

The Business, Political and Legal Impacts of a British Exit from the European Union

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Jonathan Lockwood Shortman

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Supervisor: Georg Ringe

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Abstract

The title of my thesis is: **What are the potential business, political and legal impacts of a 'Brexit' upon the European Union?** I have chosen to investigate using secondary sources that I compare to Kelemen and Yencken's theories.

Kelemen's theory is of four different varieties of disintegration in the EU. Yencken's theory is that post Brexit, the EU would have weaker relations with third countries, particularly those which are English speaking. When conducting my thesis, first I had to determine what form of Brexit would be likely to occur, in order to accurately assess the potential impacts. I found that the most likely form of a post Brexit agreement would be a variant of the Swiss- EU agreement, with some possible single market access for the UK as well. I have exclusively used secondary data because I believe that it is both more time efficient, and has given me the best results possible.

I have found that the EU will be weaker politically and economically if it was to lose the UK's military, diplomatic and financial resources. I also find that the UK leaving the EU would be a form of disintegration. It would be a limited secession by a key member. In addition, I find that the EU would be weaker at maintaining relations with third countries post Brexit.

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1. Introduction

There has been no British vote on the European Union, since the United Kingdom entered the Common Market as it was known in 1975. Europe has always been a divisive issue in the U.K. With both Labour and Conservative governments struggling to keep their parties united at different times over the issue of Europe. The treaties of: Maastricht, Nice, and Lisbon passed with no direct British say, i.e. a referendum. The Euro crisis and migration crisis has divided Europe, with the Paris attacks a stark reminder of the threats that Europe faces, both internally and externally.

Subject to approval by the British Parliament (the House of Commons and the House of Lords) and the electoral commission, the organisation that oversees elections in the UK; there will be a referendum on June 23rd 2016 to determine whether or not the UK should remain a member of the European Union. There is a very real chance of 'Brexit' the phrase coined to describe Britain leaving the European Union. Recent opinion polls have outlined the result as being too close to call and the campaign to remain has eroded its lead over the campaign to leave. Continued membership of the European Union is a massive debate in Britain at the moment, and is set to continue to be until the referendum is decided.

A British 'No' would lead to a phase of two years of exit negotiations under Article 50 of the TEU, Treaty of the European Union, written in during the Lisbon Treaty. Where after two years all EU 'forces' would cease to apply to the UK, until as and when any new deals are created and agreed upon. This of course excludes any European legislation that has been enshrined into British law, though this can be amended by the British government of the day. A member state leaving the EU is unprecedented. Only Greenland and Algeria have left the EU previously and this is no real comparison to if UK left it can be argued. Greenland gained sovereignty from Denmark, and then wished to leave the EU, and became an associated overseas' territory. Algeria gained independence from France, and decided to leave the EU as well. Furthermore, Article 50 of the TEU did not exist when Greenland and Algeria left the EU. Their departure from the EU was written into a new treaty at the time¹. So if the UK left the EU, it would also be the first use of Article 50 of the TEU. What I wish to find out is what will be the potential relationship between the UK and the EU after the UK would leave the Union. Under the Lisbon treaties and Article 50, exit talks would last for two years, and could be extended, after which the treaties cease to exist for the UK, and a new relationship would have to be formed. This is because I can only assess and evaluate the impacts of Brexit upon the EU once I have some idea of what the post Brexit agreement will be.

¹ Peers, 2014 paragraph 2

The vaguely similar comparisons to a 'Brexit' are the Swiss, Norwegian, Canadian and Icelandic models. It could also be argued that none of these are particularly relevant as a Brexit is dealing with a country leaving the European Union and then forming a new relationship afterwards. A country leaving the European Union and then seeking negotiations is unprecedented. Furthermore, other forms of a post Brexit relationship include the UK being completely isolated with no trade agreement in place and falling back onto the World Trade Organisation regulations.

The UK is the second biggest net contributor to the European Budget, after Germany, it has the largest military, is the world's fifth largest economy, third soon to be second most populous EU country after Germany and France and is one of Europe's eldest democracies. As a consequence, the UK presses a liberal democratic agenda in the EU and is also not afraid to be open in opposing things. As shown by the European summit in December 2011 and the British veto executed by David Cameron².

Lots of attention and research has been placed both by journalists and academics on the potential impacts of a 'Brexit' on the UK. Less research and attention has been placed on the potential impacts of a 'Brexit' on the European Union. My thesis seeks to research this issue through the dimensions of business, politics and law as taught through the MSc IBP program.

My thesis does not try to predict the probability of a 'Brexit,' it will just attempt to research what would happen to the European Union if the UK left. Both to the EU institutions; the Council, Commission and Parliament, and the member states themselves.

There are many questions to bear in mind should the UK leave the EU. What would happen to the EU? Weaker or stronger? Shallower or deeper integration? Narrower or wider integration? How would the other non-Eurozone countries fare? What direction would the EU take, minus the anglo-saxon economic model of the United Kingdom? Would the EU go in a more co-ordinated anti-market direction? Would the EU collapse, survive or thrive? Would the EU be more united or divided? Would other member states seek to leave? E.g. Poland, Hungary. What about the smaller E.U states that are so dependent on the UK: Ireland, Cyprus and Malta. Others also exposed are Sweden, Netherlands and Germany. What about EU citizens? E.g. ERASMUS students both to and from the UK, Polish migrants that are already settled in the UK?

The ramifications of a 'Brexit' would be stark for both the UK and the EU across a whole range of issues and competences. As such, it is quite surprising that the impacts upon the European Union

² Hewitt, 2011 paragraph 1

have not been assessed in much detail to date. This thesis will seek to address this gap in the literature.

I expect the findings of my thesis to be that post Brexit, the UK and the EU will enter into a variant of the Swiss relationship with the EU. Whereby there is a general agreement and then other issues are conducted on bi-lateral agreements. As for impacts on the EU, post Brexit, I expect to find that the EU will be weakened post Brexit, both economically and politically. I also expect that perhaps though with the loss of the UK, the EU may become a more united union and be co-ordinated in tackling problems with the Eurozone for example.

1.1 Research Question

What are the potential business, political and legal impacts of a 'Brexit' upon the European Union?

1.2 Research delimitation:

This thesis is pre- dominantly theoretical, assessing potential impacts of a situation, 'Brexit' that is yet to happen and may not happen. This thesis may also not necessarily be explaining but predicting instead. The vote for the UK to stay or leave has not taken place yet, and the UK may actually vote to stay in.

Countered against this is an argument that the process of Brexit is already beginning to take place. David Cameron has already negotiated various agreements and opt outs for the UK, which may be rejected by the British people. A narrow win for either side, may lead to another referendum soon after on revised terms.

This thesis wishes to focus on the potential impacts to the EU, of the UK leaving and not the UK. Potential impacts of other states leaving the EU is not assessed either. Through the risks of other states agitating or wishing to leave will be examined.

I have an opinion on the issue of the UK leaving the EU, but will keep this out of the thesis, and not allow it to cloud or bias any part of my research. From what I have read prior to writing this thesis, I do believe that the EU will be weaker as an institution post Brexit, and my thesis will try and find out if this will be the case should the UK vote to leave.

2. Literature Review

Now I will progress onto the literature review. Where I aim to show the reader what others have written about Brexit consequences to the EU, and how my research can be placed in perspective to this. I particularly focus on what has most recently been written about Brexit, i.e. within the last two

to three years in terms of analysis. I also include theories about EU disintegration, and the risk of contagion, the spread of Euroscepticism transferring from the UK to other member EU states. Some of the texts I review analyse both the potential consequences of Brexit on the UK as well as the EU. My literature review will pre- dominantly focus on the potential consequences of Brexit upon the EU, as this is in line with my research question. I leave the analysis of Brexit upon the UK to others.

2.1 Modelling Brexit

The first source I will analyse and review is by Irwin, published by Global Counsel, entitled *Brexit: the impact on the UK and the EU*. Irwin is chief economist of the Global Counsel and has previously held positions in the Bank of England and the Foreign and Commonwealth Office. In the preface, it is mentioned that Irwin believes that the impacts on the EU will not be as severe as to the UK³, however it is the impacts on the EU that I will exclusively focus on. Irwin's report can be considered to be an impact report with particular focus on economic impacts post Brexit. He also writes about the possible post Brexit arrangements, i.e. models for an EU-UK relationship after the UK has left the EU⁴.

However first I will briefly look at the Swiss, Norwegian, Canadian and Icelandic models.

1. Norwegian style EEA Agreement: The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these⁵. The UK still makes a substantial contribution to the EU budget and is unable to impose immigration restrictions⁶.
2. Turkish style customs union agreement: In this form of agreement, internal tariff barriers are avoided and the UK would adopt many EU product market regulations, or rather continue to follow many EU product relations. However, sector coverage of the customs union is incomplete⁷. The UK would be required to implement EU external tariffs, without influence on the decision making of these tariffs and other rules or guaranteed access to third markets. Indeed access to third markets would be reliant entirely on agreements that the EU would be able to form.
3. Free trade agreement (FTA) based approach: In this form of agreement, the UK would be free to agree FTAs independently and the UK's relationship with the EU is itself governed by

³ Irwin, 2015 p. 2

⁴ Irwin, 2015 p. 6

⁵ Ibid

⁶ Ibid

⁷ Ibid

an FTA⁸. Tariff barriers are unlikely, but as with all FTA's the UK will need to trade off depth - which means agreeing common standards and regulation- with independence⁹.

In the Swiss- style, bilateral accords model the UK and the EU would agree a set of bilateral accords which govern UK access to the single market in specific sectors. There would be concern in Brussels about cherry picking which may limit the sectors of access in the single market¹⁰. The UK would become a follower of regulation in the sectors covered, but would negotiate free trade agreements separately¹¹.

The most favoured nation (MFN) based approach is another form of possible post Brexit EU-UK relationship, and this would be governed by the World Trade Organisation. There would be no need to agree common standards and regulation, but this would be at the expense of facing the EU's common external tariff, which would damage UK trade with the EU in goods as well as services¹². Non- tariff barriers may emerge over time, which would favour damage trade in services in particular¹³.

However, as stated above I will solely focus on the potential impacts upon the EU in Irwin's work. It highlights the main risks of a Brexit as being: Uncertainty, the nature of the political dynamic between large states in an EU without the UK and the risk of political contagion¹⁴. It also states that the states that are most exposed to Brexit are the Netherlands, Ireland and Cyprus¹⁵. The report then goes through versions of Brexit, which have already been mentioned. Irwin also states that the Brexit process could take up to 10 years, and that it will be carried out through Article 50 of the Lisbon treaty (of the TEU)¹⁶. The report also states that the Brexit impacts will be through ten channels: Trade within Europe, foreign direct investment, liberalisation and regulation, industrial policy, immigration, financial services, trade policy, international influence, the EU budget, and uncertainty¹⁷. It is also mentioned briefly that trade could be affected as the UK and EU share a lot of common supply chains¹⁸.

⁸ Ibid

⁹ Ibid

¹⁰ Ibid

¹¹ Ibid

¹² Ibid

¹³ Ibid

¹⁴ Irwin, 2015 p.5

¹⁵ Ibid

¹⁶ Irwin, 2015 p.7

¹⁷ Irwin, 2015 p. 9

¹⁸ Irwin, 2015 p.10

It is also stated in the Global Counsel Impact Report that “post- Brexit outcomes which reduce trade or increase the cost of trade between the UK and the rest of Europe will be damaging for both sides¹⁹.” I.e. both the UK and European Union member states will suffer negative economic consequences of a restrictive trade agreement. The caveat is also mentioned that: “The EU is a more important trade partner for the UK than the UK is for the EU. But UK demand is very important in macro terms for many EU countries²⁰.” I.e. that although in trade terms the UK relies on the EU more than the EU relies on the UK, the EU still relies on demand from the UK. It is further mentioned that: “The UK runs large bilateral deficits against several member states²¹.” I.e. EU member states make a profit, a trade surplus from dealings with the UK, and that a negative trade agreement puts this at risk. Slightly later on it is mentioned that: “The UK may seek to compete more aggressively for investment by undercutting the EU on taxation and the business environment²².” It is explained here that the UK may become an ‘Ireland’ just on a much bigger scale, and be able to draw away investment from Europe or equally force Europe to be more competitive²³. The argument here being that Ireland has a lower rate of corporation tax than many other EU countries, and that if the UK left the EU, then it could undercut the EU, and out compete the EU on a larger scale than Ireland currently does, given that the UK economy is much larger than Ireland’s.

Another issue that the report deals with is the political dynamics within the EU post Brexit and that these dynamics would change as a consequence of Britain no longer being a part of the EU. The EU would lose one of its most liberal states and the ‘middle ground’ of European Union states would shift to a more interventionist outlook so to speak. Irwin states that: “Germany would become more exposed politically, by having to lead opposition to illiberal measures²⁴.” The inclination here being that the EU would lose the UK’s voice on issues such as regulation and state intervention, and that countries such as Germany would have to step up and fill this void during European debates.

Immigration is also mentioned in Irwin’s report. Irwin mentions that immigration concerns are high in other states, and attitudes to immigration perceive it as both an opportunity and a problem²⁵. Here the point is further made that immigration concerns in the UK leading to a vote for Brexit, would embolden citizens in other EU member states to voice their concerns over immigration, and that this may lead to increased dissatisfaction with the EU, and push other member states towards a

¹⁹ Irwin, 2015 p.11

²⁰ Ibid

²¹ Ibid

²² Irwin, 2015 p.13

²³ Ibid

²⁴ Irwin, 2015 p.15

²⁵ Irwin, 2015 p.19 Report citing Ipsos MORI, 2013

desire to exit as well²⁶. Here the concept of ‘contagion’ or rather ‘political contagion’ is being demonstrated and explained.

It is stated further on in the report that with regards to trade: “The EU would be a less attractive partner for trade agreements if the UK was no longer a part of the deal²⁷.” Irwin also states that EU GDP would be around fifteen per cent lower without the UK²⁸. Furthermore, that with the EU including the UK, as a trading bloc, it is larger than the US, but without the UK included it would become smaller than the US²⁹. Irwin also mentions that the UK is a soft power asset for the EU, and that in Europe, the UK’s position in international institutions is matched only by France³⁰. The point is further made that: “The UK gives the EU more leverage when applying sanctions, particularly in the financial sector³¹.” The UK is also the world’s fifth highest military spender, and the highest in the EU³².

In terms of the European Union budget, the UK is the second biggest net contributor, after Germany, as mentioned previously. The UK net contribution, taking into account the British rebate, is five point eight percent of total EU expenditure³³.

Irwin states that: “Brexit will impact on member states through some channels, such as international influence, to largely uniform extent³⁴.” I.e. that all member states will be affected in similar ways through aspects such as international influence. Irwin goes onto say: “That for others the impact will vary on connectedness with the UK, alignment with UK policy objectives, or underlying vulnerability to shocks³⁵.” As mentioned earlier, Netherlands, Ireland and Cyprus are defined as having ‘high exposure’ to a Brexit. Ireland with its particular proximity and close ties to the UK, with all three countries share very strong trade, investment and financial links with the UK³⁶. All three countries are closely aligned with the UK in terms of regulatory and trade policy objectives³⁷. States with significant exposure include Germany, Belgium and Sweden. With Germany in the middle, Irwin argues that Berlin is both influential and would be a good gauge of how states are dealing with the

²⁶ Irwin, 2015 p.19

²⁷ Irwin, 2015 p.23

²⁸ Ibid

²⁹ Ibid

³⁰ Irwin, 2015 p.25

³¹ Ibid

³² Ibid citing International Institute for Strategic Studies

³³ Irwin, 2015 p.27 citing the European Commission

³⁴ Irwin, 2015 p.31

³⁵ Ibid

³⁶ Ibid

³⁷ Ibid

onset of a Brexit³⁸. Sweden also has a close policy alignment with the UK and Belgium has close trade links with the UK³⁹. France has a niche exposure with mid- level trade and investment with the UK offset by conflicting policy objectives⁴⁰. Poland is most exposed through migration and the EU budget⁴¹. Italy as well as other south- eastern European states have little direct exposure, this is because of both geographical and cultural significant distance away from the UK⁴². Italy would also be indirectly affected by changing power dynamics in the EU argues Irwin⁴³.

Irwin states that the “direct impact on the rest of the EU would also be significant.” Irwin goes onto say that: “The export, supply chain, investment and policy interests of many large corporates would be adversely affected, but perhaps the biggest single impact would be on the cost of raising finance in Europe which is likely to increase.” Here it can be argued that it is not just the states themselves that suffer, but because of the nature of globalised trade, companies that conduct their business cross- borders are affected as well. Irwin in his conclusion section argues that: “Brexit would have a wider political impact on the EU both by disrupting internal political dynamics and because of the risk of political contagion if the ‘proof of concept’ of leaving the EU encourages disintegrative forces in other member states⁴⁴.” Perhaps these forces are hard to quantify and predict, however it can be certainly argued that support against the EU in other states may rise if the UK is seen to make a success of Brexit. Irwin also argues that Europe would also lose esteem and influence around the world⁴⁵. I.e. other countries would portray the EU as being a weaker force post Brexit, and holding less global influence it can be argued. Irwin also states that: “Member states would be affected in different ways and to different extents⁴⁶”, but that, “all member states would feel the impact of Brexit both politically and economically⁴⁷.” Here Irwin is arguing that although the impacts may vary in terms of levels of significance between different member states, all member states of the EU will suffer both politically and economically from a Brexit, Irwin argues.

It can be seen, at least to my mind, that through reading Irwin’s report that it views the political and economic costs of a Brexit upon the EU as higher than any political and economic benefits garnered to the EU through Brexit.

³⁸ Ibid

³⁹ Ibid

⁴⁰ Ibid

⁴¹ Ibid

⁴² Irwin, 2015 p.31

⁴³ Ibid

⁴⁴ Irwin, 2015 p.39

⁴⁵ Ibid

⁴⁶ Ibid

⁴⁷ Ibid

2.2 Single-Market Lite

Various paper's take different viewpoints on how a Brexit would be constructed, i.e. how the relationship between the UK and the EU would be formulated. Namely, what trade agreement would be place, and how would business ties be maintained, in the absence of political union and the UK being legally enshrined in the European Union treaties. I have chosen to take Booth et al.'s single- market lite as the most plausible version of a post Brexit agreement. Booth et al.'s paper is entitled: *What if?... The consequences, challenges and opportunities facing Britain outside the EU*, published by Open Europe. Not only have Booth et al formulated a model, they have also put incentives for the model to exist as well as possible barriers to it as well.

As Booth et al write: "Many have argued that the logic of the current trend of EU integration is the creation of a more tightly politically, economically and fiscally integrated constellation of countries centred on the euro on the one hand, and a looser political union, retaining the economic integration of the single market on the other⁴⁸." Booth et al believe that as a result of these factors, the UK could create a new 'single market tier' loosely based on the European Economic Area, with minimal political integration but full membership of the single market⁴⁹. As Booth et al state: "The idea would be to create a comprehensive institutional wrapping for a range of different countries that cannot take part in full-scale, Eurozone-led integration."⁵⁰ The states that would partake this arrangement are shown in Figure 1:

Figure 1: Table of possible states that would form the Single- Market Lite Arrangement⁵¹

- Countries inside the EU not happy with status quo, most notably the UK
- Countries inside the EU that may in the long-term be forced into alternative arrangements due to Eurozone integration, such as Sweden or Denmark
- Countries outside the EU but largely integrated in the EU via sub-optimal models, such as Norway and Switzerland
- Countries outside that are very unlikely to ever join a euro-centred, highly integrated EU, such as Turkey.

