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## BREXIT: Impact on the EU and consequences

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**Abstract:** 29th of March 2019 UK is scheduled for the United Kingdom leaving the European Union. Leaving EU was mainly triggered by the concern about the sovereignty of UK and immigration aspect, which was probably the last straw for the people who voted YES on the referendum on 23 of June 2016. This paper is analyzing the impact of BREXIT from economic and political aspect and the effect on the free movement of people from both perspectives – UK and EU. It was found, that both sides are going to suffer some consequences from BREXIT in every aspect, but it will not mean the end of the European Union.

**Keywords:** Article 50, Brexit, European Union, United Kingdom.

### INTRODUCTION

**A**fter European Coal and Steel Community was instituted in 1952, UK decided not to become a member due to concerns about sovereignty and democracy. Same decision was made against signing Treaty of Rome and becoming the member of the European Economic Community in 1957. So, although United Kingdom has played a great part in European Union, it was not a member until 1973.<sup>1</sup>

Late 1950's UK had changed its opinion and started negotiations to enter the Common Market. They applied and were vetoed twice, 1963 and 1967 by the President of France Charles De Gaulle, who accused Britain of having a deep-seated hostility towards European construction and that they showed a lack of interest in the Common Market. "*The present Common Market is incompatible with the economy, as it now stands, of Britain,*" were his exact words on the matter, which led to criticizing UK economy, agriculture, working condition and even more aspects.<sup>2</sup> After third application in 1973, after de Gaulle was no longer the President of France UK became a member of the European Communities after voting in the House of Commons with the result of 356 in favor to 244 against. In 1975 UK held its first referendum, whether to remain in the European Community, the Common Market. Turnout of the referendum was 64% and 67% of the voters supported continued membership.<sup>3</sup>

This brief introduction of UK's history with EU demonstrates the rocky relationship between the two. At first, although encouraged to join, UK decided to stay distant from joining the new community and after reaching the decision to finally join, they were vetoed twice and accused of being hostile.

### WHY BREXIT

BREXIT was triggered mainly by two aspects. First is the question of sovereignty. As we know, this has always been the main issue for UK in regards of EU. Leavers are claiming, that accession into the EU in 1973 has limited the Parliamentary sovereignty, which is one of the

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<sup>1</sup> „A history of the UK's EU membership“ June 15, 2016

<sup>2</sup> „On this day 1967: De Gaulle says 'non' to Britain – again“

<sup>3</sup> Vaughn Miller. „The 1974-75 UK Renegotiation of EEC Membership and Referendum“ July 13, 2015. House of Commons Library

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principles of the UK constitution.<sup>45</sup> In Van Gend en Loos case in 1963 was articulated, that „By creating a Community of unlimited duration, having its own institutions, its own personality, its own legal capacity and capacity of representation on an international plane and, more particularly, real powers stemming from a limitation of sovereignty or a transfer of powers from the states of the Community, the member states have limited their sovereign rights, and albeit within limited fields, have created a body of law which binds both nationals and themselves“.<sup>6</sup> In the case of Costa v ENEL the supremacy of EU law against national law was established.<sup>7</sup> With the Brexit their aim is to regain the sovereignty and with that be able to make their own trading agreements with other countries.

The second aspect is immigration. The UK citizens opposition to EU is strongly connected to immigration policies of the EU. Many are convinced, that immigration is negatively affecting nationalism and everyday lives of british people. Politicians have promised that, that Immigration will stop, there will not be free movement.<sup>8</sup> This is the main reason for the YES vote on the referendum.

## IMPACT OF BREXIT

Article 50 of the Treaty of European Union allows a member state to decide to withdraw from the EU, according to its own constitutional requirements. Once the decision is made, the member state is required to notify the European Council, triggering a two- year negotiation period which may be extended by agreement.<sup>9</sup> The exact impact of the Brexit is determined by the outcome of these negotiations. Biggest issues regarding the impact of Brexit are politics, economics, citizens rights and cuts to the EU budget after Brexit. So with the referendum, only thing, that was decided was to leave the European Union. On the referendum there was only a question, whether to leave the Union or stay. There was never any indication, what leaving the EU will entail.

