 52 per cent of voters - more than 17 million people - favoured their country to leave the European Union.
This decision will have important consequences for the UK, the European Union, the international economy and the future of UK trade and trade arrangements – which include those concluded by the EU with many other developed and developing countries as well as those that it is currently negotiating, such as the Transatlantic Trade and Investment Partnership (TTIP), which is designed to put the EU and the US on a new path, both politically and economically, and whose conclusion will most likely be significantly delayed, to say the least.

THE UK POLITICAL TURMOIL

Unfortunately for Prime Minister Cameron, the results of the referendum would significantly impact his political career. He might be remember in the future not for his doings, which are many, but rather his decision to press for a referendum to untie his country from the EU, to which it has belonged for the last 43 years.

After the vote tally was completed, Cameron appeared again in front of his residence to announce that he would step down from his role as Prime Minister and the leader of the Conservative Party by October this year, as the country deserved a leader committed to carrying out the will of the people. As he said, it would be extremely difficult and politically unfeasible for him to negotiate with the EU the very terms of a UK withdrawal from the EU that he so strongly campaigned against.

Following Cameron’s decision, the executive body of the Members of Parliament from the Conservative Party (known informally as the 1992 Committee) decided on June 27 to start a contest for a new leadership of the party. As of this writing five Conservative MPs have been confirmed as candidates – Theresa May¹, Stephen Crabb², Liam Fox³, Michael Gove⁴ and Andrea Leadsom⁵.

A few days later, on June 30, Boris Johnson until then a favourite candidate to succeed David Cameron, announced that he would not seek the position of Prime Minister. Mr. Johnson said his role would be to give every possible support to the next Conservative administration and to assure the proper fulfilment of the mandate of the people that was delivered at the referendum.

The opposition Labour Party leader, Jeremy Corbyn, who is seen by many of his co-partisans as paying lip service to the

¹ Theresa May is a British Conservative Party politician who has been the Home Secretary since 2010, becoming one of the longest serving Home Secretaries in history.
² Stephen Crabb is a British Conservative Party politician. He has been the Member of Parliament for Preseli Pembrokeshire since the 2005 general election and has been Secretary of State for Work and Pensions since March 2016.
³ Liam Fox is a British Conservative politician, Member of Parliament for North Somerset, founder of the charity Give Us Time, and former Secretary of State for Defence.
⁴ Michael Gove is a Conservative politician and Member of Parliament (MP) for Surrey Heath. He is also a book author and was formerly a columnist for The Times; in a move that surprised most political analysts, Gove withdrew his support for Boris Johnson as Conservative Party leader (and hence for Prime Minister) and announced his own candidacy instead on 30 June 2016.
⁵ Andrea Jacqueline Leadsom is a British politician. She was first elected as the Conservative Member of Parliament (MP) for South Northamptonshire at the 2010 general election.
“remain” campaign, is already facing a revolt within his own party. On June 28, he overwhelmingly lost a no-confidence motion among his fellow lawmakers. Many Labour Party lawmakers are now worried that in a general election with Mr. Corbyn as the party’s driver, they will face even bigger losses than they did in the May 2015 general election. While the party’s policy in the referendum was to remain within the EU, and Mr. Corbyn, a lifelong Eurosceptic, did urge labour supporters to vote to remain, critics regarded his campaign as lackluster, and his message as lukewarm.

Another Brexit’s supporter Nigel Farage, the leader of the UK Independence Party (UKIP)⁶, distanced himself from the “leave” campaign’s promise that Britain’s EU funds would be redirected to the National Health Service during his speech the day after the referendum. It may seem like the “leave” voters were waking up with “buyer’s remorse” the day after the referendum, and that some were counting on a “remain” victory when pronouncing their campaigns’ promises and wanted no more than to “send a message” or simply press the EU for reforms.

A DIS-UNITED KINGDOM – A SECOND REFERENDUM?

The United Kingdom seems to get weaker out of the referendum. Breaking down the results from geographical areas, social conditions and age, the impact on the whole country leaves no doubts.