It is written by Booth et al that the advantage of this arrangement is that states that previously had no realistic prospect of joining the EU in the short term, and therefore of joining the same European tier, e.g. Turkey, would mean that there; "would be geo-political benefits and keeping Europe

⁴⁸ Booth et al., 2015 p.64 citing House of Commons Foreign Affairs Committee. "The Future of the European Union: UK government policy," 2013 pp.79-80

⁴⁹ Booth et al., 2015 p.64

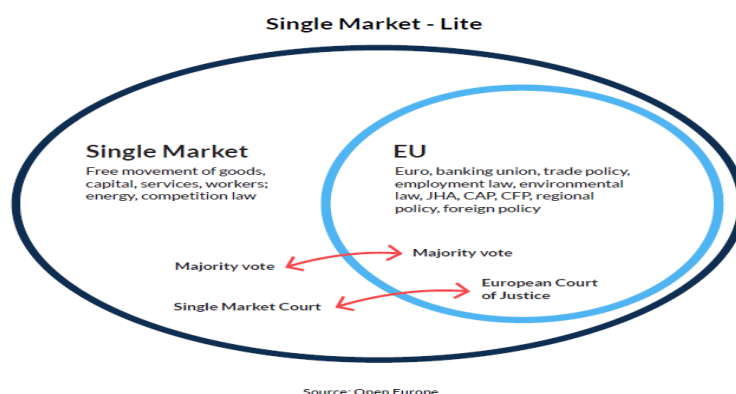
⁵⁰ Ibid

⁵¹ Ibid

together⁵².” However as a moot point it could be argued that due to the leverage that Turkey has found as a result of the migration crisis, perhaps Turkey’s prospects of joining the EU are not as remote in the short to medium term as was previously thought.

The following figure presented by Booth et al. shows how the Single Market lite arrangement would work:

Figure 2: The Single Market Lite⁵³



I will now delve into more explanation of the Single Market Lite formulation. The first test is market access, with the UK still having access to the single market in free movement of goods, capitals, services, workers; as well as energy and competition law, as shown in the figure above⁵⁴. This would satisfy a key pre- requisite of single market access - the free movement of labour, i.e. people. Though, perhaps the UK would be able to strike a deal with EU workers only being able to come and reside in the UK if they had a job offer for example. I.e. EU workers wishing to reside and work in the UK may not be that affected by Brexit, depending on the agreement.

The second test proposed by Booth et al is a say over the rules with particular regards to voting rights and a judicial filter⁵⁵. The point here is for representation for non-EU states, so there is ‘no regulation without representation’⁵⁶. Booth et al. write that this would have to differ to the European Economic Area so that; “voting rights are granted to the single market tier on issues that affect them and a judicial mechanisms where single market states can challenge decisions”⁵⁷. Booth et al. write that: “For example, for a proposal to apply right across the single market area, there

⁵² Ibid

⁵³ Ibid

⁵⁴ Ibid

⁵⁵ Booth et al., 2015 p. 65

⁵⁶ Ibid

⁵⁷ Ibid

could be a majority required for both the EU states and the single market states⁵⁸.” This currently applies to decisions in the European Banking Authority⁵⁹. Another way of protecting single market states is to have a new blocking minority threshold which as Booth et al write could be used by all the European Union and single market states⁶⁰. For example Booth et al write that: “Under a compromise reached under the Lisbon Treaty from April 2017, if member states from the EU representing 20% of the EU population indicate their opposition to the EU adopting an act by a qualified majority the Council of Ministers must discuss the issue and “do all in its power” to find a “satisfactory solution to addressed concerns raised⁶¹.”

Structured defection is another way to deal with this issue. Professor Damian Chalmers has argued that if all or a sizeable amount of a collection of single market states object to a proposal it should fall, i.e. through a collection of national parliaments being able to bind together and veto a proposal⁶².

With regards to creating a judicial filter, there is an issue of preventing the single market from falling to judicial capture. Booth et al. believe such a case could arise whereby the European Commission uses a single market treaty to bypass the single market lite states⁶³. Booth et al. state how the creation of a single market court could prevent this from happening and allow single market states that are not a part of the EU forum a judicial platform to challenge decisions made by EU institutions such as the Commission⁶⁴. The EFTA court could be a model for the Single Market Court, however as Booth et al. write the EFTA court only has 20 full time staff, which includes judges and would need to have more resources⁶⁵. Booth et al. further write that national courts of the states in the single market lite arrangement could be strengthened to amend or reject ECJ case law⁶⁶.

The following figure, also in Booth et al’s report shows other scholars who have written about a possible Single Market- Lite Arrangement.

⁵⁸ Ibid

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ Booth et al., 2015 p.65 including their citation 126: A blocking minority is currently 35%. Declaration on Article 16 (4) of the Treaty on European Union and Article 238 (2) of the Treaty on the Functioning of the European Union, introduces, from April 2017 an additional safeguard. This is triggered if 55% of the EU population or of the number of member states necessary to constitute a blocking minority (i.e. 20%) indicate their opposition to a proposal.

⁶² Booth et al., 2015 p.65 and Booth et al., 2015 p.65 citing Professor Damien Chalmers, ‘Democratic self government in Europe,’ Policy Network 2013; www.policy-network.net/publications/4399/democratic-self-government-in-europe

⁶³ Booth et al., 2015 p. 65

⁶⁴ Booth et al., 2015 p. 66

⁶⁵ Booth et al., 2015 P.66 citing EFTA Court, Annual Report, 2013, p.1028:

www.eftacourt.int/fileadmin/user_upload/Files/AnnualReports/EFTA_Court_Report_Book_2_2013.pdf

⁶⁶ Booth et al., 2015 p.66

Figure 3: Other scholar's version of a single market lite arrangement

Proposals for associate membership or two-tier European Union	
Michiel van Hulten, 'To get out of this crisis we need to rebuild Europe from scratch', <i>European Council on Foreign Relations</i> , 2011 ¹²⁹	The creation of an outer European Area of Freedom, Security and Prosperity, and an inner European Political and Economic Union. The outer tier would be based on the Single Market but would also involve a common foreign and security policy. Decision-making in the 'outer-tier' would be by unanimity. Democratic control would be exercised by national parliaments, not the European Parliament. The inner tier would involve full political and fiscal union and would take all decisions by qualified majority.
Lord Owen, 'Europe Restructured: The Eurozone Crisis and Its Aftermath', <i>Methuen</i> , 2012 ¹³⁰	The establishment of an outer European Community and an inner European Union. The European Community would comprise the single market as it applies in the EEA operating under qualified majority decision-making, with coordinated foreign and security policies. The inner European Union, based on the Eurozone, would involve common fiscal and monetary policies.
Thierry Chopin, 'Two Europes?', in 'Europe in search of a new settlement', <i>Policy Network</i> , 2013 ¹³¹	A two-tier model in which the EU effectively becomes the Eurozone and the states wishing to join it, and the EEA is revised to give the EEA's non-EU member states equal voting rights over the single market and other relevant common policies.

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A third test that Booth et al. state is independence, and having a tightly defined single market⁶⁸. Booth et al. state that: "To make Brexit worth it Single Market- Lite membership would have to be far more strictly defined than the EEA⁶⁹." The next figure shows that in addition to what is excluded by the EEA, other things could be excluded as well:

Figure 4: Booth et al.'s In and Out Single Market-Lite Arrangement

What would a Single Market-Lite look like?	
Included	Not included
<ul style="list-style-type: none"> Free Movement of Goods (with/ without Customs Union and with/ without agricultural goods). Free Movement of Services. Free Movement of Capital. Free Movement of Labour. Energy and Transport in so far as the measures are aimed at creating a single market. Competition law, state aid measures and non-discriminating measures on tax. 	<ul style="list-style-type: none"> Social and employment policies Regional policy Employment law Health & safety Climate change legislation (although there may be room for overall cross-border targets) Tourism, industry and culture Energy and Transport policies not related to single market Justice and Home affairs (although there could be intergovernmental bilateral agreements) Common defence and foreign policy (although there could be intergovernmental bilateral agreements)

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As Booth et al write: It may be the case, though not necessary that the UK would be outside the EU customs union, and that if the UK was outside the EU customs union it could advocate its own trade

⁶⁷ See Booth et al., 2015 p.66 for detailed citations

⁶⁸ Booth et al., 2015 p.66

⁶⁹ Ibid

⁷⁰ Booth et al., 2015 p.67 see also Appendix 1

policy⁷¹. What is further mentioned is that a club with countries such as Turkey and Ukraine would for political reasons have to have much tighter controls, for example on the freedom of movement of people⁷².

The fourth test set out by Booth et al. is negotiability. As Booth et al. write: "Of all the potential models, this would be the hardest to negotiate as it would require a series of negotiations to parallel treaty structures covered by 31 national vetoes⁷³." Another point is that: "The EEA, EFTA and EU treaties can only be changed through unanimous agreement if all participating member states agree⁷⁴." With the EEA treaty needed to be changed on many points which as Open Europe writes would include: "To allow the UK in, to narrow the scope of the Treaty and to introduce new voting structures⁷⁵." Furthermore, "The UK would need to apply to re-join EFTA⁷⁶ and the EU treaties would have to be changed in various ways to change the UK's status and to accommodate for the new voting structures⁷⁷."

Booth et al. when first addressing the issue of what are the incentives for the other member states to strike a favourable agreement for the UK make an opening point that two of the drawbacks with the current EEA/ EFTA trade agreement is the democratic deficit and the mismatch in power between the EU and the EFTA⁷⁸. The point being here that the UK leaving the EU and the creation of the Single Market- Lite arrangement would go a long way to correcting this as shown in the model above. Furthermore that; "the outer tier would have far more leverage in any talks, including in the negotiation in the creation of itself, with the UK, as the world's fifth largest economy on board⁷⁹." Booth et al. also argue that this would be of benefit to Switzerland as well: "For Switzerland, in particular, this could have the added benefit of providing an institutional wrapping for an increasingly contested and unequally yoked relationship with the EU⁸⁰." Booth et al. also write that: "From the UK perspective, it would make the associate membership club bigger and therefore act as a greater counterweight to the Eurozone countries⁸¹."

⁷¹ Booth et al. 2015 p.67

⁷² Ibid

⁷³ Ibid

⁷⁴ Ibid

⁷⁵ Ibid

⁷⁶ Booth et al., 2015 p.67 footnote 132 citing Martin Howe, QC, "Zero plus: the principles of EU renegotiation," Politea, 2014 p.5;

www.politea.co.uk/sites/default/files/files/Zero_Plus_The_Principles_For_EU_Renegotiation.pdf

⁷⁷ Booth et al., 2015 p.67

⁷⁸ Ibid

⁷⁹ Ibid

⁸⁰ Ibid

⁸¹ Ibid

For Booth et al. write “Having the UK and other European countries that are growing economically as part of a large vibrant and rules based single market; expanding the zone of trade and stability to countries that previously did not have a realistic prospect of joining the same tier of states such as Turkey- comes with geo-political benefits as well as keeping Europe together⁸².”

Booth et al. also write that there are some general and specific sticking points⁸³. These are presented in the following figure.

Figure 5: Booth et al.’s sticking points of a single market-lite arrangement

- The UK joining the EEA/EFTA alone would massively upset the balance of power in the club given that the UK would be so much larger - this is the weakness of a “double majority” voting arrangement. Would Norway and Switzerland agree?
- On the EU-side, there would be a range of objections ranging from granting single market access without the current costs and agreeing the new voting structure.
- Membership of the single market and acceptance of the four freedoms has also traditionally meant accepting the free movement of persons. The EU’s reaction to Swiss demands to renegotiate their agreement on free movement suggests that adhering to this principle may be a non-negotiable condition of membership of the single market.
- Removing areas like employment law and climate challenge will face push-back from EU member states concerned about ‘social dumping’. In combination, negotiating a single market plus model may actually be easier from within the EU than from outside.

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Another alternative, or a slight alteration to the single market- lite approach is adjusting the Swiss arrangement to suiting the UK’s needs⁸⁵. This would be where “the UK would attempt to gain similar markets to the EU as it has now, but from outside the single market⁸⁶.” UK exporters would enjoy a similar access to the UK markets, but the UK itself would not be in the single market⁸⁷. As Booth et al. write: “Such an option could take the form of an adapted Swiss style free trade agreement and series of bilateral deals or a single ambitious deep and comprehensive free trade agreement⁸⁸. Booth et al. state that this arrangement would be ‘looser’ than an associate arrangement⁸⁹. The following table by Booth et al. shows how the Swiss model could be adapted to the UK.

⁸² Booth et al., 2015 p.68

⁸³ Ibid

⁸⁴ Booth et al., 2015 p.68

⁸⁵ Booth et al., 2015 p.69

⁸⁶ Ibid

⁸⁷ Ibid

⁸⁸ Ibid

⁸⁹ Ibid

Figure 6: Booth et al.'s adaptation and remedies for a Swiss model of the EU relationship for the UK

Problem with Swiss model	Remedy	Likelihood of negotiating it
No agreement on cross-border access for financial services	a) Aim to secure "equivalence" with EU regulations b) Negotiate a comprehensive financial services agreement a part of an FTA	a. Medium b. Low
Forced to play catch up to EU regulations to ensure market access	Create a 'living agreement' with mechanisms to coordinate regulation and prevent discrimination.	Medium
No legal recourse if new EU regulation causes trade barriers	Negotiate some form of investor state dispute resolution mechanism.	High
No ability to limit EU migration	Negotiate a 'safeguard clause' or 'emergency brake'.	Medium

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To begin with Booth et al. almost imply that the ball is in Europe's court should Brexit occur: "The economic advantages and disadvantages of Brexit will depend to a large extent on the future relative economic dynamism of the EU⁹¹." Booth et al. go onto explain this point further, "If it manages to overcome its current economic problems, and liberalise internal and external trade then the cost of Brexit relative to remaining within the EU will be higher⁹²."

A further point mentioned by the Booth et al. is what happens upon Brexit and how both sides will conduct negotiations on Brexit should the British people vote to leave the EU⁹³. As Booth et al. state: "There is an incentive on both sides to minimise the economic disruption resulting from withdrawal, which would certainly act as motivation to conclude an agreement relatively quickly⁹⁴." The inference being here I argue is that at least any political will to punish the UK for leaving will be triumphed by economic concerns, and that in seeking an agreement post Brexit, both the UK and the EU will want to secure their economic interests first. A further point linked to this point is that there is very little precedent for a member state leaving the EU⁹⁵. Indeed no member state has ever left the EU before, with only Greenland withdrawing from the then European Economic Community on 1st February 1985 having gained home rule from Denmark in 1979⁹⁶. However as written by Booth et al.: "In this case only part of a territory exited the EU and Greenland became associated with the EU as an Overseas Country and Territory (OCT) through the Greenland Treaty⁹⁷." This kind of association would of course not be possible or applicable to the UK. A further point mentioned is that political needs will outstrip legal needs, i.e. creative legal arrangements without precedent may be made to

⁹⁰ Booth et al., 2015 p.68

⁹¹ Booth et al., 2015 p.6

⁹² Ibid

⁹³ Booth et al., 2015 p.16

⁹⁴ Booth et al., 2015 p.16

⁹⁵ Ibid

⁹⁶ Booth et al., 2015 p.16

⁹⁷ Ibid

satisfy political needs. As Booth et al. write: “As is often in EU talks, the politics of necessity is likely to trump the letter of the law⁹⁸.” So it seems with regards to exit talks at least that Booth et al. believe that economic concerns/ potential impacts supersede political concerns with they themselves superseding legal concerns.

Other papers, such as Irwin and Petersen et al, as well as Petersen & Thorde have written extensively about financial concerns and the effect on foreign direct investment and jobs. Booth et al. also cover this issue in some detail as well. With regards to the impact on Foreign Direct Investment and jobs, Booth et al. write: “Long- term decisions will be based on individual manufacturers’ exposure to EU markets, the exact trade agreement that replaces EU membership and the ability to maintain an integrated EU supply chain⁹⁹.” What is also mentioned by Booth et al. is that: “EU firms with a presence in the UK would want to minimise disruption to their supply chains¹⁰⁰.” This in my mind at least implies that relocation is a disruption and that EU firms would seek to avoid this. Perhaps Booth et al. are saying that the risk of relocation is not as high as what other papers have implied, given it finds consequences to be not as severe, as will be seen in the presentation of findings later on in this thesis. Furthermore, to this point the paper by Booth et al. states that it is “Relatively easy to negotiate deals on rules on origin¹⁰¹.”

Booth et al. also deal with the concept of ‘integration’ as also mentioned by Kellermen¹⁰². Booth et al. state that: “Many have argued that the logic of the current trend of EU integration is the creation of a more tightly politically, economically and fiscally integrated constellation of countries centred on the euro, on the one hand, and a looser political union, retaining the economic integration of the single market on the other¹⁰³.”

It is also mentioned by Booth et al. the issue of financial regulations and how they would be in the UK post Brexit. I.e. would EU financial regulations continue to apply to the UK after Brexit, or would the UK be able to undercut the EU on financial regulation and drive business away from EU member states and to the UK instead¹⁰⁴. As can be deducted from Booth et al., the top ten of EU financial services and regulations are all enforced at EU level¹⁰⁵. Furthermore, any single market lite agreement arranged post Brexit would in my opinion mean that the UK would have to observe the

⁹⁸ Ibid

⁹⁹ Booth et al, 2015 p.33

¹⁰⁰ Ibid

¹⁰¹ Booth et al, 2015 p.33 citation 49 in the report

¹⁰² Booth et al, 2015 p.64 and Kellermen, 2007 p.64

¹⁰³ Booth et al, 2015 p.64 citation 124 in the report

¹⁰⁴ Booth et al, 2015 p.74

¹⁰⁵ Booth et al, 2015 p.89

EU's financial rules and regulations to be allowed access to the single market. Another point as will be touched upon later, is that often the City of London's financial regulation is more strict than the EU, and that often in the EU, the UK is pushing for tighter regulation, e.g. minimal hold of capital for banks¹⁰⁶.

2.3 The impact of Brexit from the point of view of German and British businesses; Bertelsmann Stiftung

The next source is a survey conducted by Petersen et al. for the Bertelsmann Stiftung. They survey the impact of Brexit from the point of view of German and British businesses. They start the survey by defining their concept of Brexit which is: "For purposes of this survey we assumed the best case scenario for the UK and defined Brexit as a UK departure from the EU as a political entity, while remaining within the European free trade zone or single market¹⁰⁷. A positive form of agreement similar to what Booth et al. formulate in their single market lite model. It is also stated by Petersen et al. that: "52% of German and British companies cite access to a large single market as the greatest benefit of EU membership¹⁰⁸." This implies that single market access would be the biggest concern to the researched companies of a post Brexit UK- EU agreement.

Petersen's et al. survey on British and German firms cites its earlier study on the potential economic impacts of Brexit, which I will delve into later in my literature review. With the costs and benefits of a UK exit from the EU differentiated between the three possible outcomes of a Brexit¹⁰⁹." Those three possible different scenarios are described as: "A 'soft exit' with the UK gaining a similar status to that of Switzerland and Norway" and assumed in their survey, "a 'deep cut' with the UK losing the non- tariff trade advantages of the single market, and a case of complete "isolation" where the UK loses its access to the EU common market entirely¹¹⁰." Petersen et al. see the later scenario 'isolation' as unlikely, but that a partial restriction is possible¹¹¹. They also state that should the scenario be a 'deep cut' or 'isolation' instead of a 'soft exit' then: "Business reactions to this can be expected to be even more negative than what is already captured in this survey¹¹²." Implying of course, that the results in their survey are pre- dominantly negative. It is also mentioned that: "Free movement of labour was cited by 22 per cent as a major advantage which might be lost in the event

¹⁰⁶ Booth et al, 2015 p.91

¹⁰⁷ Petersen et al., 2016 p. 5

¹⁰⁸ Petersen et al., 2016 p. 10

¹⁰⁹ Ibid

¹¹⁰ Ibid

¹¹¹ Ibid

¹¹² Petersen et al, 2016 p. 10

of a Brexit¹¹³.” It is Petersen et al.’s research in the financial sector, which has particularly strong implications. As stated in the survey: “Asked about Brexit’s impact on the finance industry’s revenue, investment levels and employment levels three years after an exit, the negative predictions outweighed the positive ones by a factor of roughly 4 to 1 every time¹¹⁴.” This implies that it firms in the financial sector have serious concerns about the implications of a Brexit. Petersen et al. also state: “The same alarming ratio can be found when looking at the predictions about their own companies’ revenues and investment levels¹¹⁵.” So companies are both concerned about the financial sector in general as well as their own company post Brexit. Petersen et al. also state that: “52% [of those surveyed] have “negative” or “very negative” outcome about employment levels three years after Brexit, five times as numerous as the optimistic prognoses.” Furthermore, it is written: “33% of surveyed financial services providers would meet a potential Brexit by either reducing their capacity in the UK or even relocating away from the UK; second only to IT companies (41%)¹¹⁶.” Indeed the survey even strikes down one of the main arguments in the UK for Brexit: “Considering the independence of the British financial sector to be an often cited argument by proponents of the Brexit, the threat of losing capacity from 1/3 in every financial services companies in the UK is a mighty blow indeed¹¹⁷.”