There are four scenarios with Brexit, which all have different results and consequences for EU as well as for UK. Today, there is free trade between EU member states and there are rules laid down by EU. It is called a single market. If there is no deal for UK leaving, then 29 of March 2019 UK will have trade with EU on the bases of rules set by World Trade Organization, meaning that UK will become „third country“ to EU.<sup>10</sup> With this, there will be custom checks, border taxes and other tariffs will be applied to goods entering to EU from UK and vice versa. Since Ireland remains in the EU, there will have be a „hard border“ between the two for blocking movement of goods and people without border checks. So basically no deal situation would be the worst for both UK and EU and would change Europe as we know it today.

Hard Brexit means, that there will be a deal for UK leaving, but they will be cut out of single market, customs union and European Court of Justice. That means, that UK is able to make a free trade agreemet with EU but also with other countries, such as USA, Canada and China.

When soft Brexit deal is made, then UK would remain into single market and customs union. There would be a few changes to EU when it comes to soft Brexit in terms of trade and customs.

<sup>4</sup> „Parliament’s authority“ <https://www.parliament.uk/about/how/role/sovereignty>

<sup>5</sup> „Dreaming of sovereignty“ March 19, 2016. The Economist

<sup>6</sup> Judgement of the Court. Van Gend en Loos v Nederlandse Administratie der Belastingen 6

<sup>7</sup> Judgement of the court. Costa v ENEL

<sup>8</sup> Tom McTague. „Theresa May unveils new UK immigration system“ October 2, 2018. Politico

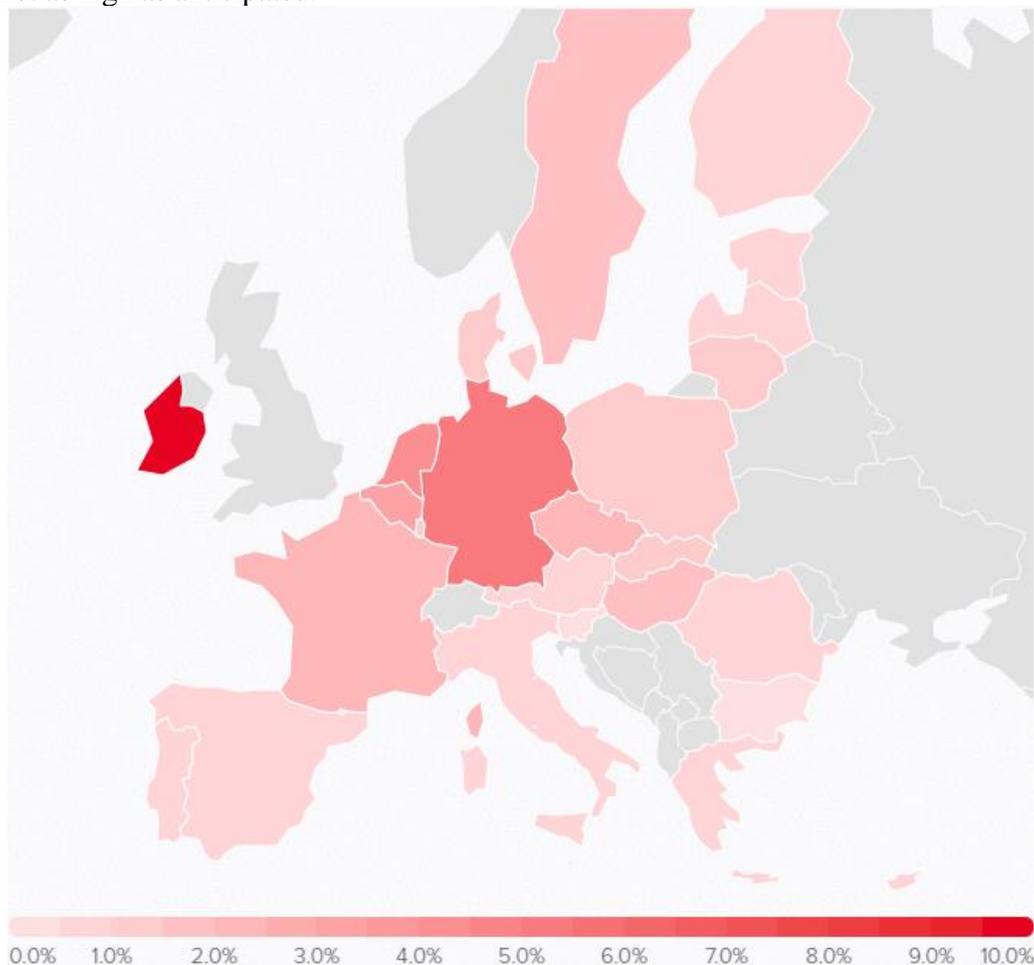
<sup>9</sup> CONSOLIDATED TEXTS OF THE EU TREATIES AS AMENDED BY THE TREATY OF LISBON, article 50