How Leave won the referendum

<table>
<thead>
<tr>
<th>Votes</th>
<th>Leave (%)</th>
<th>50%</th>
<th>Remain (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Midlands</td>
<td>59.3%</td>
<td></td>
<td>40.7%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>58.8%</td>
<td></td>
<td>41.2%</td>
</tr>
<tr>
<td>North East</td>
<td>58.0%</td>
<td></td>
<td>42.0%</td>
</tr>
<tr>
<td>Yorkshire and The Humber</td>
<td>57.7%</td>
<td></td>
<td>42.3%</td>
</tr>
<tr>
<td>East</td>
<td>56.5%</td>
<td></td>
<td>43.5%</td>
</tr>
<tr>
<td>North West</td>
<td>53.7%</td>
<td></td>
<td>46.3%</td>
</tr>
<tr>
<td>South West</td>
<td>52.6%</td>
<td></td>
<td>47.4%</td>
</tr>
<tr>
<td>Wales</td>
<td>52.5%</td>
<td></td>
<td>47.5%</td>
</tr>
<tr>
<td>South East</td>
<td>51.8%</td>
<td></td>
<td>48.2%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>44.2%</td>
<td></td>
<td>55.8%</td>
</tr>
<tr>
<td>London</td>
<td>40.4%</td>
<td></td>
<td>59.9%</td>
</tr>
<tr>
<td>Scotland</td>
<td>38.0%</td>
<td></td>
<td>62.0%</td>
</tr>
</tbody>
</table>

The results of the referendum already showed clashes within the UK. While 52 per cent voted to “leave” and 48 per cent to “remain”, not all parts of Britain voted in this proportion. As a result, not all are equally happy with the results. The “leave” camp prevailed across England and Wales, while the “remainders” dominated in London, Scotland and Northern Ireland, with Edinburgh and Belfast West voting over 74 per cent for “remain”.

The Scotland’s first minister, Nicola Sturgeon thinks an independence referendum is now highly likely to take place, because it would be “democratically

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⁶ The UK Independence Party (UKIP) is a Eurosceptic and right-wing populist political party in the United Kingdom. Headquartered in Newton Abbot, Devon, its leader is Nigel Farage. UKIP has one Member of Parliament in the House of Commons, three representatives in the House of Lords, and twenty-two Members of the European Parliament, making it the largest UK party in the European Parliament. It has 488 councillors in UK local government and seven members in the National Assembly for Wales. (https://en.wikipedia.org/wiki/UK_Independence_Party)
“unacceptable” for Scotland to be pushed out of the EU when a majority of Scots want to stay in.

Due to these differences in voting, the UK is facing unprecedented internal disagreements, with hundreds of people taken to the streets across the UK, mainly in London, Glasgow and Edinburgh angry at the result of the EU referendum. The march in London, where protesters gathered in Parliament Square waving flags and banners and even sported EU body paint, came as a petition for a second referendum reached two million signatures.

The enormous surge followed the initial 100,000 signatures, which were created in a bid to get London Mayor Sadiq Khan to declare the capital as independent. Protesters are hoping that Khan will call for London to be classed separately from the UK and therefore be able to apply to join the EU.

A second referendum might be an answer to escaping the Brexit - but it would have to be different. In any case, any decision to overturn the decision would be labelled wildly undemocratic as it would ignore one of the most high profile democratic events the nation has ever undergone.

A parliamentary vote could put an end to the Brexit - David Lammy⁷, made an impassioned plea as a petition for a second referendum became the most popular in parliamentary history. He posted in his Twitter, that the referendum was an advisory, non-binding referendum.

At present, there is not a majority for Britain to leave the EU in either the House of Commons or the House of Lords, which are the two Houses of the British Parliament. It is argued, that given a free vote, the unelected Lords would probably reject Brexit by a margin of six to one.

**THE FIRST INTERNATIONAL REACTIONS**

In spite of all the analysis and warnings, the result of the referendum surprised many people, including many Britons and Europeans in and outside of England.

US President Barack Obama released a brief statement on 24 June, saying that the US respected the UK people decision, and that the special relationship between the US and the UK was “enduring”. He added that the UK and the EU will remain indispensable partners of the US. However, the White House confirmed on 25 June, that the president stood by his warning that Britain would move to the back of the queue when it comes to trade deals.

German Chancellor Angela Merkel said the outcome of the EU referendum in the UK should not be a source of a rift in Europe and urged remaining members to show “willingness and ability” to not taking hasty decisions. “Let’s not beat around the bush: Today marks a watershed for Europe,” Merkel said at a press conference on the day after the Brexit referendum, stating “the EU is strong enough to give the right answers to this day.”

Speaking at a press conference on June 25, just hours after Europe’s six top diplomats, who had met in Berlin to discuss Brexit, demanded for UK’s separation talks to start immediately, Merkel said it

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⁷ David Lindon Lammy FRSA MP is a British Labour Party politician, who has been the Member of Parliament for Tottenham since 2000.
was up to Britain to decide on the exact timing of the start of the talks, but also that it should not take Britain long to decide on the starting day - like Brussels, London would not want a drawn out process after voters had decided to leave, she added. She repeated this on June 27, but Holland and Italy’s Prime Minister were less cautious.