The data produced by Petersen et al. could be argued to be highly rhetoric in its nature, as it asks for example will you reduce capacity instead of how much would you reduce capacity by. Also that it surveys a number of German and British firms, and then makes large sweeping conclusions from the data they find. However, its results and analysis are still useful for this thesis, and some of it will be used in my analysis later. This is because I believe that it is one of the few papers out there that asks firms and businesses directly of their opinion of how their industry and firm will be affected by Brexit, and a post Brexit UK-EU agreement.

2.4 Potential economic consequences if the UK exits the EU; Bertelsmann Stiftung

This paper both presents theoretical components that I will outline now and important data that I will include later on. One of the first things mentioned in the paper is that there are other voices critical of the EU throughout Europe and that Euro-scepticism per se is not a uniquely British phenomenon. “Other countries with voices critical of the EU: “Die (wahren) Einen,” the “Alternative

¹¹³ Ibid

¹¹⁴ Ibid

¹¹⁵ Ibid

¹¹⁶ Ibid

¹¹⁷ Ibid

für Deutschland,” Italy’s “Lega Nord” and the “Party voor de Urijheid” headed by Dutch right- wing populist Geert Wilders are EU sceptic movements that are gaining traction.¹¹⁸

Petersen & Thorde set out some key reasons for rejecting the EU, these include: “Fear of losing national identity and sovereignty, concerns about overregulation by the EU through transferring too much power to Brussels and high net payments to the community¹¹⁹.” I.e. these are possible explanations for a wish to leave the EU. Furthermore, other concerns with the EU leading to reasons that create a desire to leave the EU as stated by Petersen & Thorde is: “High immigration levels from other EU member states accompanied by the loss of the country’s own culture, rising unemployment and the social security systems being overwhelmed¹²⁰.” Linked to this is that: “In addition, people are questioning whether EU membership offers any benefits at all for their own country¹²¹.” Here it can be seen that Petersen & Thorde identify that some citizens of the EU feel that the EU brings no benefits and only costs.

From page five in Petersen & Thorde’s policy briefing paper there is a sub heading entitled the Brexit’s economic effects on Germany and Europe¹²². To me this implies that because she is at the forefront of EU politics, Germany is seen to have significant economic exposure to Brexit should it happen. However, the first state that is mentioned by Petersen & Thorde as being significantly vulnerable, economically at least, is Ireland¹²³. As stated by Petersen & Thorde: “Ireland would be hit particularly hard with real income losses of between 0.8 and 2.7 per cent¹²⁴.” Germany’s deadweight loss would be slightly below the average compared to other member states¹²⁵. The results from this paper will be looked at more closely in the description of findings and analysis sections later on in this thesis.

Another point mentioned by Petersen & Thorde is that if Brexit happens, then the remaining member states will have to increase their budgetary contributions to make up the shortfall from the absence of the UK, and that the biggest economies will have to pay the most¹²⁶. This will also be covered in more depth in the description of findings. Another key point is that the data produced by Petersen & Thorde projects that in the best case scenario the UK will have GDP losses of around 0.6 per cent, but the key quote from the article on this point being: “Economic weakening of the British

¹¹⁸ Petersen & Thorde, 2015 p.2 citing Peters 2014 as well as Hoffmann 2014, pp.2-10

¹¹⁹ Petersen & Thorde, 2015 p.2

¹²⁰ Ibid

¹²¹ Petersen & Thorde, 2015 p.2, also recommends Beichelt 2010 and Peters 2014

¹²² Petersen & Thorde, 2015 p.5

¹²³ Ibid

¹²⁴ Ibid

¹²⁵ Ibid

¹²⁶ Petersen & Thorde, 2015 p.5

economy would also have consequences for the remaining EU countries¹²⁷.” Even though this paper focuses on economic data and economic effects, it is still also able to make political argumentation as well. A quote that demonstrates this is: “Politically, a Brexit would be a significant setback for European integration and would inevitably weaken the EU¹²⁸.”

2.5 Brexit could be good for Europe

This is a short internet article with some theoretical argumentation for how Brexit could actually have some positive impacts on the European Union, written by Clive Crook. Cook quotes the former governor of the Bank of England Mervyn King, who writes that: “Some of the worse policy mistakes arise from thinking that the future leads itself to analysis of probable outcomes, where you can attach numbers to the risks, and consider all eventualities covered¹²⁹.” Crook writes that: “Radical uncertainties forbids that approach and that you couldn’t ask for a better example than Brexit¹³⁰.”

Crook also writes that: “The EU finds methodical reform extremely difficult. Instead it proceeds from crisis to crisis, improvising as it goes¹³¹.” Crook points out that the many of the EU members suffer from chronically high unemployment, persistently slow growth, and continuing financial fragility. Linked to this point, that without reforms to address the structural weaknesses of the euro system, Europe’s economic future is not bright¹³².

Crook speculates that the prospect of a Brexit might prompt some bold thinking¹³³. He argues that: “Preventing further defections would be Europe’s first order of business¹³⁴.” Crook argues that this could lead to: “Accelerate the reforms the continent needs, as well as prompting greater fiscal support for the weakest members, thus addressing one of the euro zone’s biggest defects¹³⁵.”

Crook further argues that without Britain, the EU would lose its most truculent member¹³⁶. “That therefore the balance of opinion among its governments and voters would shift in favour of closer cooperation, and that looking farther ahead, Brexit would make a United States of Europe more likely¹³⁷.”

¹²⁷ Petersen & Thorde, 2015 p.5

¹²⁸ Ibid

¹²⁹ Crook, 2016 paragraph 2 citing Mervyn King The End of Alchemy

¹³⁰ Crook, 2016 paragraph 3

¹³¹ Crook, 2016 paragraph 9

¹³² Crook, 2016 paragraph 8

¹³³ Crook, 2016 paragraph 10

¹³⁴ Ibid

¹³⁵ Ibid

¹³⁶ Crook, 2016 paragraph 11

¹³⁷ Ibid

Crook argues that this would be possibly good for the EU¹³⁸. As Crook argues: “Perhaps, among other things, it would mean faster growth, lower unemployment and greater economic resilience¹³⁹.”

Crook also writes that: “If Brexit helped the EU to mend itself and grow, the gains to Britain, to say nothing of the gains to Europe, might easily outweigh the costs¹⁴⁰.”

Crook also argues that: “Radical uncertainty means that exercises like the UK Treasury’s can’t be taken too seriously.¹⁴¹” Furthermore: “Such studies are best used to deepen the discussion; they shouldn’t be used to feed false confidence by confining inquiry to a misleadingly narrow set of issues¹⁴².” An argument that to some degree persuaded me not to add the Treasury’s analysis of Brexit as a late inclusion to my thesis.

Crook also mentions how the Treasury report takes just one version of how a Brexit would take place, a fairly negative exit agreement, and does not consider all possible options, and then it seeks to draw definitive conclusions from that, hence the problems in its methodology as mentioned by Crook¹⁴³. What also can be mentioned here is that other sources that rely on only one form of Brexit, will also suffer from this same weakness of their methodology by not diversifying. This is regardless of if the post Brexit deal they envisage is a soft, neutral or hard exit agreement.

2.6 Europe Without Britain

Another writer on Brexit and its implications on the EU is Oliver. Oliver in his paper *Europe without Britain*, focusses on the process of withdrawal, the legal intricacies and the impacts upon the European Union of a British exit. Oliver argues that it would be in the EU’s interest to negotiate with the UK post Brexit¹⁴⁴: “The EU would certainly be compelled to negotiate in order to try and limit such damage to it¹⁴⁵.” Oliver also argues that there have been deep uncertainties as to what withdrawal would mean for European integration as set out in the preamble of the TEU, whether closer union among the peoples of Europe could continue after a state leaves the union¹⁴⁶.

Oliver argues that the withdrawal negotiations would be a difficult, lengthy and complex process¹⁴⁷. “Without a well drafted agreement there would be the possibility of endless legal arguments and

¹³⁸ Crook, 2016 paragraph 12

¹³⁹ Crook, 2016 paragraph 11

¹⁴⁰ Crook, 2016 paragraph 12

¹⁴¹ Crook, 2016 paragraph 13

¹⁴² Ibid

¹⁴³ Crook, 2016 paragraphs 12 and 13

¹⁴⁴ Oliver, 2013 p. 12

¹⁴⁵ Ibid

¹⁴⁶ Ibid

¹⁴⁷ Ibid

doubts as to the legal status of British and EU persons, legal entities in both the UK and the EU, and agreements and treaties entered into by the EU and UK¹⁴⁸.” Furthermore, that at this time of negotiation, there would be uncertainty over the nature of a future relationship between the UK and the EU¹⁴⁹.

Oliver argues that if the Swiss model is assumed then issues of negotiation would include: “ The free movement of persons, civil aviation, overland transport, agriculture, technical barriers to trade, public procurement, scientific research, Schengen, fraud, education, statistics, environment, media, taxation of savings, pensions, Europol and Eurojust¹⁵⁰.”

A further problem would be that the status of British citizens working in EU institutions would need to be dealt with¹⁵¹. As other writers such as Irwin and Booth et al. mention, Oliver also states how there would need to be an agreement about the status of EU citizens living in the UK and vice versa¹⁵². “What rights British and EU citizens would hold would depend on what post- withdrawal framework was agreed, e.g. would the UK remain a part of the EEA.¹⁵³” Oliver argues that the UK leaving the EU, and termination of a treaty can only affect its continuing obligations to other member states¹⁵⁴. “Thus, any rights which a state had acquired against the other Member States and vice versa, prior to the termination or withdrawal, would continue to be effective, and any which arise or continue after that date, would not¹⁵⁵.” Oliver also mentions that negotiation may start pre the UK triggering Article 50¹⁵⁶. Oliver also argues that the nature of a withdrawal, and hereby the withdrawal agreement will be influenced by the political mood on both sides¹⁵⁷. Oliver argues that: “The rest of the EU may be in no mood to offer concessions if the British people had rejected a renegotiated relationship seen as generous¹⁵⁸.”

Oliver argues that a European Council would need to decide on changes to the system of QMV post Brexit, so as to reflect the disappearance of the UK with its 29 votes¹⁵⁹. In the ensuing negotiations all states would be mindful of how the balance of power would change as a consequence¹⁶⁰.

¹⁴⁸ Oliver, 2013 p. 14

¹⁴⁹ Ibid

¹⁵⁰ Ibid

¹⁵¹ Ibid

¹⁵² Ibid

¹⁵³ Ibid

¹⁵⁴ Ibid

¹⁵⁵ Ibid citing Miller

¹⁵⁶ Ibid

¹⁵⁷ Ibid

¹⁵⁸ Oliver, 2013 p. 15

¹⁵⁹ Ibid

¹⁶⁰ Ibid

Furthermore Britain's 73 seats in the European parliament would need to be redistributed and the process of reallocation, at least initially would be unclear¹⁶¹. Would a cap such as Germany's be raised and every state gains representation, or would the Parliament simply be reduced by 73 members¹⁶²? Oliver also identifies that the political party groupings in the European parliament would see the loss of the British contingents¹⁶³. There would also be as Oliver argues: "A change to associate membership for their involvement in the wider activities of groups such as the Party of European Socialists, the Alliance for Liberals and Democrats for Europe party and the European Free Alliance¹⁶⁴."

Oliver describes other institutional changes such as: "the loss of the British European Commissioner, the removal of British judges from the European Court of Justice¹⁶⁵." As well as changes to quotas to staff employed in other institutions of the EU¹⁶⁶. Oliver writes that: "While English is likely to remain the working language of the EU, some questions will be raised about its widespread usage, given only Ireland and Malta would remain as member states where English is an official language¹⁶⁷." A point also raised by Yencken in his paper.

Oliver also writes that the EU budget would need to be rebalanced in the event of a Brexit, and that the issue of the British rebate will be ended¹⁶⁸. As Oliver writes: "The EU would no longer have to pay the UK 6,750 million euros in EU funding for areas such as agriculture, research, and regional development¹⁶⁹." But as Oliver argues, the EU would still need to account for the UK's net contribution which in 2011 was 4,703.4 million euros, which is similar to the net contributions of 4,888.5 million euros from France and 4,750.3 million from Italy, with Germany's net contribution at 7,538.1 million¹⁷⁰.

Although as Oliver mentions the UK, post Brexit could still make a financial contribution to the EU, as Switzerland and Norway do, which would soften the financial blow on the other member states¹⁷¹.

¹⁶¹ Ibid

¹⁶² Ibid

¹⁶³ Ibid

¹⁶⁴ Ibid

¹⁶⁵ Ibid

¹⁶⁶ Ibid

¹⁶⁷ Ibid

¹⁶⁸ Ibid

¹⁶⁹ Ibid

¹⁷⁰ Oliver, 2013 p.15 citing *EU Budget 2011, Financial Report (Brussels: European Commission, 2012)*
http://ec.europa.eu/budget/library/biblio/publications/2011/fin_report/fin_report_11_en.pdf

¹⁷¹ Oliver 2013, p. 15

Indeed as Oliver states: “One estimate using Norway as a guide puts a UK contribution at 4 billion euros a year¹⁷², while using the EU Swiss model as a guide puts a UK estimate at 1.4 billion euros¹⁷³.”

Oliver then lays out the protocol and possible length of time for withdrawal, with the UK only being excluded from discussions in the European Council and Council of Ministers on its withdrawal¹⁷⁴. As a consequence, Oliver argues, this would prompt questions on the UK’s influence on other issues: “This would inevitably prompt concerns about UK influence over policy to be implemented after its withdrawal.”¹⁷⁵ Furthermore British pressure and lobbying would not disappear. Oliver also writes that: “The timescale of negotiating a British withdrawal could present problems for the European Court of Justice, which may be unable to hear or settle all necessary cases connected to the UK during the two years, or however long the withdrawal negotiations take.”¹⁷⁶ This could create a legal headache as cases that would involve the UK may not be able to be settled until after the UK has left the EU, and then how would these decisions apply, both to UK and EU law.

Also Oliver identifies extreme scenarios that may delay the process of withdrawal: “For example the UK may opt to hold a second referendum to check the British people are prepared to accept the withdrawal agreement, which might not have been clear when they first voted to withdraw.”¹⁷⁷ Furthermore, Oliver also argues that the British parliament may veto a deal and ask for renegotiations¹⁷⁸. I would argue that perhaps the British parliament demanding further negotiations is more likely to occur than a second referendum in the UK.

Oliver also argues that: “It is also unclear as to what would happen if during the withdrawal negotiations the incumbent UK government collapsed and a new one was elected committed to reversing the decision to withdraw¹⁷⁹.” This is perhaps an unlikely scenario, and if it happened there are procedures in place for a state to re-join the EU. Another point Oliver raises is that the legality of withdrawal may be challenged from either in the UK or elsewhere in the EU¹⁸⁰. Oliver makes the

¹⁷² Oliver, 2013 p.15 citing David Buchan, *Outsiders on the Inside: Swiss and Norwegian lessons for the UK* (London: Centre for European Reform, 2012), 11, http://www.cer.or.uk/sites/default/files/publications/attachments/pdf/2012/buchan_swiss_norway_11oct12-6427.pdf

¹⁷³ Oliver, 2013 p.15-16 citing Ruth Lea, *Britain’s Contribution to the EU* (London: Tax Payers’ Alliance), 8-9, <http://www.global-vision.net/files/downloads/download1155.pdf>

¹⁷⁴ Oliver, 2013 p. 16

¹⁷⁵ Ibid

¹⁷⁶ Ibid

¹⁷⁷ Ibid

¹⁷⁸ Ibid

¹⁷⁹ Ibid

¹⁸⁰ Ibid

point that: “Challenges from elsewhere in the EU are likely to draw on the idea of European integration as irreversible; meaning Article 50 of the TEU is somehow unconstitutional¹⁸¹.”

Oliver also writes that “the prospect of a British withdrawal may encourage some within the EU to act as if the UK is no longer a member. Indeed, with the UK already absenting itself from several EU forums such as the Eurozone, the rest of the EU may find they grow into an arrangement where the UK is absent¹⁸².” Oliver states that marginalising the UK, whilst negotiations take place may appear to be a profitable way to deal with its withdrawal¹⁸³. Oliver also cautions that the timeframe for withdrawal could be several years¹⁸⁴, leading to as he writes: “There will be plenty of opportunities for frustration and animosity to develop on both sides, especially if this followed a strained attempt at a renegotiated relationship¹⁸⁵.”

Oliver mentions how a UK exit will test Article 50 of the TEU for the first time, and provide a precedent if other member states choose to leave the EU in the future¹⁸⁶. Oliver writes that: “There exist concerns this could encourage other members to threaten withdrawal should they fail to get their way¹⁸⁷.” Oliver also questions the direction of European integration post Brexit¹⁸⁸.

Oliver also contends that after the UK leaves the EU, expelling a member state becomes more plausible¹⁸⁹. Oliver speculates that: “Compared to withdrawal, expelling a member state would be an even bigger political challenge and legal nightmare, because of the possibility of endless legal challenges from governments and private individuals¹⁹⁰.” Oliver also mentions that: “Expulsion of a member of the Euro zone would be even more difficult perhaps impossible¹⁹¹.” Oliver also argues that should it be perceived that the EU has made insufficient efforts to prevent the UK from withdrawing, then a withdrawal may be seen as a passive expulsion¹⁹².