<sup>10</sup> Dobrin, S., & Chochia, A. (2016). The concepts of trademark exhaustion and parallel imports: a comparative analysis between the EU and the USA. *Baltic Journal of European Studies*, 6(2), 28-57.

Brits have tried to make a compromise and „cherry pick“ the condition best for them, but should also appeal to EU. The so called „chequers deal“ – staying into single market, but being able to make trade deals with other countries.

### ECONOMICAL IMPACT

UK is one on the top contributors to EU budget with 8,9 billion GBP in 2017. Between 2014 and 2017 UK's contribution was 13%, making them third contributor after Germany and France. Each member state also receives benefits from EU. Most of the member states, especially newer members receive more, than they pay. UK contributes more than they receive. After leaving, UK will stop contributing annually and that means, that other member states have to start contributing more.<sup>11</sup> After Brexit in 2021-2027 there will be a 94 billion euros less in the budget and at the first look it seems that EU must have to start cutting back some programmes. But according to a brief issued in spring 2018<sup>12</sup> assumes, that due to inflation and growth, the income of the 27 member states will be 28% higher than in 2014-2020, which means, that the financial impact of Berxit for EU is not as high as anticipated.



*Share of GDP exposed to the departure of the United Kingdom from the European Union.*

*Image source: www.politico.com*

<sup>11</sup> „The UK is one of the biggest contributors to the EU budget“ July 13, 2018

<sup>12</sup> Zsolt Darvas, Guntram Wolff. „Rethinking the European Union's Post Brexit Budget Priorities.“ March 2018. Bruegel

Economical consequences with Brexit vary between different member states and it is dependant on the location and trade volumes. Countries, that are close to or have high volume of trade with UK, such as Ireland (10%), Netherlands (4,4%), Belgium (3,5%), Germany (5,5%) and France (2,2%) have the highest impact on their GDP after Brexit.<sup>13</sup>

After Brexit, whatever opt-out option is complied, it will reduce the trade between EU and UK and increase the cost due to taxes and fees on the border. Although loss or decrease of trade with EU is more damaging to UK then vice versa, it is bad for both. And as previously mentioned, it can go as high as 10% loss of GDP for some states. Probably it will not be the worst case scenario.

## FREE MOVEMENT OF PEOPLE

In this modern world living, studying and working as well as tourism has become a reality and inside EU for it's citizens, there are only a few restritions. The situation will change, especially living and working in UK will become more difficult. As previosly mentioned, immigration was one of the main reasons that people voted YES on the referendum. And it was not only migrants from thirld world countries they were concerned about. In 2004, when the largest accention to EU happened, UK opened it's borders to all the new EU citizens. Between 5000 and 13 000 migrants were expected to arrive into UK the first year, but close to 130 000 did.<sup>14</sup>