David Cameron met with the leaders of EU Members on June 28 June in Brussels, where he said that a driving factor behind the referendum’s vote to leave was the EU’s principle of free movement of labour, which has led to heavy immigration into the UK. He apparently suggested that the EU should be flexible on this issue if it wanted to maintain close economic ties with the UK.

The European leaders, including German Chancellor Angela Merkel and French President François Hollande, remained firm and spurned that call with a simple message that full access to the EU market means accepting free movement. The president of Lithuania Dalia Grybauskaite was ironic about this topic reminding that “we all need to wake up and smell the coffee”.

Hollande also emphasized that in order to access the internal market, a country should respect the four basic principles of the EU and must contribute to the EU budget. Then he also warned that after a UK quits transactions in euros wouldn’t be able to be cleared in the City of London.

Angela Merkel stated that the UK cannot “cherry-pick” some of the aspects of the EU it likes without committing to the other ones, indicating that the 27 EU Members will first define what their interests regarding the UK are before starting the negotiations on the EU – UK relationship.

The European Commission President Jean-Claude Juncker, for his part, specified that if someone from the remain camp become a new British prime minister, the activation of Article 50 of the Lisbon Treaty has to be done within two weeks after his appointment, and if it is somebody from the leave campaign, it should be done the day after his appointment.

**Turmoil in the Financial Markets**

Stock markets all over the world reacted immediately to the outcome of the UK referendum. The pound’s swing of more than 10 per cent against the dollar is its biggest intraday move since at least 1989 — beating the bashing it endured in 1992 when the UK left the European exchange rate mechanism, and the volatility that followed the collapse of Lehman Brothers in 2008.

The British stock exchange indexes were decreasing during the first days after the referendum - the FTSE 100 was sliding 4.6 per cent, and the FTSE 250 index. International stock markets reacted too

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*Source - Reuters*

8 Liberty of circulation of goods, capital, services and people
– in the US the Wall Street traded down more than 3 per cent, with the Dow Jones industrial average dropping as much as 655 points, its worst daily drop in 10 months.

On the Asian side, Japan’s Nikkei 225 plunged 7.9 per cent and Hong Kong’s Hang Seng fell 2.9 per cent. Industrial commodities also are under the cosh on fears of less demand. The price of Brent crude was down 5.2 per cent to $48.26 a barrel, and copper is off 1.7 per cent to $4,690 a tonne on the day after the referendum.

**MOVING INTO UNCHARTED TERRITORY**

What would really happen now that the referendum is over and the *leave* leaders expressed their initial enthusiasm, not one really seems to know. As the German Finance Minister Wolfgang Schauble said before the referendum: If the majority in Britain opts for Brexit that would be a decision against the single market. *In is in. Out is out.* One has to respect the sovereignty of the British people.”

Would the UK turn into isolation? One of the arguments of the ‘*leave*’ camp was that Britain would be better off by conducting an autonomous trade policy and relying just on WTO rules – no EU but rather WTO seemed to be their ‘credo’. Others in the same camp added that the UK could negotiate trade pacts with the countries it choses, and get much better deals that doing it jointly with its EU partners.

Now that the *Brexit* camp imposed itself the future looks much more uncertain. For once, it would immediately ensue a period of at least two years in which the terms of the future relationship between the UK and the EU would have to be defined, and contrary to what many seems to believe this definition would not result from a bilateral negotiation between the leaving country – the UK - and the rest of EU

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9 Financial Times Stock Exchange 100 Index is representative of approximately 80% of the market capitalization of the LSE in its entirety, however, a rather large section of the companies included in this index are based in other countries around the world.

10 Financial Times Stock Exchange 250 Index is comprised of a smaller proportion of international companies and thus acts as a better indicator of the UK’s economy in general terms.
Article 50 of the Lisbon Treaty reads:

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to re-join, its request shall be subject to the procedure referred to in Article 49.

Thus, to argue that the UK would be able to work out with the EU a trade agreement similar to the ones that apply to Norway or Switzerland would prove to be extremely difficult, to say the least, as it would depend mainly on the willingness of countries – the EU members – that the UK would have

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11 The Lisbon Treaty was signed by the heads of state and government of the 27 EU Member States on 13 December 2007. It is intended to reform the functioning of the European Union following the two waves
decided not to continue having as its privileged trade partners. It would also run counter to one of the main arguments of the ‘leave’ camp: budget and decision making.