¹⁸¹ Oliver, 2013 p.16 citing Amendment from the Dutch government, Convention on the Future of Europe (2002) 19, <http://european-convention.eu.int/Docs/Treaty/pdf/46/global46.pdf>

¹⁸² Oliver, 2013 p. 16

¹⁸³ Ibid

¹⁸⁴ Ibid

¹⁸⁵ Ibid

¹⁸⁶ Oliver, 2013 p. 17

¹⁸⁷ Ibid

¹⁸⁸ Ibid

¹⁸⁹ Ibid

¹⁹⁰ Ibid

¹⁹¹ Oliver, 2013 p.17 citing Athnassiou, *Withdrawal and Expulsion from the EU and EMU: Some Reflections* (see note 35)

¹⁹² Oliver, 2013 p. 17

Oliver argues that after the withdrawal agreement is in place, then a longer term UK-EU relationship will be established¹⁹³. Oliver writes that the second stage would be conducting future relations for a future relationship between the EU and the UK, post Brexit¹⁹⁴. These four stages would be:

1. The EU's leadership and coordination would be faced with a period of change.
2. The UK will not disappear completely from EU political discussions or networks
3. The EU will have to face wider geopolitical implications of a UK withdrawal
4. The EU will need to handle the potential a British withdrawal has for challenging current forms of European integration and pan- European cooperation.¹⁹⁵

Oliver argues that without the UK the EU would face institutional upheaval with two inter-connected questions overshadowing developments¹⁹⁶, as Oliver argues:

1. Would the EU become easier to manage and lead?
2. Who and what ideas would benefit from a UK withdrawal and where would this leave the EU?¹⁹⁷

Oliver writes that given Britain's reputation it would become easy to imagine that the EU would become easier to lead¹⁹⁸. He argues that some believe that without the UK, the EU would find it easier to move closer to political and economic union.¹⁹⁹ But to counteract this point Oliver also states that: "Such an outlook overlooks wider weaknesses in the EU, some of which the UK has played its part in, but where blaming the EU can overplay its influence²⁰⁰." Oliver also writes that because Britain is seen to be willing to say no, there is a long recognised habit of EU member state not needing to state their objections to proposals, and effectively free riding off the UK.²⁰¹ Although as Oliver argues "Britain has never failed to ratify an EU treaty, unlike several other states traditionally seen as more European like France²⁰²". But as Oliver writes that regardless whether the

¹⁹³ Oliver 2013, p. 18

¹⁹⁴ Ibid

¹⁹⁵ Ibid

¹⁹⁶ Ibid

¹⁹⁷ Ibid

¹⁹⁸ Ibid

¹⁹⁹ Ibid

²⁰⁰ Ibid

²⁰¹ Oliver, 2013 p.18 citation 58 Although as Roderick Park notes, this is becoming increasingly difficult to sustain as more proposals emanate from the Council, and thus the member states, and not from the Commission. See Roderick Parkes, *The British Questions: What Explain the EU's New Angloscepticism?*, SWP Comments 11/2010 (Berlin: Stiftung Wissenschaft und Politik, May 2010), http://www.swp-berlin.org/fileadmin/contents/products/comments/2010C11_kre_pks_ks.pdf.

²⁰² Ibid

UK is to blame or not: “ We cannot doubt the EU has long faced, and will continue to face awkward demands from its member states for juste retour²⁰³.”

Oliver also writes that “a British withdrawal raises a whole host of possibilities about changes to the balance of power and leadership of the EU²⁰⁴”. “A withdrawal could boost the Franco- German axis, but that this ignores how London has often been used by Paris and Berlin to balance the other.”²⁰⁵

He further argues that: “Even with other states such as Poland and Italy filling the UK’s place, we cannot overlook how the Franco- German axis and the wider EU have struggled to adapt to Germany’s increasingly dominant position.”²⁰⁶ Oliver also argues how Germany could come to be in an even more dominant position in the EU²⁰⁷

Oliver also writes that there are also numerous other scenarios that a British withdrawal could lead to, some of which could actually hurt Germany²⁰⁸. Oliver also writes that power could shift to the smaller states, and that France and Germany as large states would acutely feel this²⁰⁹. “Germany and other northern European states worry the loss of Britain with its strong liberal minded approach to trade and economics could tip the EU towards protectionism²¹⁰.” Oliver also argues that states such as Sweden and Denmark who have the UK as their largest supporter of their approaches would feel exposed²¹¹: “For states which have secured opt- outs, such as Denmark and Sweden, the idea of differentiated integration or a multi- speed Europe could become more difficult to sustain²¹².” Oliver also argues that Sweden and Denmark could be dominated post Brexit.²¹³

Oliver also argues that: “A British withdrawal would not end the growing pressure on Europe’s social models coming from the economic growth of places such as Asia, or indeed closer to home such as from the lower labour costs in Eastern Europe.”²¹⁴ Oliver also argues that the current rules prevent

²⁰³ Oliver, 2013 p.19 citing Sandor Richter, *Facing the Monster “Juste Retour.” On the Net Financial Position of Member States vis a vis the EU Budget and a Proposal for Reform* (The Vienna Institute for International Economic Studies, 2008),

http://ec.europa.eu/budget/reform2008/library/contributions/us/200080404_US_15_summary_en.pdf.

²⁰⁴ Oliver, 2013 p. 19

²⁰⁵ Ibid

²⁰⁶ Ibid

²⁰⁷ Ibid

²⁰⁸ Ibid

²⁰⁹ Ibid

²¹⁰ Oliver p.19 citing Mats Persson, “Hey Berlin, This Is What an EU without Britain Would Look Like,” *The Telegraph*, 7 June 2013

²¹¹ Ibid

²¹² Ibid

²¹³ Ibid

²¹⁴ Ibid

the UK and the EU from effectively competing against each other, and if Britain left the EU, it could then be possible for the UK to undercut the EU²¹⁵.

Oliver also writes that the EU's institutions could be more affected by developments in the Euro zone²¹⁶ Oliver though makes the point that without the UK, "membership of the EU and the Eurozone would still not align, it would just be the largest non- Euro member having left the EU, but the issue would still remain²¹⁷".

2.7 Envisioning the 'Brexit:' The potential implications of a UK exit on the EU's relations with third countries

Yencken begins by arguing that Canada, Australia and New Zealand have all expressed significant concerns regarding the impact of the UK leaving the EU²¹⁸. Former Australian Foreign Minister Bob Carr has expressed the extent to which Australia still views the UK as an important advocate of Australian interests in the EU²¹⁹. Carr noted that: "The UK has championed free trade, the single market and has been a strong advocate on the need for the EU to remain competitive²²⁰." With Carr going onto say that: "In advocating a spirit of inclusiveness and openness the UK's efforts have benefited both the EU and third states, including Australia²²¹." Yencken argues that New Zealand views the UK's role in the EU as similar to that of how Australia views the UK²²². As Yencken argues: "This is evident by the UK being seen as a 'liberalising' force within the EU in the context of international trade negotiations²²³." Yencken argues that: Therefore such sentiments indicate the extent to which a UK exit may cause all three countries to decrease their level of engagement with the EU²²⁴."

For India, while taking into account the EU's status as a single trading entity, the Indian government nevertheless identifies the UK as its most important trading partner within the EU²²⁵. Yencken argues that as a result: "The potential exit of the UK from the EU prior to any potential EU- India free trade agreement, could potentially lead to the agreement being seen as less of a priority from an Indian

²¹⁵ Ibid

²¹⁶ Ibid

²¹⁷ Ibid

²¹⁸ Yencken, 2015 p.13

²¹⁹ Ibid

²²⁰ Ibid

²²¹ Ibid

²²² Ibid

²²³ Yencken, 2015 p.13 citing Wellings and Elijah 2014

²²⁴ Yencken, 2015 p.13

²²⁵ Yencken, 2015 p.13 citing High Commission of India to the UK, 2013

government perspective²²⁶. Yencken argues that: “Consequently, the possibility of a UK exit from the EU poses several questions as to the potential damage to the EU’s image as an interlocutor of significance for English speaking countries²²⁷.”

Yencken then looks at the more positive side of UK exit for third countries, arguing that there may be an opportunity for a more coherent EU foreign policy post Brexit²²⁸. Yencken states that: “A key complaint of the US has been the EU’s inability to adopt unified positions on a wide variety of foreign policy issues²²⁹.” Yencken also provides a quote from Thomas Risse to demonstrate this point: “Great Britain’s refusal to accept truly supra-nationalised EU foreign policy, and it is unlikely that the EU will develop coherent foreign policy practice as long as the UK continues to block these attempts²³⁰.” From this point Yencken argues that consequently the UK leaving the EU may enable the EU to become a more united international actor²³¹. Yencken furthermore argues that through increased unity the EU may be able to position itself as a more attractive international partner, even for those countries that have historical ties to the UK²³². Indeed it has been suggested that “because of Germany’s renewed economic strength and quasi- hegemonic status within the Eurozone, Washington now sees Berlin, not London as its preferred partner in Europe²³³.”

The UK has been a constant obstacle to CSDP as demonstrated by the UK Parliamentary under Secretary for Defence, Andrew Murrison ‘placing specific emphasis on member states sovereignty and the need for CSDP to have ‘complementarity with NATO²³⁴.’ Yencken cites Worre who also argues that: “From a strictly CSDP- and European defence integration- perspective, Britain’s departure could create opportunities in terms of military cooperation and accelerate the establishment of permanent structured cooperation, because of a more unified approach among the remaining member states²³⁵.” Yencken argues that in this context the EU may find it easier to deploy missions under the CSDP than if the UK was also a member state of the EU²³⁶. Yencken further argues that: “Such a situation could be potentially advantageous for a variety of third countries requesting assistance from the EU, even with regard to those states with historical ties to the UK²³⁷.”

²²⁶ Yencken, 2015 p.13

²²⁷ Yencken, 2015 p.14

²²⁸ Ibid

²²⁹ Ibid

²³⁰ Yencken, 2015 p.14 citing Thomas Risse

²³¹ Ibid

²³² Ibid

²³³ Yencken, 2015 p.14 citing Matthijs

²³⁴ Yencken, 2015 p.14 citing Mills

²³⁵ Yencken, 2015 p.15 citing Phillip Worre

²³⁶ Ibid

²³⁷ Ibid

It is further argued by Yencken that the EU without the UK, as an international actor is still likely to remain significant. Yencken argues here that the importance of the EU and its remaining member states could be enhanced should it be able to promote itself as a more united entity without the UK²³⁸. Yencken cites Risse who, argues that “the EU may ultimately be able to emerge as a more powerful actor ‘in foreign and security affairs’ in order for it to ‘build a counter to US power or the rise of China²³⁹.” Yencken further argues that while English speaking third countries may not want to consider a scenario whereby the UK leaves the EU, “a more united EU with a more coherent foreign policy agenda, would be an interlocutor that they would have to engage with²⁴⁰.”

Besides the UK’s economy and budgetary contributions the EU would also lose the UK’s Foreign and Commonwealth Office (FCO).²⁴¹ Yencken cites Hague who has commented that: “The breadth and depth of the FCO is a great asset for our success in the European Union, and along with other European countries²⁴².” Yencken also argues that a number of English speaking countries perceived the appointment of Catherine Ashton as the EU’s first High Representative of the Union for Foreign Affairs and Security Policy positively²⁴³. Yencken argues that therefore: “Consequently, the potential exit of the UK from EU then poses several questions regarding the EU’s capacity, both in financial and personal terms, to effectively engage with English speaking countries²⁴⁴.”

The Canada prospective free trade deal, prospective EU- India FTA and negotiations for an FTA between Malaysia and the EU are all trade agreements or negotiations that are at risk by Brexit argues Yencken²⁴⁵. The Malaysia Ambassador to the UK Datuk Zakaria Sulong has noted the importance of the UK in completing FTA negotiations with the EU²⁴⁶. Yencken argues that doubts have been placed on the desirability of the EU as an international partner for developing countries, particularly in an economic context, should the UK leave the EU²⁴⁷.

It can be deduced from Yencken that it is clearly negative for the EU if the UK leaves, this is because the EU’s external relations and its capacity to effectively engage with international actors would be adversely effected²⁴⁸. Yencken cites Van Rompuy as arguing that: ‘British expertise in the fields of foreign policy, finance and trade shape the EU’s policies in these fields. It has led the way on climate

²³⁸ Ibid

²³⁹ Yencken, 2015 p.15 citing Risse

²⁴⁰ Yencken, 2015 p.15

²⁴¹ Yencken, 2015 p.15 citing Pentland

²⁴² Yencken, 2015 p.15 citing Hague

²⁴³ Yencken, 2015 p.16

²⁴⁴ Ibid

²⁴⁵ Yencken, 2015 p. 17

²⁴⁶ Yencken, 2015 p.17 citing High Commission of Malaysia, London 2011

²⁴⁷ Yencken, 2015 p.17

²⁴⁸ Yencken, 2015 p.18

change and development aid²⁴⁹.” The EU would also be less desirable for third countries to trade with/embark on trade agreements Yencken argues²⁵⁰.

3. Theory

The two articles from which I draw my theories upon are:

Kelemen (2007): Built to Last? The Durability of EU Federalism

Yencken (2015): Envisioning the ‘Brexit’: The Potential implications of a UK exit on the Eu’s relations with third countries

3.1 Four disintegration scenarios

Kelemen has distinguished between four different EU disintegration scenarios. Dissolution, limited secession, atrophy, the growth of variable geometry and civil war²⁵¹. Kelemen quotes Moravcsik as stating that it is possible as Moravcsik has argued, that ‘even a collapse of the Euro would not jeopardise the existence of the EU²⁵².’ Webber, who cites Kellermen, also writes that “in more than 60 years, the European integration process has confronted and survived many crises. But it has never so far had to confront a crisis ‘made in Germany²⁵³.’”

Dissolution: Examples: Czechoslovakia and Serbia and Montenegro are previous examples of states dissolving. Kelemen argues that this is unlikely with so many EU states²⁵⁴. Kelemen further argues that even Sweden and the UK who are completely Eurosceptic have representation of their views in the EU²⁵⁵.

Limited Secession: Examples: Malaysian Federation after Singapore left. Greenland leaving the EU. This scenario would apply to an exit of a ‘preference outlier’ that may eventually facilitate a strengthening of the Union. For instance, if a state with strong sovereignty concerns such as Denmark or the UK, left the Union, ‘it might free up other remaining members to pursue deeper integration in areas that had been blocked²⁵⁶.’

²⁴⁹ Yencken, 2015 p.18 citing Van Rompuy 2012

²⁵⁰ Yencken 2015 p.16

²⁵¹ Kelemen, 2007 pp.61-65

²⁵² Webber, 2013 p.19

²⁵³ Webber, 2013 p.19

²⁵⁴ Kelemen, 2007pp.61- 62

²⁵⁵ Kelemen, 2007 p.61

²⁵⁶ Kelemen, 2007 pp. 62-63

Atrophy: 'The European Union is neither European nor a Union' as argued by *Tim Garton Ash*²⁵⁷.

Railroad of the EU's strong judicial safeguards. The EU would become like the OECD; 'A weak international forum for the comparison of best practices'²⁵⁸.

Growth of variable geometry: More opt- outs. The EU becoming more like a set of overlapping clubs rather than one all encompassing club²⁵⁹.

Another example laid out, though realistically unlikely is civil war, because democracies tend not to fight against other democracies. Civil war is defined by Kelemen as: "Federal forces deployed against a member state's forces, or one member state's forces are deployed against another's would constitute a breakdown of the federal system"²⁶⁰. "An example of this is hard to imagine, but if more Balkan countries were to join the EU/ Balkan minorities in another country needing protection by EU forces then this issue could perhaps arise"²⁶¹.

Kelemen sees the greatest threat to the EU in this regard (integration) as being that the EU faces an existential crisis: "Perhaps the greatest danger in the current stalemate is that EU leaders seek to solve non-existent problems, by introducing potentially destabilising reforms to institutions that are operating quite well"²⁶²."

3.2 Yencken: External Relations

Yencken argues that historically the impact of the UK has often been to misinform, and negatively influence, how a number of English speaking countries have approached relations with the EU, but that it is important to investigate whether the UK leaving the EU could have negative implications²⁶³. He argues that it is unlikely that the US would neglect bi lateral relations with the EU as the result of a Brexit²⁶⁴. Yencken quotes Oliver: "The USA's current weariness about Europe reflects over twenty years of growing frustrations- often exasperation- at the repeated inability of the Europeans to wield power effectively in the global arena"²⁶⁵ particularly with regard to defence Yencken mentions²⁶⁶.

²⁵⁷ Kelemen, 2007 citing Tim Garton Ash 2006

²⁵⁸ Ibid p.64

²⁵⁹ Ibid

²⁶⁰ Ibid

²⁶¹ Ibid

²⁶² Ibid

²⁶³ Yencken, 2015 p.12

²⁶⁴ Ibid

²⁶⁵ Yencken, 2015 p.12

²⁶⁶ Yencken, 2015 p.12 citing Oliver

Given this context; “a British withdrawal may further complicate such long- struggling efforts, dampening further US hopes and interest²⁶⁷.”

I argue that Yencken’s article does include a theory, because Yencken contends that if the UK leaves the EU, the EU will become weaker in its external relations with third countries, particularly those who are native English speaking. Yencken also argues how the EU will lose access to the resource of the UK Foreign and Commonwealth Office. Furthermore, that even if the EU presents a more united voice, that voice will be weaker. These are three points of argumentation that I believe can be tested by the data I find and the analysis that I will produce.

3.3 Justification for choosing the two EU theories

Both look at how the EU would be affected post Brexit in a theoretical context. The Kelemen theory outlines how the EU is gradually disintegrating, and what the modes of disintegration can be. Tentatively, the example of Brexit can be made in relation to this theory. The Yencken paper looks at the EU’s attractiveness as an international actor to third countries post Brexit. It argues that the EU would be weakened post Brexit, though a more united front through policy making may be possible as well.

The Kelemen paper in my opinion has a justified theory in relation to my research question, it enables me to have a theory which focusses on the disintegration of the EU and how Brexit fits into this. It primarily focusses on ways that it is possible for the EU to break down, and how Brexit could be a scenario of this/ helps the process on the way. Whilst the Yencken paper looks at what an EU post Brexit means to third countries. Here third countries effectively act as an independent variable allowing for separate analysis, and taking the effects on the UK out of the equation. This allows me to help answer my research question. As I wish to assess the impacts upon the EU of Brexit and not the UK itself.

4. Methodology

The purpose of the methodology is to gain the trust of the reader. It also allows me the opportunity to tell the reader what I am going to do. How I will collect my data and what research techniques I will employ. Hence in this section I will explain which methods I have used to collect my data, and which sources they have been taken from.

4.1 Data

²⁶⁷ Ibid cited by Yencken, 2015 p.12-13

I will be focussing on secondary data. My sources will pre- dominantly include: Journals, articles, policy papers, think tank publications and academic journals because they are the most recent material with regards to Brexit. Some of my sources have been found through citations and references in some of my other sources.

The purpose of my thesis is to test my two theories against the data and analysis that I find in order to answer my research question. This will be done by analysing as to whether or not the two theories match the data. I will compare my findings from the data to the theory in my analysis.

I will be using secondary data and not primary data as I believe the material will be more useful, applicable and beneficial to my thesis. I also hope that the data will allow me to build upon my argumentation in my analysis.

My thesis will use qualitative data and is an in- depth investigation. I am investigating the pre-existing literature on Brexit, and wish to find out what impacts Brexit will have upon the EU.

I include the following table of quantitative and qualitative data because I use both forms and need to be clear to the reader and myself to distinguish them from each other. They both have their advantages and disadvantages, so I use both of them to complement each other. For examples tables and graphs on projected GDP and welfare loss post Brexit would be quantitative data, whilst argumentation such as will Brexit have negative, neutral or positive effects would be qualitative.

Table: Distinctions between quantitative and qualitative data

Quantitative data	Qualitative data
Based on meanings derived from numbers	Based on meanings expressed through words
Collection results in numerical and standardised data	Collection results in non- standardised data requiring classification into categories
Analysis conducted through the use of diagrams and statistics	Analysis conducted through the use of conceptualisation

²⁶⁸

Saunders et al write about the advantages of using secondary data²⁶⁹. They mention that using secondary sources can save resources such as time and money²⁷⁰. Consequently from this point

²⁶⁸ Saunders et al., 2012 p.547 using the following sources: Developed from Dey (1993); Healey and Rawlinson (1994); authors' experience

²⁶⁹ Saunders et al., 2012 p. 317

²⁷⁰ Saunders et al., 2012 p.317 citing Ghauri and Gronhaug 2010

Saunders et al write that one; “may be able to use far large data sets²⁷¹.” Saunders et al also write that following on from these points, using secondary data allows the researcher more time to think about theoretical frames and substantive issues.²⁷² This is because; “your data will already be collected, and subsequently you will be able to spend more time and effort analysing and interpreting the data²⁷³.” It is also mentioned that secondary data may be the only option of you need your data quickly²⁷⁴. A further point that Smith writes is that in addition (secondary data) is often of higher quality than that that could be obtained by one-self on their own²⁷⁵.