Theresa May has already stated, tha UK will end free movement of people. *„Two years ago, the British public voted to leave the European Union and take back control of our borders. When we leave we will bring in a new immigration system that ends freedom of movement once and for all. For the first time in decades, it will be this country that controls and chooses who we want to come here.“*

The new plan is to choose migrants according to their skills and education. The aim for this is to avoid people, who come with an intention to receive social benefits or simple labour. According to May, it is fair to ordinary working Brits.<sup>15</sup>

There is 3.2 million EU citizens living in UK and 1.3 million on UK citizens are living in EU. What does Brexit mean to them? According to the joint paper conducted and negotiated between EU and UK government, these people can stay where they are under the same conditions as today. Anyone coming after Brexit day will have to meet the new requirements laid down by UK.<sup>16</sup>

## POLITICAL IMPACT

There is 751 seats in European Parliament, UK holds 73 of these seats. In the Parliament, there are two sides – protectionism and liberalism, which refers to wheather Europe should be more open or closed. UK with it's 73 seats represents liberalism, along with Northern liberal block against Southern protective bloc and without UK, the balance would shift to protctionist bloc. Brexit would also change the political ideolgy – majority of UK's MEP's represent center-right and eurosceptic groups. After Brexit, their loss would strengthen the left and lead to more social Democratic union.<sup>17</sup>

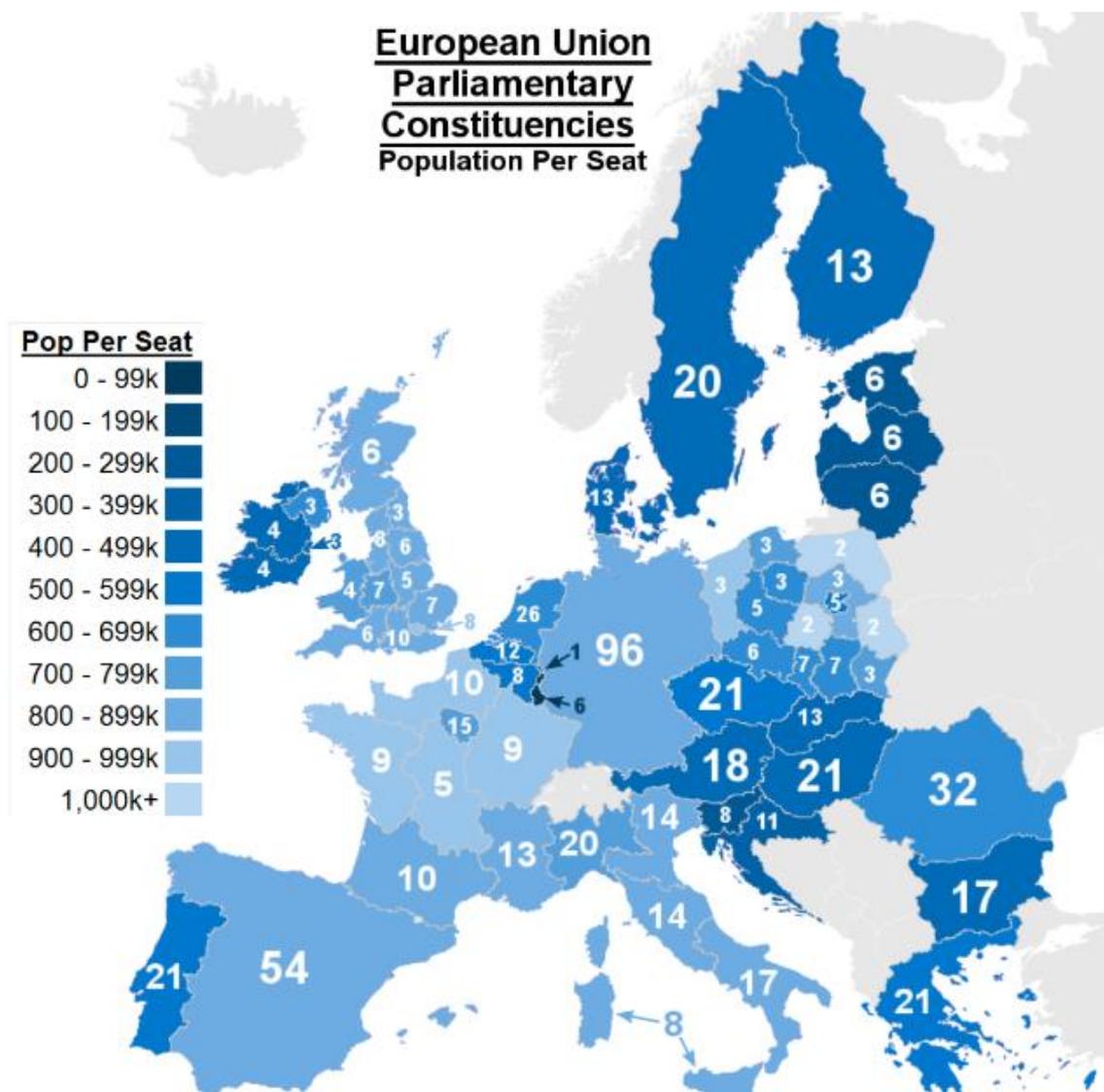
<sup>13</sup> Jacopo Barigazzi. „Where Brexit will hurt most in Europe“ January 8, 2018. Politico