Moreover, a dis-United Kingdom or a less united country cannot be excluded, as not all regions voted in the same direction, particularly Scotland which strongly supported the remain camp, expressing a strong preference for staying within the EU and had voted just a couple of years ago to remain part of the UK in a referendum organized to decide on their relationship.12

**TRADE CONSEQUENCES OF BREXIT**

As about half of Britain’s exports go to the EU market and face virtually no trade barrier, many analysts have focused on the trade consequences of the decision to leave the EU. Brexit is regarded by Washington Post journalist Robert J. Samuelson as an ‘absurdity’ and an ‘act of national insanity’ which would weaken the UK economy, one of Europe's strongest.

Pascal Lamy, a former WTO Director-General joined the debate by saying that EU leaders will fear that anti-Europe parties in their own backyard will get momentum from a Brexit decision. Lamy thinks that there is a real risk that the UK would have to fall back on WTO rules and this would be a terrible replacement for access to the EU single market. Any ambitious UK-EU deal will need to be ratified in 27 legislatures as well as the European parliament. Lamy guesses that it might take between five to fifteen years, during which British firms will face an uncertain future, and it is very unlikely that the UK would be a more prosperous place by then.

Echoing Lamy, but being even tougher in his precautions, the WTO Director-General, Roberto Azevedo said Britain would be forced to re-negotiate trade deals with all 161 WTO members in an unprecedented move that would be akin to joining the WTO from scratch. The impact of new tariffs in overseas markets would also be a burden for UK businesses, adding a further £5.5bn to the costs of trade. “The consumer in the UK will have to pay those duties,” Azevedo said. “The UK is not in a position to decide ‘I’m not charging duties here’. That is impossible. That is illegal.”

And coinciding with international trade experts, the National Institute for Economic and Social Research, one of the Britain’s most prominent think tanks, said in its report that the UK economy could be 3.2 per cent smaller by 2030 if it left the EU and traded with the rest of the world under the WTO rules.

Also, a UK Treasury study assessed continued UK membership of the EU against the three existing alternative scenarios: 1) membership of the European Economic Area (EEA), like Norway; 2) a negotiated bilateral agreement, such as that between the EU and Switzerland, Turkey or Canada; and 3) WTO membership without any form of specific agreement with the EU, like Russia or Brazil.

12 See Scottish independence referendum 'now inevitable' at: http://www.theweek.co.uk/scottish-independence/55716/brexit-sturgeon-to-take-scots-remain-question-to-brussels
As pointed out by Treasury Secretary George Osborne, the study left no doubts about the consequences of Britain leaving the EU: the UK GDP would be lower outside the EU in percentages that vary between 3.8 and 7.5 per cent in 15 years as compared with its size today.

As already indicated, US President Barack Obama cautioned that Britain would be “at the back of the queue” for a US-UK trade deal. And US Trade Representative Mike Froman added heat to the fire by indicating, that the US is concerned that Britain’s June referendum and political problems elsewhere in Europe may be undermining the prospects of the TTIP negotiations.

In an interview with the Financial Times ahead of Barack Obama visit to Europe, Froman said that the opportunity to conclude negotiations for the TTIP was slipping away. “There really is this window of opportunity which isn’t necessarily going to be there forever” and European leaders “need to provide the kind of political impetus necessary to break through on some of these issues.”

The EU Trade Commissioner Cecilia Malmstrom, however, assured at the end of June, that the TTIP negotiations will not be halted by the Brexit vote, and that the agreement can still conclude this year, though, she admitted, that it would be difficult. She emphasized, that the EU will do whatever it can to make sure that there is as much progress on negotiations as possible in the coming months, in order to conclude the agreement during the Obama administration.

David Cameron had spoken in the same terms. He argued that countries such as Norway are forced to cough up money to pay for EU projects, but they are not in the room when the rulebook is being written. Even Norway’s prime minister, Erna Solberg, has said that Britons “won’t like it” if they leave the EU only to return to EFTA. “That type of connection is going to be difficult for Britain, because then Brussels will decide without the Brits being able to participate in the decision-making,” she said.

Another option is to repeat the Switzerland approach, but then signing the EFTA will not be enough, as the UK will also need to sign a bilateral trade agreement with the EU that is tailor-made for British needs. Moreover, in this case the UK would also have to contribute to the EU budget, abide by some internal market laws — and accept the free movement of people – all of the arguments in favour of quitting Europe on which the leave camp put so much emphasis.