Another advantage of secondary data is that using it within organisations may also have the advantage that, because they have already been collected, they provide an unobtrusive measure²⁷⁶. This is of particular importance to me as the topic of Brexit is very current and highly contentious and even emotive, such that I felt that I would be unable to collect illicit and useful responses if I collected data myself. Saunders et al cite Cowton as referring to this advantage as eavesdropping, emphasising its benefits for sensitive situations²⁷⁷.

Another argument in favour of secondary data is that it makes longitudinal studies feasible²⁷⁸. “For many research projects time constraints mean that secondary data provides the only possibility of undertaking longitudinal studies²⁷⁹.” Saunders et al also emphasise that the “data you compare was collected and recorded using methods that were comparable²⁸⁰.”

Reanalysing data can also lead to unforeseen discoveries as Saunders et al mention²⁸¹. It is also possible that a link through secondary analysis can be established which was not the intention of the originally explored in the research project. I.e. that I in my research of other scholars may be able to draw links and conclusions, as well as enhance my own perspective, which may add depth to the original findings that I came across, and will strengthen my own thesis.

There is also the issue that secondary data carries a particular permanence, which in some respects primary data does not. As is written by Saunders et al when they cite Denscombe: “Unlike data that you collect yourself, secondary data generally provides a source of data that is often permanent and

²⁷¹ Saunders et al., 2012 p.317

²⁷² Saunders et al., 2012 p.317-318

²⁷³ Saunders et al., 2012 p. 318

²⁷⁴ Ibid

²⁷⁵ Saunders et al., 2012 p.318 citing Smith 2006

²⁷⁶ Saunders et al., 2012 p.318

²⁷⁷ Saunders et al., 2012 citing Cowton p.318

²⁷⁸ Ibid

²⁷⁹ Ibid

²⁸⁰ Saunders et al., 2012 p. 318

²⁸¹ Ibid

available in a form that may be checked relatively easily by others²⁸².” As Saunders et al mention: “This means that the data and your research findings are more open to public scrutiny²⁸³.” Indeed it is of my firm believe that I am more able to assess the impacts of Brexit upon the European Union using and collating secondary data that is already out there, rather than collecting data myself.

Just as there are advantages of secondary data, there are also disadvantages as well. With data that is collected by oneself having a specific purpose in mind which is to answer your own research question which you have set and to meet your objectives within this²⁸⁴. As Saunders et al write: “Unfortunately, secondary data will have been collected for a specific purpose that differs from your research question or objectives²⁸⁵.” Some data that is collected may be unsuitable to your research question and need to be thrown out²⁸⁶. Indeed, for myself when writing my analysis section, I will discard data that I do not include. Furthermore, I need to make sure that I stay focused on solely addressing the impacts upon the EU of Brexit, and not focus on the UK, as some of my sources do.. Even though assessing the impacts on the UK is academically engaging, there are many more researchers who have looked into this area, far less have looked into the EU, hence my thesis will be more pioneering by having assessed the EU. A danger perhaps here is that by exploratory research I find really interesting impacts upon the UK which I did not consider before and which have a tenuous link to EU impacts, but which produce data which does not answer my research question, or only answers it partially. Indeed Saunders et al suggest that one uses an alternative source, when secondary source does not help to answer one’s research question²⁸⁷. Saunders et al explain that there are common examples of why secondary data found does not answer the research question or only partially answers the research question²⁸⁸. Indeed as Saunders et al write: “Common reasons for this [secondary data not being adequate in answering the research question] include the data being collected a few years earlier and so not being current, or the methods of collection differing between the original data sources which have been amalgamated subsequently to form the secondary data set you intend to use²⁸⁹.”

Furthermore, Saunders et al write: “Alternatively, the documents you are using may represent the interpretations of those who produced them, rather than offer an objective picture of reality²⁹⁰.”

²⁸² Saunders et al., 2012 p.319 citing Denscombe 2007

²⁸³ Saunders et al., 2012 p.319

²⁸⁴ Ibid

²⁸⁵ Saunders et al, 2012 p.319 citing Denscombe 2007

²⁸⁶ Saunders et al., 2012 p.319

²⁸⁷ Saunders et al., 2012 p.319

²⁸⁸ Ibid

²⁸⁹ Ibid

²⁹⁰ Ibid

This is a problem that I may face when using briefing papers, policy papers and publications by think tanks that they may have their own agenda to pursue and use their publications to do this. I will have to scrutinise their data very closely. Furthermore, another problem is that the language used in briefing papers, policy papers and other publications, can be very informal and not fully precise or live up to commonly accepted standards. I will need to make sure that throughout my thesis, my language both in content and style is of an academic nature. Linked to this of course is that the data that I find and include in my thesis is relevant and adds to the academic discussion and argumentation.

Another point that Saunders et al make is that when one is using secondary data, one has less control over the quality of the data, then one does in comparison when conducting their own data²⁹¹.

A further point that Saunders et al raise is that the initial purpose of the secondary document analysed, may affect how the data is presented²⁹². As Saunders et al write: “When using data that are presented as part of a report you also need to be aware of the purpose of that report and the impact that this will have on the way the data are presented²⁹³.”

The drawbacks of secondary data as has just been mentioned mean that secondary data needs to be evaluated carefully. In the following section I discuss how I will ensure that I evaluate the secondary data that I will use in a thoughtful and precise manner. This is very crucial as this thesis is not presenting any data that I myself have produced, but is instead relying on secondary sources.

Saunders et al state, as shown in the following table, that when collecting secondary data, one needs to ensure that the secondary data is able to do the following:

- It will enable you to answer your research question(s) and to meet your objectives²⁹⁴
- The benefits associated with their use will be greater than the costs²⁹⁵
- You will be allowed access to the data²⁹⁶

Before I proceed further I will answer these points very quickly. The first point I already addressed above in the section, disadvantages of secondary data. As for the second point, I will only include data in my thesis if I believe the benefits of including it outweigh the costs.

²⁹¹ Saunders et al., 2012 p.320

²⁹² Ibid

²⁹³ Ibid

²⁹⁴ Saunders et al., 2012 p.321

²⁹⁵ Ibid

²⁹⁶ Ibid

Now I will talk about the suitability of the data, as not only the secondary sources I use myself needs to be evaluated, but also the data that it produces in more detail as well. As Saunders et al write: “Secondary data which fails to provide you with the information you need to answer your research question(s) or meet your objectives will result in valid answers²⁹⁷.” It may also be the case that the measures used in a researched secondary data do not match the measures that I need. Furthermore that when writing my analysis I need to be careful that I do not make judgements which I believe to be correct which are in fact not. Saunders et al also talk about this problem. They suggest that, and it may be incorporated in one’s literature review, that you look at other sources and how they cope with measurement problems as well in terms of how they have found data to answer their research questions that they have posed themselves²⁹⁸.

Saunders et al also raise further points regarding coverage and unmeasured variables. Indeed, as they write: “Some secondary data sets, in particular those collected using a survey strategy, may not include variables you have identified as necessary for your analysis²⁹⁹.” Saunders et al also write: “These are termed unmeasurable variables³⁰⁰.” They go on: “Their absence may not be particularly important if you are undertaking descriptive research. However it could drastically affect the outcome of explanatory research as a potentially important variable has been excluded³⁰¹.” Given that I have said earlier on in this section in my thesis will be both descriptive and also explanatory, then this point is also of high significance to this research project.

4.2 Epistemology and Ontology

Epistemology is defined by Saunders et al as what is considered to be acceptable knowledge³⁰². With regards to political science, I would regard myself as a realist as I believe that powerful states act in their own interest from a realist perspective. I.e. that even in an international institution like the EU, it is dominated by the most powerful states France, Germany and the UK, and that Germany as the most powerful state holds the most powerful position in the EU. Within realism I would define myself as a direct realist, “where what you see is what you get³⁰³”. I believe the data that I will find will portray an accurate representation of impacts on the EU should Britain leave. I do not believe

²⁹⁷ Saunders et al., 2012 p.322 citing Smith 2006

²⁹⁸ Saunders et al., 2012 p.323

²⁹⁹ Saunders et al., 2012 p.323

³⁰⁰ Ibid

³⁰¹ Ibid

³⁰² Saunders et al., 2012 p.132

³⁰³ Saunders et al., 2012 p.136

what critical realists in that what we see is an illusion of what is actually happening³⁰⁴. As such I do not believe the data that I will find to be an illusion either.

I would state that with regards to themes and debates in methodology it is possible to define me as being subjective. With regards to epistemology in the interpretivist strand of research, Saunders et al define it as: "Subjective meaning and phenomena. Focus upon the details of situation, a reality behind the details with subjective meanings maintaining actions³⁰⁵." Another theoretical justification to demonstrate that my ontology in my research is subjective, is defined by my nature of reality³⁰⁶.

However when it comes to the methodology of this paper, and the collection and interpretation of the empirical evidence that I will find, I believe that perhaps I can be categorised as more of an interpretivist. It can firstly be argued that I am critical of the positivist strand because I do not solely rely on numerical measures. Saunders et al cite Gill and Johnson as defining a positivist as having a preference to: "Collecting data about an observable reality and search for regularities and causal relationships in your data to create law- like generalisations like those produced by scientists³⁰⁷." A positivist believes that only phenomena that you can observe will lead to the production of accurate and reliable data³⁰⁸. This is clearly not what I am in agreement with, as I am collecting data on an event that has not happened yet, Britain leaving the EU, but I still believe that my results will be credible.

An interpretivist is defined as: "Understanding differences between humans and our roles as social actors³⁰⁹." As Saunders et al write, it is stated that an interpretivist will contend that: "The challenge here is to enter the social world of our research subject and understand their world from their point of view³¹⁰." My thesis is seeking to understand the world from the viewpoint of the EU. I.e. what will be the impacts upon the EU if the UK was to leave? What costs and benefits will arise to the EU? What are the threats and opportunities to the EU? How will things change for the EU, both internally and externally? Also although more of a background issue what will incentivise the EU to make a post Brexit agreement with the UK. I am assuming that to a certain extent the EU will be pragmatic and also look out for its own vital interests, which I argue will be to come to an agreement with the

³⁰⁴ Ibid

³⁰⁵ Saunders et al., 2012 p.140

³⁰⁶ Saunders et al., 2012 p.131-2

³⁰⁷ Saunders et al., 2012 p.134 citing Gill and Johnson 2010

³⁰⁸ Saunders et al., 2012 p.134

³⁰⁹ Saunders et al., 2012 p.137

³¹⁰ Ibid

UK that benefits both sides, legally, politically and economically. And that this agreement will aim to minimise political, business and legal impacts upon the EU as an institution itself.

4.3 Research Design

I further believe that my thesis will be a combination of inductive and deductive research. This is because I have some pre thought out criteria that I wish to find information about, but I also know that a degree of my research is exploratory and I will find other things out as well which will also be valid, which I would not have considered or thought about at the beginning of my research. The deductive part of my research I will lay out below. The inductive part of my research I will come back to in my analysis. Therefore my research can be defined as abductive, which is a combination of both deductive and inductive. Saunders et al believe that it is always good to combine the two strands (inductive and deductive) but that in a research project one will always dominate³¹¹. As Saunders et al state: “In practice much qualitative research uses a abductive approach where inductive inferences are developed and deductive ones are tested iteratively throughout the research³¹².” As Saunders et al state under subjectivism: “Social interactions between actors are a continued process, social phenomena are in a constant state of revision³¹³.” I do believe this quotation to hold true to my general outlook and the way that this thesis will be conducted.

Political impacts that I wish to research:

- Level of unity/ disunity in Europe post Brexit
- Nature of altered power dynamics
- More integration vs more disintegration

Economic impacts that I wish to research:

- Economic growth, i.e. GDP levels
- Employment
- Inflation
- Investment levels
- Business confidence throughout the EU
- Impact on the EU budget

Legal impacts that I wish to research:

³¹¹ Saunders et al., 2012 p.148

³¹² Saunders et al., 2012 p.163

³¹³ Saunders et al., 2012 p.132

- Treaty change?
- Timeframe for Brexit
- The shape and nature of a EU- UK post Brexit agreement

With regards to use of data, deduction is when “data collection is used to evaluate propositions or hypothesis related to an existing theory³¹⁴.” In a deductive framework theory is contended to be “theory falsification or verification³¹⁵”. In order to answer my research question I wish to find out if the theories laid out by Kellermen and Yencken stand up to scrutiny through the empirical evidence that I find.

Yin suggests that: “Where you have made use of existing theory to formulate your research question and objectives, you may also use the theoretical propositions that helped you do this as a means to devise a framework to help you to organise and direct your data analysis³¹⁶.” Bryman sums up the approach to qualitative analysis and the argument that follows: “The prior specification of a theory tends to be disfavoured because of the possibility of introducing a premature closure on the issues to be investigated, as well as the possibility of the theoretical constructs departing excessively from the views of participants in a social setting³¹⁷.” Saunders et al also write that commencing one’s work from a theoretical perspective may have certain advantages: “It will link your research into the existing body of knowledge in your subject area, help you to get started and provide you with an initial analytical framework³¹⁸.” Yin writes that: “To devise a theoretical or descriptive framework you need to identify the main variables, components, themes and issues in your research project and the predicted or presumed relationships between them³¹⁹.” Saunders et al write that: “A descriptive framework will rely more on your prior experience and what you expect to occur, although it is of course possible to develop an explanatory framework based on a mixture of theory derived from the literature you used and your own expectations³²⁰.” Saunders et al also mention that this framework can be used as a means to start and direct the analysis of the data³²¹.

4.4 Reliability and Validity

³¹⁴ Saunders et al., 2012 p.144

³¹⁵ Ibid

³¹⁶ Saunders et al., 2012 p.548 citing Yin

³¹⁷ Saunders et al., 2012 p.548 citing Bryman

³¹⁸ Saunders et al., 2012 p.549

³¹⁹ Ibid

³²⁰ Ibid

³²¹ Ibid

As Saunders et al write: “The reliability and validity you ascribe to secondary data are functions of the method by which the data were collected and the source³²².” I.e. making a quick assessment of the data by looking at the source of the data³²³. Saunders et al state that Dochartaigh as well as others who write that in doing this one is assessing the authority or reputation of the source³²⁴. Another further point that Saunders et al write is that: “The continued existence of such organisations is dependent on the credibility of their data³²⁵.” Furthermore, that: “Consequently, their procedures for collecting and compiling the data are likely to be well thought through³²⁶” although they may not always be perceived as such. Saunders et al do caution that: “While organisations may argue that their records are reliable, there are often inconsistencies and inaccuracies³²⁷.” They suggest that one therefore needs to also “examine the method by which the data were collected and try to ascertain the precision needed by the original (primary) user³²⁸.”

A further point is that sources may have a more credible name title, than the actual integrity of their work merits. I.e. that their names suggest pseudo- academic credibility, which they actually fall short of, organisations such as think tanks for example³²⁹. Dochartaigh, as cited by Saunders et al suggests that: “One looks for a copyright statement and the existence of published documents relating to the data to help validation³³⁰.” Furthermore: “Copyright statement, when it exists, can provide an indication of who is responsible for the data, and the existence of related published documents, reinforces the data’s authority, as printed publications are regarded as more reliable³³¹.” Although as Saunders et al write, beware of applying this criteria too rigidly³³². Dochartaigh suggests that; “this is because those with most authority often feel the least need to proclaim it³³³.”

Saunders et al cite Dale as saying that: “For all secondary data, a detailed assessment of the validity and reliability will involve you in an assessment of the method or methods used to collect the data³³⁴.” This could be hyperlinks for internet data sets, or looking closely at the methodology used³³⁵. I think that for this thesis, any data that I do use, I will look closely at the methodology used.

³²² Ibid

³²³ Saunders et al., 2012 p.323

³²⁴ Saunders et al., 2012 p.323 and 325 citing Dochartaigh 2007

³²⁵ Saunders et al., 2012 p.325

³²⁶ Ibid

³²⁷ Ibid

³²⁸ Ibid

³²⁹ Saunders et al., 2012 p.326

³³⁰ Saunders et al., 2012 p.326 citing Dochartaigh 2007

³³¹ Ibid

³³² Saunders et al., 2012 p.326

³³³ Saunders et al., 2012 p.326 citing Dochartaigh 2007

³³⁴ Saunders et al., 2012 p.326 citing Dale 1988

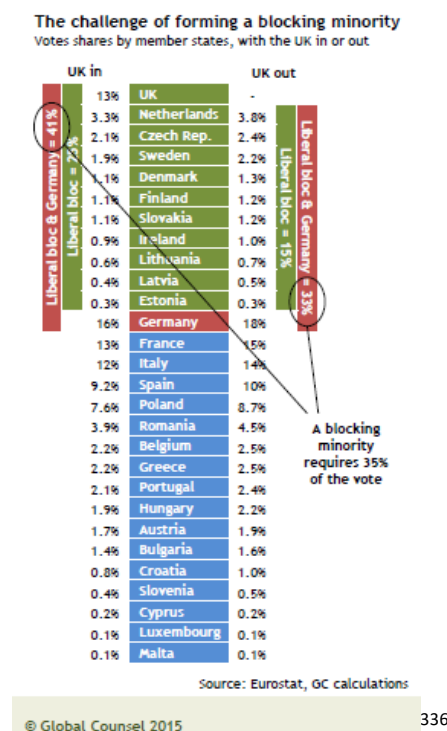
³³⁵ Saunders et al., 2012 p.326

For example, in order to measure the impacts upon the EU of a Brexit, I assert that the secondary sources I use need to envisage a form of Brexit similar to myself, a soft exit where Britain has some form of trade agreement with the EU, and possibly some form of single market access as well, so that these impacts carry more credence. This is in contrast perhaps to other studies where a more remote deal or no deal at all is envisaged, and therefore the impacts become more severe, as a consequence of the choice of methodology used. So I will look closely at how the data I research and then later analyse is collected and sampled.

5. Description of Data

In the following section, I will present my findings, which is data that I have found in articles mentioned in my literature review and beyond.

Figure 7: The challenge of forming a blocking minority



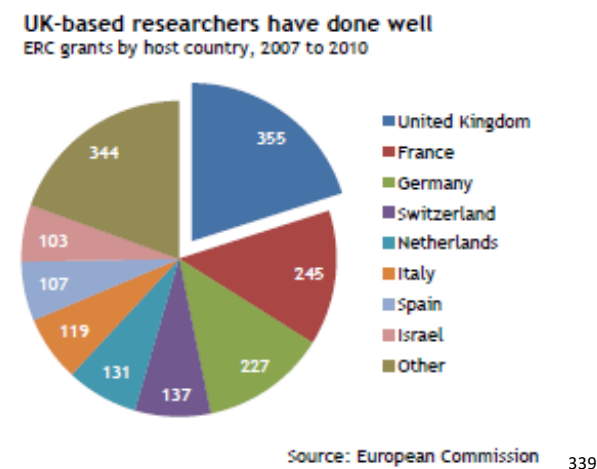
The graph above tries to group together countries with common interests in their economic interests, i.e. how liberal they are economically relatively speaking. Vote shares are allocated to each country with the UK being in and out, and the difference does alter the picture. With the UK in the EU, the liberal bloc with Germany can form a blocking minority of 41per cent of the share of the vote which is above the required 35per cent threshold. Without the UK, the liberal block plus Germany

³³⁶ Irwin, 2015 p.15

can only form 33per cent of the share of the vote, which falls short of the 35per cent threshold that is required to form a blocking minority

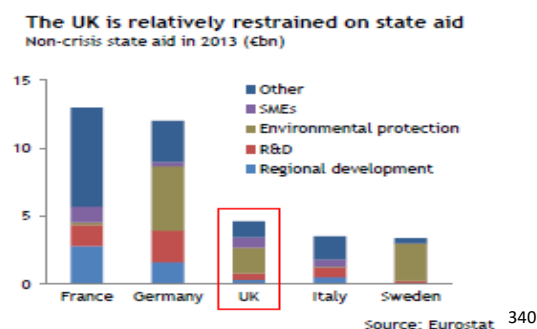
As stated in the Global Counsel paper, the UK is one of the EU's most liberal countries and after Brexit, the EU would move in a more illiberal direction, with Germany becoming more exposed politically, by having to lead opposition to illiberal measures³³⁷. The EU would also lose the UK's regulatory voice. Even with Germany's support the liberaliser's will find it harder to find a blocking minority level of support³³⁸.