<sup>14</sup> Ian Jack. „Who do I blame? Eight reasons we ended up in this Brexit mess“ March 3, 2018. The Guardian

<sup>15</sup> Tom McTague. „Theresa May unveils new UK immigration system“ October 2, 2018. Politico

<sup>16</sup> „Joint report from the negotiators of the European Union and the United Kingdom Government“ December 8, 2017. European Commission

<sup>17</sup> Oliver Patal, Chistine Reh. „Brexit: The Consequences for the EU's Political System“ 2016. University College of London



Map of EU Parliament 2014, population per seat. Image source reddit.com

UK has been a balancing force between France and Germany. Studies have shown, that after leaving, opposition between the two will grow stronger. France will have more difficulties standing out for their political views and Germany will increase their political power, which can increase opportunity for federalization.<sup>18</sup>

The change in political power after UK leaving can make EU more volatile, controversial and weaker. Since the representation of the liberal member states decreases, EU may become more closed to the outside world than before. There has been discussion about other member states leaving EU, if UK is granted soft Brexit. This is highly unlikely. As mentioned before, UK is one of the biggest countries in EU in terms of GDP, population and MEP's on the European Parliament. Although the EU's immigration politics has been a problem for other member states, most will have a lot more to lose from leaving than UK does.

<sup>18</sup> Kristjan Raid. 2016. „Brexiti poliitilised mõjud Suurbritanniale ja Euroopa Liidule“ Bakalaureusetöö. Tallinna Tehnikaülikool

## CONCLUSIONS

There is no reason to believe, that Brexit won't happen. Brexit affects both – EU and UK and it's hard to say exactly, who will come out of it as a winner, but it is clear, that both sides will suffer some consequences.

In political aspect, there will be a shift in political power inside EU and according to the most probable scenario Germany will gain more power and also some tension between Germany and France will resurface, since the neutralizing UK will not be there. Liberal bloc will lose its power in European Parliament, which would mean that EU will be more closed in terms of trade and there will be more regulations. In political aspect, there is also a threat, that EU will lose its power in foreign politics.

In economy, the consequences vary – it does leave a big hole into EU budget, but when we are considering inflation, there will not be any huge sacrifices for any member states. The trade between UK and EU member states is still an open question. It is really depending on the opt-out option. Unless there is a soft-brexite deal, the trading will change. And that may influence some member state's GDP for as much as 10%.

Since stopping immigration is one of the highest priorities for UK after Brexit, the free movement of people will be affected highly. It is already confirmed, that no-one will have to move due to Brexit, but migrating into UK will be considerably more difficult for everyone in the future.

Brexit would end the European Union as we know it today, but it will not cause the collapse of the EU.

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