The Economist considers a Norwegian-style approach to be the most “recovering”. Although the leave campaign promised supporters both a thriving economy and control over immigration, if the UK wants access to the EU’s single market and enjoy the wealth it brings, it will have to accept free movement of people; if the UK rejects free movement, it will have to pay the price of being excluded from the single market.
The Norwegian-style deal would give full access to the world’s biggest single market, but maintain the principle of the free movement of people. This would maximise prosperity. And the supposed cost—migration—is actually beneficial, as the leave campaigners themselves have said. European migrants are net contributors to public finances, so they more than pay their way for their use of health and education services. Without migrants from the EU, schools, hospitals and industries such as farming and the building trade would be short of labour.

If no arrangement could be negotiated, then the EU and the UK would trade with each other as WTO Members, applying their respective MFN tariffs against each other. Compared to previous free market access, fresh lamb carcasses dispatched from the UK to France would, for example, face a tariff of 12.8 per cent plus €1,713 per tonne. Irish and Danish butter into the UK would pay €1,896 per tonne (for comparison the EU’s support price for butter is €2,463.9 per tonne).

Something in between the two above-described options, says Alan Swinbank, are various WTO-compatible FTAs, either including or excluding agriculture. The EEA, which includes Norway, Iceland and Lichtenstein as well as the EU, goes further than an FTA, extending many of the EU’s regulatory – internal market – provisions to the other EEA members. However, there comes the same constraint about the regulatory sovereignty of Britain and contributions to the EU budget.

The idea of an FTA with the EU is also supported by the Eurosceptic UK Independence Party (UKIP), which in its May 2015 election manifesto said that once the UK leaves the EU, it would regain its ability to take back the vacant seat at the WTO and represent itself, negotiating its own trade agreements and advancing its own national trade interests. UKIP emphasized that a first step would be to broker a bespoke UK–EU trade agreement, which they will seek to achieve, possibly within a very short period of time.

Lord Lawson, former Conservative Chancellor of the Exchequer and chairman of the Vote Leave campaign group, thinks that the UK will be able to carry on doing business globally if it quits the EU. Speaking on BBC Radio 4 in March 2016, he said that the UK trade relations with the rest of the world would remain totally unchanged because the EU did not negotiate as the EU: “It’s not allowed to, it’s not a member of the World Trade Organization, it negotiated on behalf of the Member States. So all our arrangements with the rest of the world remain totally unchanged.”

Not quite so. A former EU trade commissioner Lord Mandelson, who campaigned for Britain to remain in the EU, denied this was the case in the similar interview given to BBC Radio 4 just the day after Lord Lawson. Contrary to what Lord Lawson said, the EU is also a WTO Member in its own right. In any case, it is obvious that the UK could expect full access to the markets of WTO members on the same terms as other members of the organisation. It is a basic principle of the WTO that trade policy is supposed to be non-discriminatory.

The British government, from its side, has indicated that in the case of quitting the EU, the UK would need to update the terms of its WTO membership where the commitments taken have previously applied to the EU as a whole. The consensus from all other 161 WTO members would be needed for that, and until the UK schedule of commitments is updated, there could be questions surrounding the UK rights to access WTO Members’ markets. The transition might be somewhat simpler if the UK adopts the EU’s tariffs and other policies. The EU has a group of trade agreements with countries like Korea, Mexico and Canada that provide the
mutual enhanced market access for exporters to each party’s markets. Although these agreements generally list the member states, including the UK, as parties, the negotiations seem to be required if these agreements are to continue providing the same level of enhanced market access for the UK business. It would be up to the other countries and a matter of their judgement of their own interests to extend their agreements on the same terms to the UK.

THE DAY AFTER

The United Kingdom emerged from the referendum more divided than ever, and with not a clear path for its future. Its two main political parties are in search of new leaderships, large segments of its population seem ready to fight for a return to the status quo ex-ante – as witness by the large London demonstrations that took place over the weekend, and neither those that supported Brexit or opposed it seem really to know now how to deal with the decisions that the British people took on June 23.

Even if the referendum results are not legally binding, it is difficult to imagine it could be overruled by the British Parliament, which needs nevertheless to approve the necessary legislation to move to a post-Brexit Britain. As The Economist puts, the UK “needs a new leader, a coherent approach to negotiating with the EU, and a fair settlement with those nations within its own union that voted Remain…”

How to do it? Nobody seems really to know, but we’ll all have to find out soon, but to paraphrase again the German Finance Minister, in is in, out is out.

Source - The Economist