Figure 8: UK-based researchers have done well



The graph above shows that UK researchers receive more funding than any other state in the EU, in the period from 2007 to 2010. Should the UK leave, then other states would benefit potentially from a large amount, which could be reallocated.

Figure 9: The UK is relatively restrained on state aid



³³⁷ Irwin, 2015 p.15

³³⁸ Ibid

³³⁹ Irwin, 2015 p.16

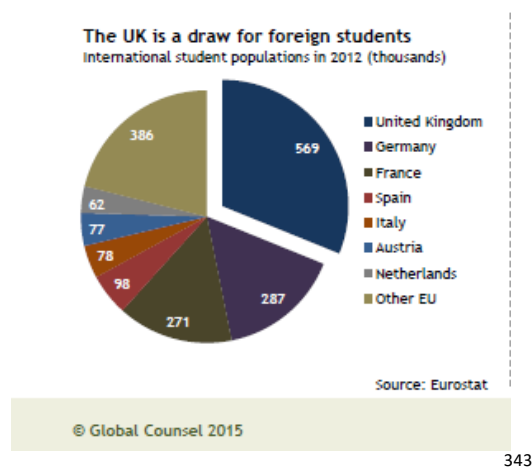
³⁴⁰ Irwin, 2015 p.17

The graph above shows that the UK exercises state aid far less than France, and Germany, and only a little higher in terms of billions of euros than Italy and Sweden. This figure is not adjusted per capita so France and Germany spend even more relative to Britain on state aid, than the graph would otherwise illustrate, as does Sweden

Post Brexit, the EU may see a “weakening of competition policy, looser collaboration in education and research, and fewer EU students in the UK³⁴¹.”

Access to UK universities could become more difficult for publicly funded students who benefit from the Erasmus programme, and privately funded students³⁴². This is because of the risk of the UK imparting upon tighter migration controls post Brexit.

Figure 10: The UK is a draw for foreign students



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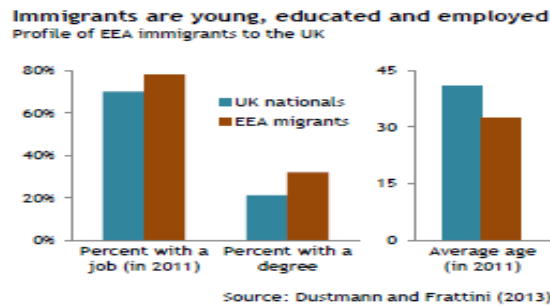
The graph above shows that the UK attracts more foreign students than any other member state of the EU. At 569,000 this is even more than Germany [second highest, 287,000] and France’s [third highest 271,000] combined total of 558,000.

³⁴¹ Ibid

³⁴² Ibid

³⁴³ Ibid

Figure 11: Immigrants are young, educated and employed

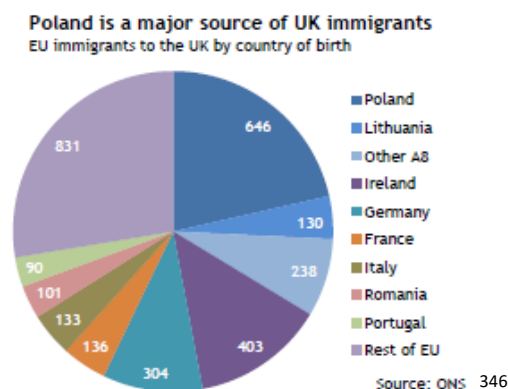


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The graph above shows that EEA nationals compared to UK nationals are more likely to have a job and hold a degree. Their average age is lower as well compared to UK nationals.

The immigrants of the EEA area currently in the UK risk having their status changed depending on the construction of Brexit³⁴⁵.

Figure 12: Poland is a major source of UK immigrants



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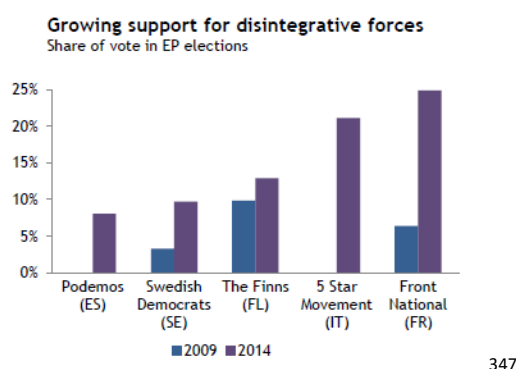
The graph above shows that by a significant amount Poland is the largest source of immigrants to the UK, as a single country, and only second to the rest of the EU minus the other countries that are also represented in the pie chart.

³⁴⁴ Irwin, 2015 p.18

³⁴⁵ Irwin, 2015 p.18 citing Dustman and Frattini

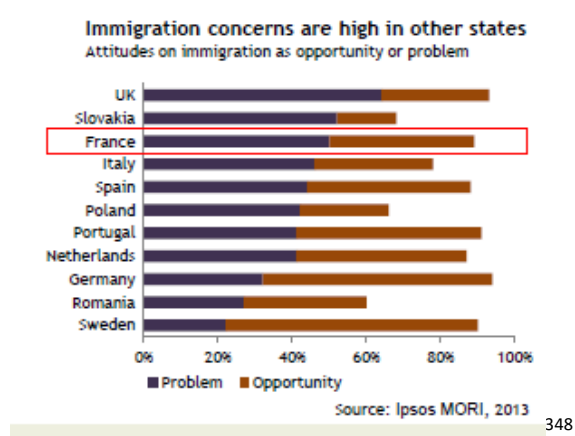
³⁴⁶ Irwin, 2015 p.19

Figure 13: Growing support for disintegrative forces



The graph above show rising support for parties who actively campaign against the EU, from the results of the 2009 European Parliament elections to the 2014 elections. Taking Spain and Italy as non comparisons from election to election as those parties only stood in 2014. In Sweden, Finland and France all three anti EU parties gained in share of the vote in their respective countries, with Front National in France experiencing the highest rise.

Figure 14: Immigration concerns are high in other states



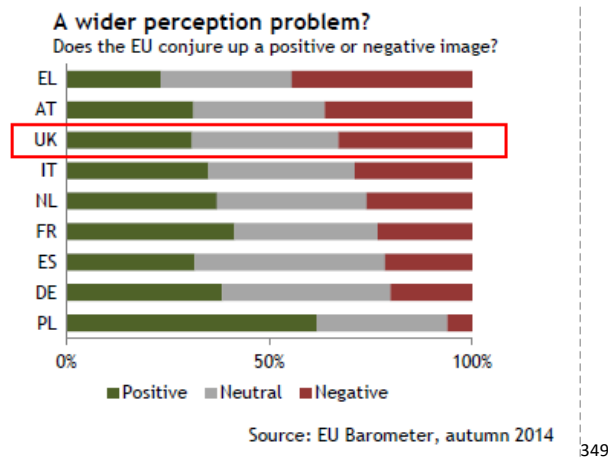
The graph above shows people's perceptions of immigration stated as either a concern or an opportunity, taken as a percentage and then states are cross compared. Of all the member states shown, the UK has the highest amount who view immigration as a concern, above 60per cent. Other states who have 50per cent or more of citizens viewing immigration as a concern are Slovakia and France. Conversely Sweden only has just over 20per cent of citizens viewing immigration as a concern, and Romania close to 25per cent. Sweden also has well over 60per cent of citizens viewing

³⁴⁷ Irwin, 2015 p.29

³⁴⁸ Irwin, 2015 p.19

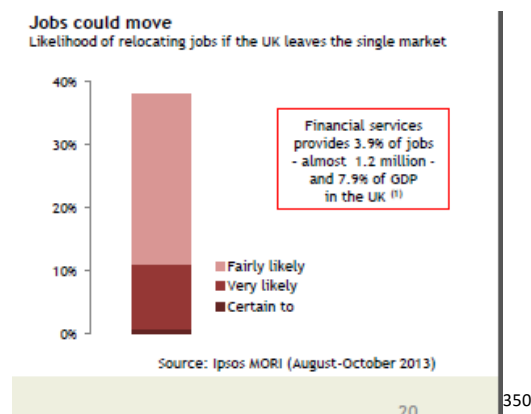
immigration as an opportunity, and Germany has around 60per cent as well. Slovakia has the lowest percentage of citizens viewing immigration as an opportunity, around 10 per cent.

Figure 15: A wider perception problem?



The graph above shows people's perceptions of the EU in different member states measured between positive, neutral and negative. Only Estonia has less positive support, with Spain roughly the same as the UK. Incidentally only Estonia and Austria have a more negative image of the EU than the UK does. Negative perception of the EU is not solely confined in numbers to the UK.

Figure 16: Jobs could move

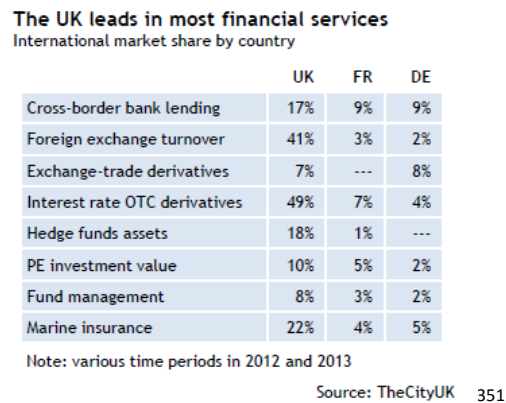


The graph above shows that nearly 40% of firms are either certain to, very likely or fairly likely to relocate jobs away from Britain, if the UK leaves the single market. Certain to is around 1%, very likely 10per cent and fairly likely 26per cent approximately.

³⁴⁹ Irwin, 2015 p.29

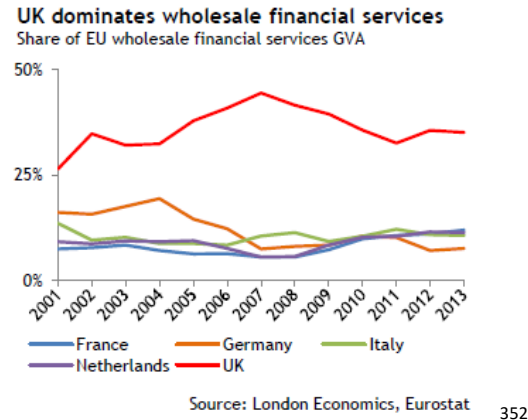
³⁵⁰ Irwin, 2015 p.20

Figure 17: The UK leads in most financial services



The graph above shows that the UK leads the way compared to France and Germany in all financial services except for exchange- trade derivatives, where Germany has 8 per cent of international market share and the UK has 7 per cent. In some specific services for example interest rate derivatives and marine insurance, the UK is far bigger than both France and Germany combined. Indeed in interest rate OTC derivatives the UK has nearly half of all international trade.

Figure 18: UK dominates wholesale financial services

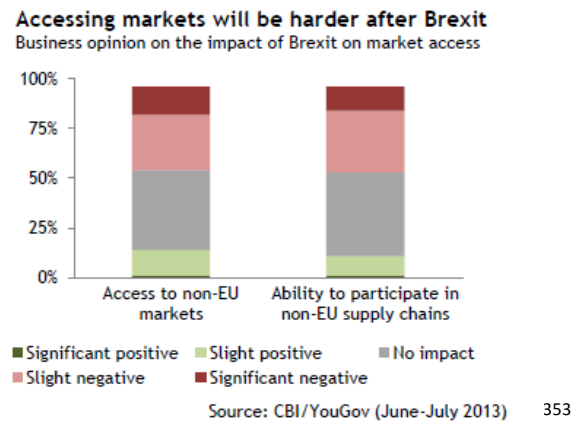


The graph above shows that the UK has consistently had a higher share than any other member state of EU wholesale financial services GVA. Indeed on 2013 figures it has approximately 30 per cent of the EU share, which is by far the largest. France and Italy have roughly 10 per cent.

³⁵¹ Irwin, 2015 p.21

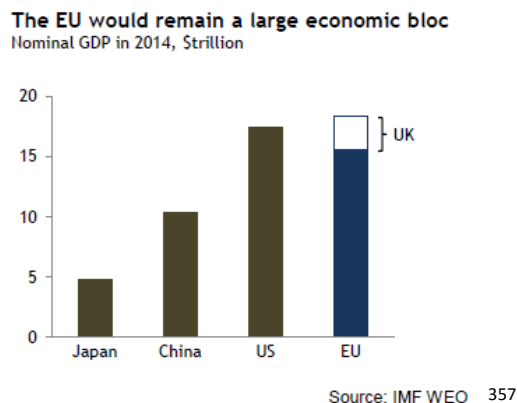
³⁵² Ibid

Figure 19: Accessing markets will be harder after Brexit



As Irwin states: “Established advantages and agglomeration effects mean the UK has a strong competitive edge that would be hard to dislodge. However, existing EU regulations, would make it harder for London to serve European markets, particularly for retail products and in euro trading³⁵⁴.” The UK would have less leverage and be a lower trade partner than the EU for major economies³⁵⁵. Business could therefore move. It is also stated in the report that: “The UK is the leader in euro-denominated wholesale banking, but Eurozone countries and institutions want this activity to move to the Eurozone and be overseen by the ECB³⁵⁶.”

Figure 20: The EU would remain a large economic bloc



The graph above shows the world’s four largest economic blocs. With the UK, the EU is the largest, without the UK, the EU would be the world’s second largest economic bloc, and would fall behind the US. The EU would be a less attractive partner for trade agreements if the UK was no longer part

³⁵³ Irwin, 2015 p.22

³⁵⁴ Irwin, 2015 p.20

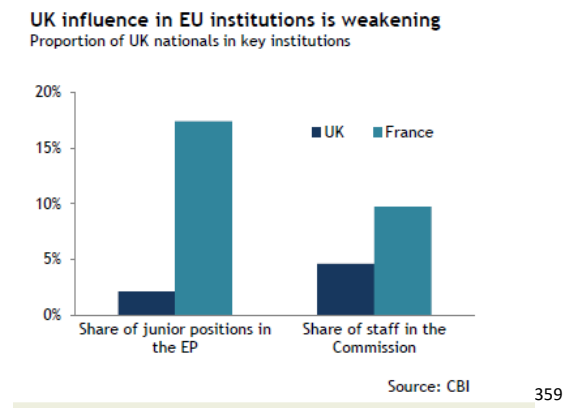
³⁵⁵ Ibid

³⁵⁶ Ibid

³⁵⁷ Irwin, 2015 p.23

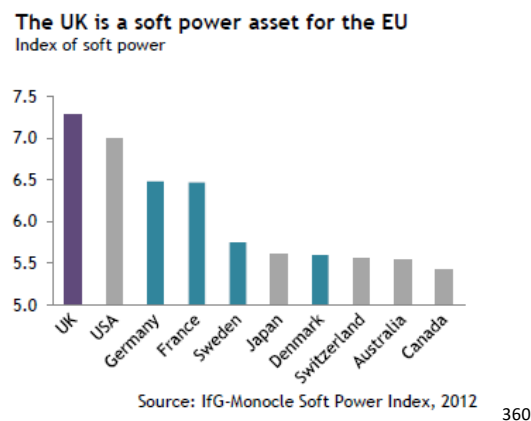
of the deal. EU GDP would be around 15per cent lower without the UK while the EU will remain an attractive partner its appeal will be reduced³⁵⁸.

Figure 21: UK influence in EU institutions is weakening



The graph above shows that both in share of junior positions in the European Parliament and the Commission the UK has a far lower share of members than France does. In the parliament from this graph the ration appears to be six to one, in the commission more like two to one. To put this into context France and the UK have almost the same population size.

Figure 22: The UK is a soft power asset for the EU



The UK is undoubtedly a soft power asset for the EU, and should the UK leave, the EU's soft power competences will be reduced. Indeed as shown in the bar chart above it has the highest rating of soft power in the world, above that of even the US. In Europe, the UK's position in international

³⁵⁸ Irwin, 2015 p. 23

³⁵⁹ Irwin, 2015 p.24









³⁶⁰ Irwin, 2015 p.25

institutions is equalled only by France³⁶¹. The UK also gives the EU more leverage when applying sanctions, particularly in the financial sector³⁶².

The UK is the largest military spender/ has the highest level of military capability along with France. Should the UK leave, undoubtedly the EU's military capabilities will be reduced. The graph below shows the top eight military spenders in the world. With the UK fifth, and the highest EU member, France is sixth and Germany eighth.

Figure 23: Britain remains a big military spender

Britain remains a big military spender
Military spending in 2013

Rank		Country	\$bn	%GDP
1		United States	600	3.7
2		China	122	1.2
3		Russia	68	3.1
4		Saudi Arabia	60	8.0
5		United Kingdom	57	2.4
6		France	52	1.9
7		Japan	51	1.0
8		Germany	44	1.2

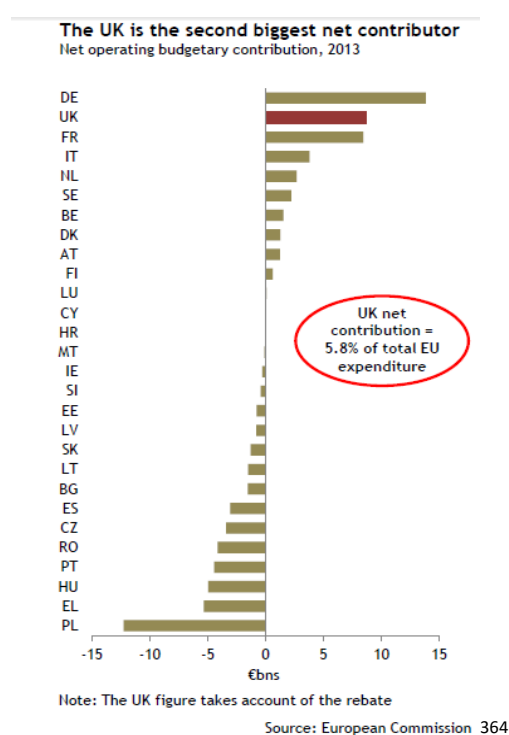
Source: International Institute for Strategic Studies 363

³⁶¹ Irwin, 2015 p.25

³⁶² Ibid

³⁶³ Ibid

Figure 24: The UK is the second biggest contributor



The graph above shows and ranks the countries in net budget contribution to the EU budget. With the country who donates the most at the top, and the country who donates the least, or who is rather the highest net taker at the bottom. Germany is the highest net contributor followed by the UK. Poland is by far the highest net taker, with Estonia second, but less than half of Poland's amount.

Figure 25: Change in real GDP per capita in selected countries for different Brexit scenarios compared on to GDP per capita if the UK remains in the EU

³⁶⁴ Irwin, 2015 p.27

Focus

Change in real GDP per capita in 2030 in selected countries for different Brexit scenarios in comparison to GDP per capita if the UK remains in the EU

	Soft exit	Isolation of UK
UK	-0.63 %	-2.98 %
Ireland	-0.82 %	-2.66 %
Luxembourg	-0.48 %	-0.80 %
Belgium	-0.20 %	-0.96 %
Sweden	-0.13 %	-0.48 %
Netherlands	-0.10 %	-0.35 %
Germany	-0.08 %	-0.33 %
Spain	-0.08 %	-0.32 %
France	-0.06 %	-0.27 %
Austria	-0.05 %	-0.18 %
EU without UK	-0.10 %	-0.36 %
World	-0.06 %	-0.25 %

Source: calculations by the ifo Institute.

