

A Beginner's Guide to Brexit

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After months of lively debate, **51.9% of the British electorate voted in favour of leaving the European Union on 23 June 2016**. Brexit advocates believe this decision will allow the United Kingdom to regain political and economic sovereignty, in particular with regard to law, trade, and immigration.

On **29 March 2017**, British Prime Minister Theresa May triggered **Article 50 of the Treaty of the Functioning of the European Union**, which governs the Withdrawal Procedure from the EU. The United Kingdom has **until 29 March 2019** to negotiate the conditions of their exit from the European Union.

Given the misinformation and uncertainty surrounding the UK's decision, Lighthouse Europe wants to shed light on what Brexit really means in practice and what is at stake. No matter how it will be enforced, Brexit will greatly affect business, as well as trade and financial opportunities across the European Union.

► What does "Brexit" mean?

The media coined the term "Brexit" to describe the process followed by the United Kingdom to leave the European Union. As Article 50 was triggered, **"Brexit" refers to two distinct, though linked, negotiation processes between the UK and the EU:**

1. Reaching a **Withdrawal Agreement** to set the conditions under which Great Britain and Northern Ireland will exit the EU,
2. Establishing the future **EU-UK Relationship Agreement** to oversee how goods and services will be traded across the Channel once the two entities have parted their ways.

While the United Kingdom would like intertwined negotiations, the European Union is set on separating the two.

Figure 1: Two distinct negotiation processes



Source: Lighthouse Europe



▶ **How will the EU and the UK negotiate the Withdrawal Agreement?**

Negotiation on the conditions of the United Kingdom's exit from the European Union will close **on 29 March 2019**; all EU law will continue to apply in the meantime.

Negotiations will take place in four-week cycles. Each party will prepare itself for the negotiations during the first week of the cycle and they will present their respective positions during the second week. Negotiations at chief negotiators' level and in technical groups will occur during the third week. The fourth and last week of each negotiation round will focus on reporting to the EU27 and planning for the next cycle.

On the European side, the European Commission and its dedicated [Brexit Task Force 50](#) (TF50) lead by former Commissioner Michel Barnier will oversee the negotiations with the United Kingdom. EU27 Heads of States and Government adopted clear negotiation guidelines on 29 April 2017, with a strong emphasis on:

- *Protecting citizens' rights* for Europeans living in the UK and Britons established in EU27, including access to the labour market, healthcare, and the recognition of diplomas and qualifications,
- *Settling British financial commitments and liabilities towards the European Union*, [estimated](#) at €724 billion – mainly through the EU 2014-20 Multiannual Financial Framework and participation in financial assistance programmes,
- *Achieving effective implementation and dispute settlement mechanisms.*

The British negotiation team will be chosen according to the results of the general elections on 8 June 2017.

▶ **What could be the outcome of the negotiations between the European Commission and the United Kingdom on the Withdrawal Agreement?**

Both parties may or may not find common ground. **If the European Commission and the United Kingdom agree on exit conditions, the EU-UK Withdrawal Agreement will be submitted to EU27 Heads of State and Government for approval** from at least 20 countries representing 65% of EU27 population. The Agreement will also require ratification by the European Parliament to be adopted.

In the absence of a Withdrawal Agreement, trade across the Channel would fall under World Trade Organisation rules, which would most likely be detrimental to the British economy as non-tariff barriers to trade are likely to increase significantly. The EU27 and the United Kingdom could agree upon an extension of the negotiation period, though such a scenario is highly unlikely.

▶ **What form could the new EU-UK Relationship take?**

Once the United Kingdom has left the European Union, a more complex task awaits: determining the future EU-UK Relationship. This second agreement will define the new trade relationship between the two entities, as well as cooperation in strategic areas such as migration and defence.

In terms of trade, agreements concluded by the European Union with other third countries may be a model for the UK to follow. **The United Kingdom will most probably aim for a customised**

agreement providing access to the European Single Market for goods, services, and capital without having to comply with EU migration obligations.

Figure 2: Scope to determine the future EU-UK Relationship



Source: Lighthouse Europe

The future EU-UK Relationship will also be influenced by separatist tensions within the United Kingdom following Brexit:

- *Scotland* may hold a post-Brexit referendum on independence. An independent Scotland could thereby join the European Union but would have to apply for EU membership in its own right.
- *Northern Ireland* could opt for reunification with the Republic of Ireland and would automatically join the European Union, as East Germany did in 1990. Northern Ireland would have to adopt the euro.

► **What impact on business?**

As Brexit materialises, business established in and trading with the United Kingdom will face extensive regulatory and economic uncertainty:

- *A vast part of the British economy and social policies are ruled by European legislation*, from competition, fisheries, and commercial policies to consumer protection, justice, environment and energy. The British government might modify its legislation on such areas, generating compliance costs for businesses.
- *Access to the Single Market for goods, services, and capital will be denied once the United Kingdom has left the EU*. Tariffs will probably be added to British exports and imports, hindering trade and growth opportunities. The British financial sector is particularly at risk of a hard hit, which could lead major companies to relocate to other EU cities such as Frankfurt, Paris, or Dublin.

Open dialogue between EU and British Institutions is therefore necessary to ensure that future agreements will deliver practical solutions for businesses.