BertelsmannStiftung

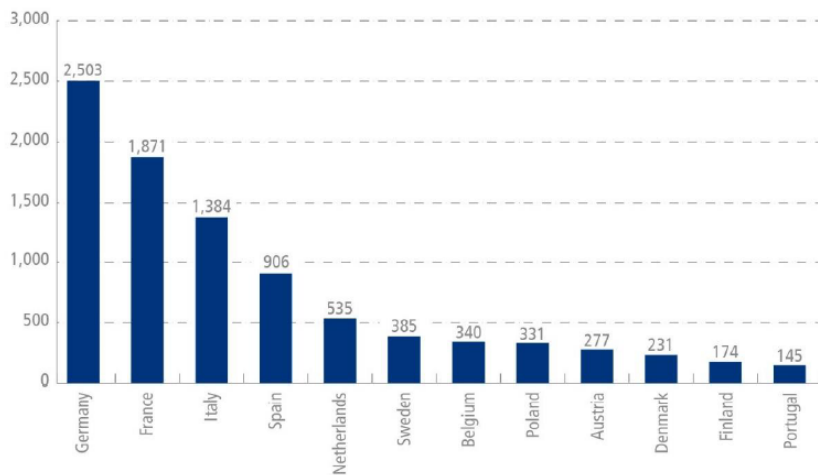
365

The graph above shows that all the member states mentioned, as well as the world collectively, will lose GDP per capita as a result of a Brexit, with isolation of the UK leading to heavier loss of GDP for every state than a soft exit.

Figure 26: Additional gross payments to the EU budget for selected countries after a Brexit

Abb. 1: Additional gross payments to the EU budget for selected countries after a Brexit

in € millions



Source: calculations by the ifo Institute on the basis of data from the European Commission.

BertelsmannStiftung

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The graph above shows how all member states depicted will have to make additional gross payments to the EU after Brexit, with the largest economies such as Germany, France and Italy contributing the most.

³⁶⁵ Petersen et al, 2015 p.1

³⁶⁶ Petersen et al, 2015 p.6

Figure 27: States ranked by exposure to Brexit

States ranked by exposure to Brexit
Score based on multiple metrics (see next page)

Rank	Country	Score
1	Netherlands	28
2	Ireland	25
3	Cyprus	23
4	Portugal	17
5=	Greece	16
5=	Malta	16
7	Sweden	16
8	Denmark	15
9	Czech Republic	14
10=	Belgium	13
10=	Latvia	13
10=	Lithuania	13
13	Germany	13
14	Luxembourg	12
15=	Slovakia	12
15=	Spain	12
17	Finland	11
18=	Estonia	9
18=	France	9
18=	Hungary	9
21	Poland	8
22	Bulgaria	7
23	Austria	7
24	Romania	5
25	Italy	5
26=	Croatia	4
26=	Slovenia	4

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The figure above ranks the states of the EU from most exposed to least exposed on an index. It graphically illustrates which states are most vulnerable post Brexit and which states are least vulnerable post Brexit. Netherlands having the highest exposure and Croatia and Slovenia the least.

The exposure metrics of the figure below, capture and explain in more detail how the risk exposures to states were calculated. The colours also give some indication in the various categories. What is also captured is that Ireland, Malta and Cyprus are economically highly vulnerable, whilst Holland and Germany are more politically vulnerable.

³⁶⁷ Irwin, 2015 p.31

Figure 28: Exposure metrics

Exposure metrics



	Exports to the UK % of GDP, 2013	FDI stock in the UK % of GDP, 2013	Regulatory policy alignment subjective	Residents in the UK % popln, 2013	UK bank links ^(a) % of GDP, 2014	Trade liberalizing alignment subjective	Net budget contribn. % of GNI, 2013	Output gap % potential, 2015	EU perception % negative, 2014	Overall Score ^(b)
Austria	1.3%	0.8%	No	0.2%	6%	Swing	0.4%	-1.1%	36%	7
Belgium	8.8%	4.9%	No	0.1%	21%	Swing	0.4%	-1.2%	22%	13
Bulgaria	1.9%	0.0%	No	0.7%	8%	Swing	-3.9%		10%	7
Croatia	1.2%	0.0%	No		6%	Swing	-0.1%		19%	4
Cyprus	7.1%	23.0%	No	4.0%	77%	Swing	-0.2%	-2.8%	30%	23
Czech Rep.	3.9%	0.0%	Swing	0.4%	3%	Swing	-2.4%		22%	14
Denmark	3.2%	1.9%	Yes	0.4%	12%	Yes	0.5%	-1.2%	10%	15
Estonia	1.5%	0.0%	Swing		1%	Swing	-4.3%	-0.6%	7%	9
Finland	1.8%	0.8%	Swing		16%	Swing	0.3%	-3.2%	17%	11
France	2.0%	4.3%	No	0.2%	25%	No	0.4%	-2.8%	23%	9
Germany	2.8%	2.4%	Swing	0.2%	19%	Swing	0.5%	0.0%	20%	13
Greece	1.7%	0.3%	No	0.4%	24%	Swing	-2.9%	-6.7%	44%	16
Hungary	3.7%	0.4%	No	0.7%	4%	Swing	-5.3%	0.0%	10%	9
Ireland	11.8%	7.5%	Yes	7.1%	174%	Swing	-0.2%	-1.4%	16%	25
Italy	1.4%	0.6%	No	0.2%	10%	No	0.2%	-4.2%	20%	5
Latvia	3.6%	0.0%	Swing	4.4%	3%	Swing	-3.4%		11%	13
Lithuania	3.4%	0.0%	Swing	5.3%	1%	Swing	-4.5%		6%	13
Luxembourg	4.1%	142.1%	No		365%	Swing	0.2%	-0.1%	16%	12
Malta	7.8%	11.8%	No		67%	Swing	-1.3%	0.3%	8%	16
Netherlands	7.6%	27.6%	Yes	0.4%	63%	Yes	0.4%	-4.0%	26%	28
Poland	2.8%	0.1%	No	1.9%	4%	No	-3.3%		6%	8
Portugal	2.6%	0.3%	No	1.3%	21%	Swing	-2.7%	-3.1%	25%	17
Romania	1.5%	0.0%	No	0.6%	2%	No	-3.0%		9%	5
Slovakia	3.2%	0.0%	Swing	1.0%	2%	Swing	-1.8%	-1.7%	19%	12
Slovenia	1.2%	0.0%	No		2%	Swing	-1.2%	-0.9%	17%	4
Spain	2.5%	6.0%	No	0.2%	8%	Swing	-0.3%	-3.5%	21%	12
Sweden	2.5%	2.2%	Yes	0.4%	14%	Yes	0.5%	-0.5%	22%	16

^(a) This is the sum of UK bank liabilities and bank claims in the member state.

^(b) Each channel is given a weight of 1 (moderate), 2 (significant) or 3 (severe), according to the grading in page 8. These are multiplied with scores from this table of 1 (medium), 2 (high) or zero corresponding to each channel. As the output gap and EU perception both relate to uncertainty an average score is used.

medium high n/a

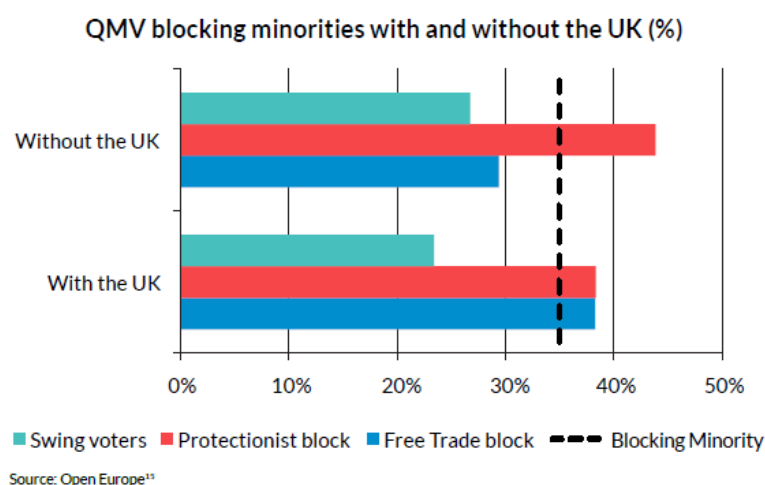
Sources: ONS, Bank of England, IMF, European Commission, EU Barometer Survey autumn 2014, CEIC, GC calculations

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Figure 29: QMV blocking minorities with and without the UK



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Booth et al define the free trade block as including the UK, Ireland, Germany, Netherlands, Sweden, Denmark, Finland and the Baltics³⁷⁰. With the protectionist block including France, Italy, Spain,

³⁶⁸ Irwin, 2015 p. 32

³⁶⁹ Booth et al 2015, p.15

Greece, Portugal and Cyprus³⁷¹. Booth et al state that: “Clearly these are not fixed blocks but they do provide an illustrative picture of the likely alliances particularly on trade issues³⁷².” The point here is that without the UK, the protectionist block becomes more powerful, and can now form a blocking minority³⁷³. The free trade block cannot, without British support.

The following three figures show the GDP and Welfare Impacts to the UK and the EU in future years according to three different scenarios: Worst case, middle of the road and best case for Britain

Figure 30: Worst case scenario, full Brexit and isolation between the UK and the EU:

GDP and Welfare Impacts of Brexit, Relative to Baseline, by Region

	GDP (Percent Change over Baseline)				Welfare (GBP billions at 2015 Prices)			
	2018	2020	2025	2030	2018	2020	2025	2030
UK	-1.391	-1.675	-2.306	-2.759	-32.29	-38.96	-55.91	-70.65
REU	-0.142	-0.180	-0.266	-0.335	-18.86	-24.27	-37.79	-49.91

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Figure 31: Middle of the road scenario, free trade agreement between the UK and the EU is struck:

GDP and Welfare Impacts of the UK-EU FTA Relative to Baseline, by Region

	GDP (Percent Change over Baseline)				Welfare (GBP billions at 2015 Prices)			
	2018	2020	2025	2030	2018	2020	2025	2030
UK	-0.66	-0.74	-0.91	-1.03	-15.84	-18.05	-23.26	-27.92
REU	-0.07	-0.08	-0.10	-0.12	-8.29	-9.70	-13.12	-16.30

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In the third scenario the UK already strikes a free trade deal with the EU. Unbeknown to the EU at the time it then strikes a free trade agreement with the rest of the world. The best possible scenario for the UK and this relies on the EU not knowing that the UK is due to strike a unilateral deal that effectively undercuts the EU- UK free trade deal:

³⁷⁰ Booth et al, 2015 p.15

³⁷¹ Ibid

³⁷² Ibid

³⁷³ Ibid

³⁷⁴ Booth et al, 2015 p.81

³⁷⁵ Booth et al, 2015 p.83

Figure 32: Best case scenario for the UK

Impacts of post-UK-EU FTA Unilateral Liberalisation, Relative to Baseline

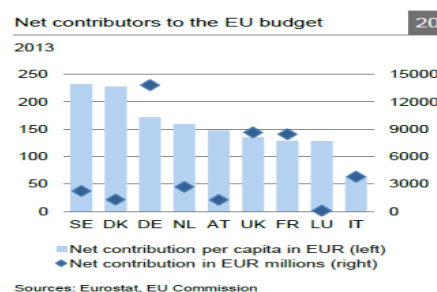
	Real GDP Accumulated Change over Baseline (Percent)				Economic Welfare Impacts (GBP Billions)			
	2018	2020	2025	2030	2018	2020	2025	2030
UK	0.503	0.555	0.666	0.754	7.77	8.46	10.21	11.92
REU	-0.012	-0.016	-0.024	-0.029	-2.45	-3.19	-4.85	-6.35
World Total	0.015	0.016	0.018	0.018	9.19	10.59	13.96	17.43

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I now move onto some research published by Deutsche Bank, entitled *A future in the EU Reconciling the Brexit debate*. The risks are implicitly implied in a section entitled Why the EU needs Britain. It is stated in the report that the UK is 15 per cent of EU GDP, 9.3 per cent of EU imports and as a share 6.3 per cent of EU exports³⁷⁷. It is also stated in the report that the UK has the largest stocks of FDI in the EU, implicitly stated in the report is: “In particular (the UK) is the main recipient of extra EU FDI especially from the USA, China and Japan.” This implies that the UK is an essential part of drawing foreign direct investment from nations outside the EU, to into the EU. What is also implied in the report is that a large amount of this goes to other EU states: “47% of British foreign direct investment is intra- EU³⁷⁸.”

What is also stated in the report, as has been mentioned earlier is that Britain is the second largest net contributor (after Germany), but that furthermore it is only the sixth largest contributor per capita. This is after Sweden, Denmark, Germany, the Netherlands and Austria. See graph below.

Figure 33: Net contributions to the EU budget



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³⁷⁶ Booth et al, 2015 p.85

³⁷⁷ Böttcher and Schmithausen, 2014 p.12

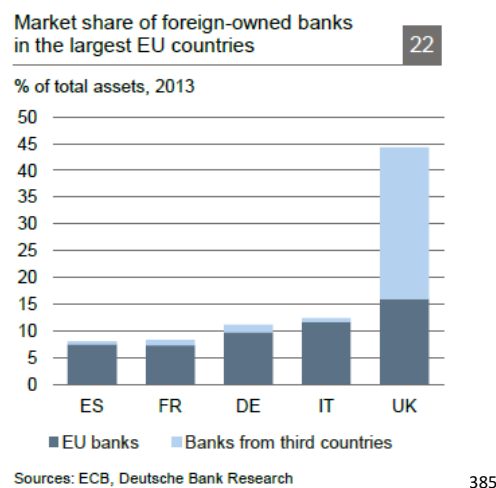
³⁷⁸ Ibid

³⁷⁹ Böttcher and Schmithausen, 2014 p.12

The UK in 2013 contributed EUR 8.6bn³⁸⁰. It is also stated that the UK contributes to 23per cent of EU defence spending³⁸¹. Böttcher and Schmithausen state that the relationship is mutually beneficial for both the UK and the EU, and that from the EU’s perspective: “The political, military and diplomatic strength with which the UK contributes to the EU is a valuable asset³⁸².”

The next section of the Deutsche bank report deals with there being intense financial risks between the UK and the EU, should Brexit occur³⁸³. The attractiveness for the City of London as a financial hub for Europe is demonstrated by the following data, see figure below. With foreign banks having 44% of the UK market share, compared with 11 per cent in Germany and 8per cent in France³⁸⁴.

Figure 34: Market share of foreign- owned banks in the largest EU countries



But it is not just in the city of London per se where foreign banks, and therefore EU banks play a significant role and therefore have a significant exposure. As written in the Deutsche bank report; “foreign banks play a high role in UK loans to households, households deposits, loans to non-financial companies and deposits from non- financial companies³⁸⁶.” This is shown in the following figure. This point is further exemplified by Schildbach writing that: “Foreign banks in the UK are heavily active in the core lending and deposit taking with companies and private households³⁸⁷.”

³⁸⁰ Böttcher and Schmithausen, 2014 P.12

³⁸¹ Böttcher and Schmithausen, 2014 P.12 citing Stockholm International Peace Research Institute and European Defence Agency

³⁸² Böttcher and Schmithausen, 2014 P.13

³⁸³ Böttcher and Schmithausen, 2014 P.13 contribution made by Jan Schildbach

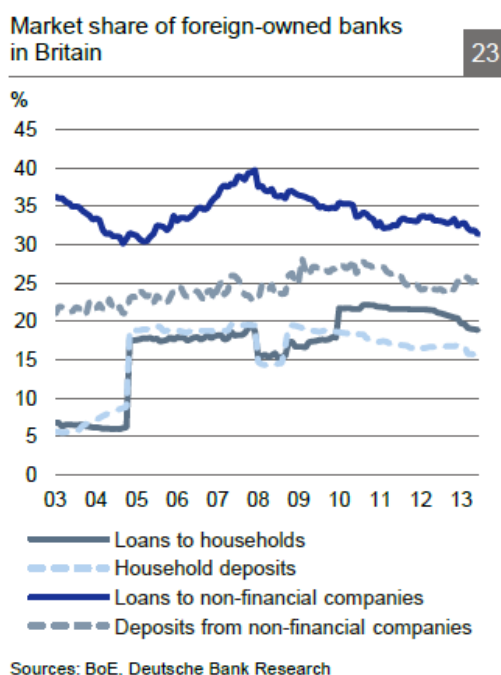
³⁸⁴ Ibid

³⁸⁵ Ibid

³⁸⁶ Ibid

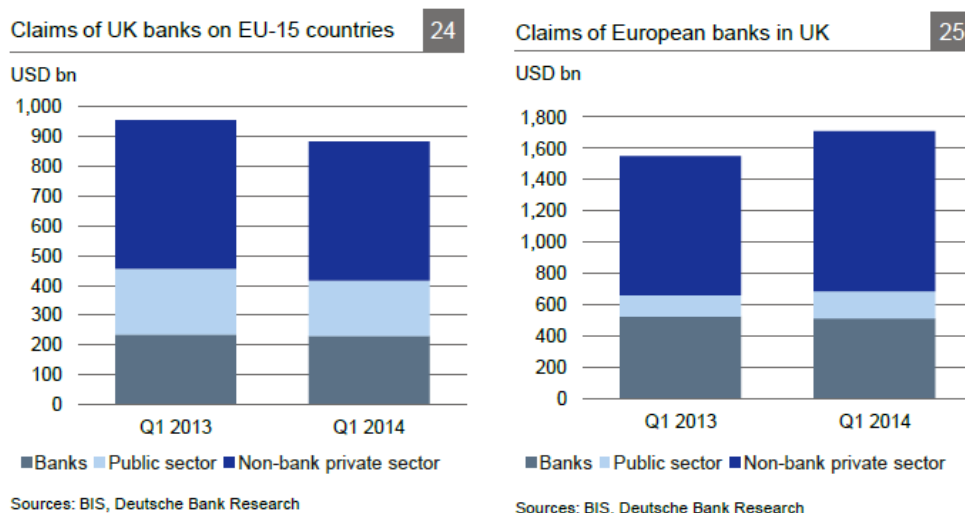
³⁸⁷ Ibid

Figure 35: Market share of foreign owned banks in Britain



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Figure 36: Claims of UK banks on EU countries and claims of European banks in UK



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It is stated in the report that: "Financial activity could partly shift towards other financial centres such as Frankfurt and Paris, and that compared to Zurich London would lose the advantage of being

³⁸⁸ Ibid

³⁸⁹ Ibid

in the EU³⁹⁰.” Schildbach cites The City UK survey where post Brexit, “37% of respondents considered a (partial) relocation to the EU (away from the UK) as likely³⁹¹.” With the survey also finding that: “81% of respondents regarding a Brexit as detrimental for the UK’s competitiveness as a financial centre.”

I will now look at two data sources, which have interviewed firms on their views of Brexit and will compare their findings. The first source is by *The City UK 2013: A milestone study of the views of financial and related professional services leaders on the EU*. The second source is a focus paper entitled: *The Impact of Brexit. Views from German and British business communities* by Bertelsmann Stiftung. Both sources interview firms on their views on Brexit and how business confidence would be affected post Brexit.

With regards to *The City’s* methodology; 101 interviews were conducted between 19th August and 24th October 2013. The sample was drawn from *The City UK’s* members and from an original 444 leads³⁹². It is also stated under the survey methodology that; “survey questions were developed by Ipsos Mori in consultation with TheCityUK , including input and review by TheCityUK stakeholders³⁹³.” The main data that I have found in this report is the prospect/ threat of relocation should the UK leave the EU. This is shown in the following figure, see page below. Perhaps the two most striking points for me is that only 1 per cent are certain that Britain leaving the single market will mean relocation away from the UK, and only 10 per cent for very likely to relocate, a small proportion of the data.

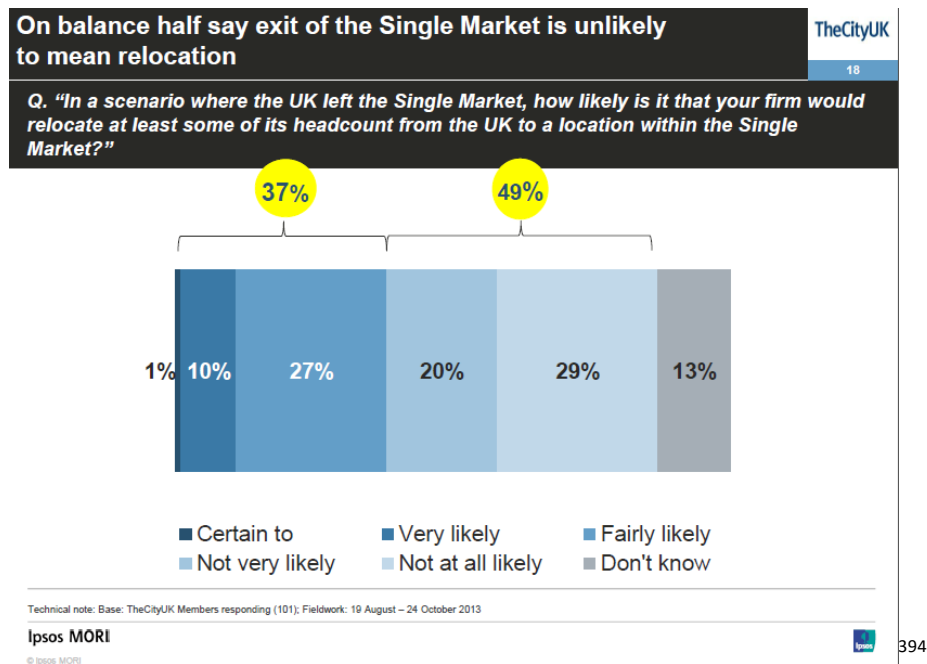
³⁹⁰ Ibid

³⁹¹ Ibid citing TheCityUK, 2013. A milestone study of the views of financial and related professional services leaders on the EU

³⁹² TheCityUK, 2013 p. 5 and see p.5 for more details on its methodology

³⁹³ TheCityUK, 2013 p. 5

Figure 37: On balance half say exit of the single market is unlikely to mean relocation



Now I take a look at the data found by Bertelsmann Stiftung *Survey of German and British firms*. Bertelsmann surveyed 378 firms based in Germany and 404 firms based in the United Kingdom³⁹⁵. These firms were across a broad range of sectors (appendix 2) and not restricted to the financial centre. The survey also defines Brexit as ‘the best case scenario’ where the UK has left the EU as a political entity but remains in the free trade area and the single market³⁹⁶. And as stated in the report: “Of the 782 respondents, 549 represent companies that earn at least 25% of their revenues in EU countries other than their headquarters country³⁹⁷.”

Now to the findings, and in terms of impacts on the EU Bertelsmann Stiftung’s findings are much more so expansive. The first figure looks at how respondents believe Brexit will affect their country’s employment levels:

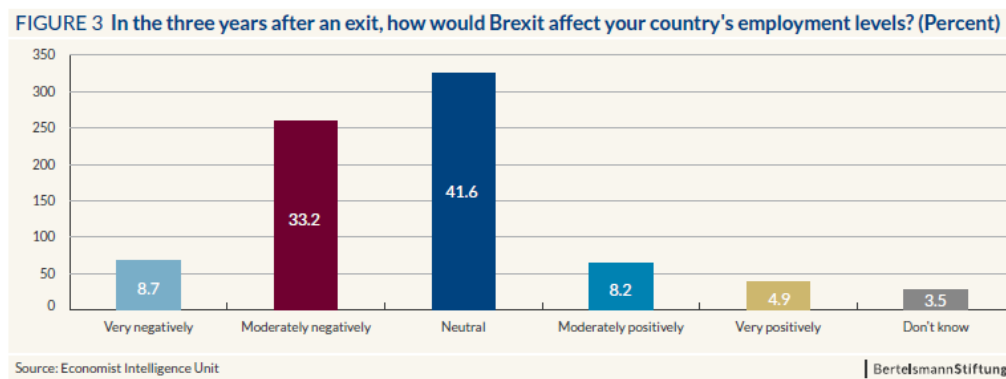
³⁹⁴ TheCityUK, 2013 p.18

³⁹⁵ Petersen et al., 2016 p. 5

³⁹⁶ Ibid

³⁹⁷ Ibid

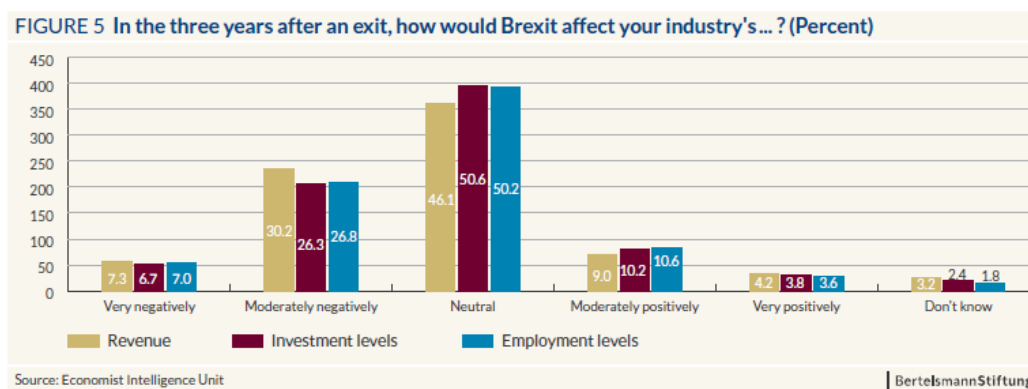
Figure 38: In three years after an exit, how would Brexit affect your country's employment levels



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The next figure looks at how respondents believe their industry will be affected:

Figure 39: In the three years after an exit how would Brexit affect your company's...



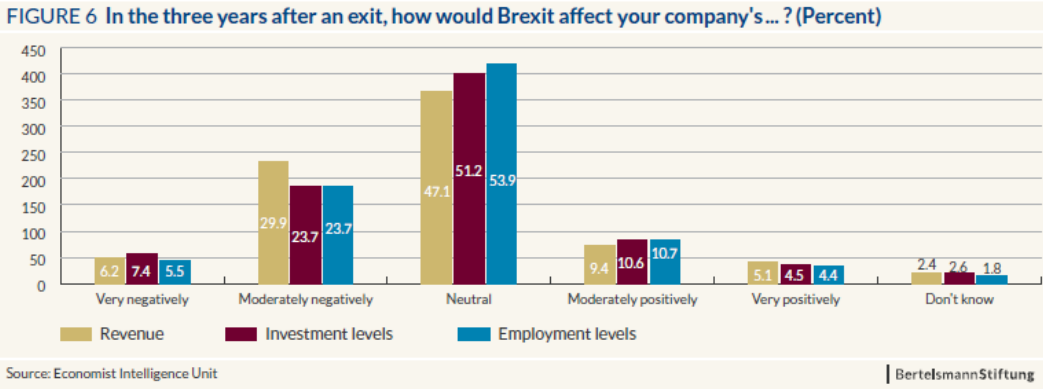
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They also asked how respondents believed their own company would be affected.

³⁹⁸ Petersen et al 2016, p.6

³⁹⁹ Petersen et al 2016, p.7

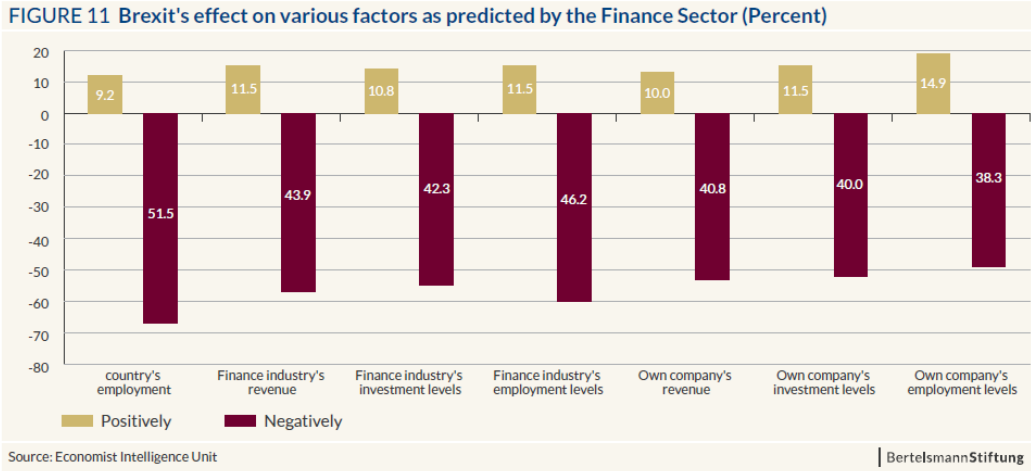
Figure 40: In the three years after an exit how would Brexit affect your company's...



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The final data that I have researched from Bertelsmann Stiftung is when the responses of the financial sector are analysed on their own on a range of economic indicators. This is shown in the figure below. The results are negative effects outweighing positive across the board.

Figure 41: Brexit's effect on various factors as predicted by the finance sector



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The next article I have data from is produced by Migration Watch and is a response to a parliamentary question by Keith Vaz M.P who asked how many EU children not living in the UK receive child benefit from the British government⁴⁰². Most EU countries do not allow citizens who do not live in their country, i.e. reside, to receive child benefit⁴⁰³. Indeed in all EU countries apart from the UK, the Netherlands, Czech Republic, Germany and Latvia, the child must reside in the country of

⁴⁰⁰ Petersen et al 2016, p.8

⁴⁰¹ Petersen et al 2016, p.12

⁴⁰² Migration Watch 2013, p.1

⁴⁰³ Migration Watch 2013, p.2

claim⁴⁰⁴. Should the UK leave the EU the benefits to these children could arguably be expected to be lost.

The following tables show which countries receive most non- resident child benefit, with Poland by far the highest represented state in the figures:

Figure 42: Child Benefit Awards and number of children to overseas children by country

Child Benefit Awards and Number of Children to Overseas Children by Country, 2012		
Country	Number of awards	Number of children
Poland	15,499	25,659
Ireland	1,281	2,609
France	1,080	2,003
Slovakia	1,083	1,881
Lithuania	1,276	1,772
Spain	756	1,275
Latvia	853	1,117
Germany	366	641
Netherlands	192	379
Portugal	239	364
Italy	193	330
Romania	196	328
Czech Republic	176	282
Belgium	138	274
Switzerland	122	238
Bulgaria	174	238
Hungary	132	203
Sweden	66	122
Cyprus	53	80
Greece	51	76
Norway	14	65
Estonia	43	63
Austria	29	47
Denmark	20	35
Finland	16	30
Malta	14	21
Luxembourg	10	21
Slovenia	7	13
Iceland	3	5
Totals	24,082	40,171

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⁴⁰⁴ Migration Watch 2013, p.2

⁴⁰⁵ Migration Watch 2013, p.3

6. Analysis

In my analysis I seek to link the theory to the empirical data. Simply put I hope to find consequences. I.e. What is going to happen to the EU if Britain leaves. What will be the impacts?

I will now analyse the data in my thesis. I am seeking to find out whether the theories I started out with, are supported by the data that I have found.

To remind the reader: Kelemen talked about various forms of disintegration. So does my data show that the EU is disintegrating and in what form is it disintegrating. Yencken writes about the EU's external relations with third countries post Brexit. That, the EU, without the UK will be weaker, will lose some touch with English speaking countries, but may be able to deliver a more coordinated united front.

The UK is less likely to have influence on research policy at an EU level. Post Brexit it is unlikely that the UK would lose access to EU research funding, however Switzerland has lost some access due to disagreement over freedom of movement with the EU⁴⁰⁶. Should the UK leave the EU, and lose some access to research funding, then other countries may benefit, should the level of EU research funding be unaffected by the loss of British budgetary contributions (Figure 8).

With regards to figure 7, it can be clearly seen that an EU without the UK moves in a illiberal direction, with the centre ground swinging away from liberal economic policy. Figure 9 also shows that the UK is fairly restrained with regards to state aid compared to its European counterparts, and that this free market Anglo- Saxon model from the UK will be lost to the EU if there is Brexit. Perhaps this line of argument can be seen in line with Kelemen's limited secession, if the EU was able to move in one direction, albeit a slightly illiberal one. Equally if closer integration means closer liberalisation, then the loss of the EU's most liberal state would be limited secession but not the loss of a 'preference outlier.'

Figure 10 shows that the UK is a significant attraction for foreign students, and of course a significant amount of these will be EU nationals. It is uncertain, regardless of the form of Brexit, how EU nationals who are students in the UK would be treated post Brexit. Would future EU nationals who are students enjoy the same rights that current EU nationals who are students do? It can be argued that tightened immigration controls and reduced student funding post Brexit could negatively harm future EU nationals who wish to study in the UK, or equally make it more likely for them to choose an alternative member state in which to study in.

⁴⁰⁶ Irwin, 2015 p.16

Figure 11 shows that the EEA migrants coming to the UK are young, educated and employed. It seems that the British economy has expanded to provide the vast majority with employment. Depending on the post Brexit agreement current and future EU migrants to the UK could be negatively affected. Linked to this is figure 12 where Poland is a major source of UK immigrants, and it is Polish citizens, who numerically, are most vulnerable to immigration changes following Brexit. Immigration concerns are high in other states, with attitudes towards immigration being seen as both a threat and an opportunity. However there is a risk of political contagion. Immigration fears from the UK being replicated elsewhere in the EU. Immigration will be a factor in the French Presidential election of 2017, where there might be a pressure to follow UK immigration controls⁴⁰⁷. However, in other EU countries such as France, the main concern is non EU migration, in the UK it is intra EU migration⁴⁰⁸. Linked to this is figure 13, where in Sweden, Finland, and France anti-European Union parties have risen in the share of the vote from 2009 to 2014. Arguably this shows that if the UK leaves it will be citizens from these countries who will be most anti-immigration, and may have increasing voices to leave the EU, especially if the UK is seen to be making a success of post Brexit. Figure 14 shows how after the UK, France, Slovakia and Italy have the largest proportion of citizens who perceive immigration to be a problem. This again shows how immigration is likely to be a contentious issue in the French presidential election of 2017, and how Italy is perhaps becoming increasingly euro-sceptic as well.

With regards to perception of the EU, figure 15 shows how only Estonia and Austria have a higher proportion of citizens who perceive the EU to have a negative image. It can arguably be ascertained from this that there is also rising euro-scepticism in Estonia and Austria as well. Clearly if rising anti-immigration sentiment occurs across the continent, then maybe an existential crisis of the EU could occur, where the EU could be in a dilemma as to whether to control and restrict immigration, both within and outside the EU, or continue to allow for free movement. As Kelemen identifies, if the EU became less adept at obeying its own rules it would become like the OECD, and become a weak international forum.

Figure 16 shows that nearly 40% of firms that provide financial services in the UK are at least 'fairly likely' to relocate away from the UK if it leaves the single market. This would create disruption to these firms if they did relocate, but may also create opportunities and economic benefits to other states such as Ireland, Germany and the Netherlands for example.

⁴⁰⁷ Irwin, 2015 p.19

⁴⁰⁸ Ibid

Figure 17 and 18 show how the UK leads in most financial services and dominates wholesale financial services respectively. These close interdependent relationships can be argued to be put at risk by Brexit. Figure 19 shows how 30% of respondents have the opinion that Brexit will make it either 'slightly negative' or 'significantly negative' to access markets post Brexit. So according to business opinion at least, some businesses will be negatively affected by Brexit.

Figure 20 shows how the EU would still remain a large economic bloc post Brexit, but would fall second to the UK, weakening it both economically and politically. A weakened block both economically and politically, could make it more likely for the EU to have weakened relations with third countries, as Yencken identifies, because the EU would have less resources to deploy to maintain these external relationships.

Figure 21 shows how the UK has far less staff in EU institutions than France, a country of a similar size to the UK. So perhaps the EU will not be as weakened institutions wise as much as one would believe. Figure 22 though does show how the UK is a significant soft power asset and that this would be lost post Brexit as well. Figure 23 shows how the UK is the most significant military spender in the EU, again this capacity would be lost post Brexit. With the EU having less military capacity post Brexit, again it could be argued through Yencken's theory that having less resources, as well as losing the competences of the British FCO, would make it more difficult for the EU to reach out to third countries post Brexit.

Figure 24 shows that the UK's net contribution, in spite of the British rebate, is a significant amount, and would require large contributions from the other member states to make up for the shortfall. This is further laid out in figure 25. Figure 33 also shows the UK's net contributions, and that it only has the sixth highest contribution per capita, it still has the second highest net contribution. Figure 25 shows how all selected countries will lose a percentage of GDP post Brexit, both for a soft and hard exit. Figure 27 shows how three states face significant exposure and fourteen states face quite significant exposure, all suffering negative impacts to varying degrees, after a Brexit. Figure 28 shows how these risk rankings are calculated in the exposure metrics. It can be deduced from figure 28 why in figure 27 for example Netherlands, Ireland and Cyprus have the highest rankings in significance of exposure. Perhaps here it could be argued that under Kelemen's theory, another limited secession could occur, but this time from an actual 'preference outlier.' I.e. if a country is not economically resilient to cope with Brexit, then it's neither suitable to be in the EU longer term, perhaps Ireland could be an example here.

Figure 29 shows how without the UK it is much more difficult for the free trade block to secure a blocking minority. It can be seen from here that the protectionist block would be more able to get their own way under QMV without Britain as a member of the EU.

Figures 30 and 31 show GDP change and welfare losses to the UK and the EU for a worst case scenario deal and a free trade agreement deal. Both the EU and the UK suffer losses under both forms of agreement, implying that Brexit would have negative economic consequences to both. Figure 32 shows how under a UK, EU FTA and unilateral liberalisation for the UK, the EU would suffer losses both for real GDP, and economic welfare impacts, again implying that Brexit would have a negative impact economically on the EU.

The biggest cost from UK controls will be borne by EU firms invested in the UK as operations based outside the UK can always substitute for UK labour. Countries that provide significant immigration to the UK will suffer the largest effect. It would positively impact upon skills and the supply of labour, but negatively on remittances⁴⁰⁹. Germany could experience an indirect impact if UK immigration is ‘deflected’ there⁴¹⁰. The economic consequences will depend on the scale and composition of the migrants, but are likely to be net positive, economically speaking, if perhaps unevenly distributed⁴¹¹. There may be fiscal benefits for some other countries if the rules on entitlement to public services are changed for UK immigrants in other member states.

As well as foreign banks being prevalent in the UK, UK banks are also prevalent in the EU, see figure 34, 35 and 36. This means, in my view that both parties would be vulnerable should a Brexit for example affect mutual recognition of standards. As Schildbach writes: British bank claims on the “old” EU 15 is equivalent to 880bn USD. Most of that is credit to companies and households, but British banks also have significant government bond holdings and interbank assets. In return European banks combined have an even greater exposure in the UK of USD 1.7 trillion.

There is also the issue of whether the city of London would remain a global hub after a prospective Brexit. Not only would this have implications on the UK, but also other EU member states. Namely, would other EU member states financial districts such as Paris and Frankfurt be able to attract trade away from the UK as a result of the UK withdrawing from the EU. This point is illustrated by the fact that as Schildbach writes: “Despite being outside the Eurozone, the city (of London) accounts for the

⁴⁰⁹ Irwin, 2015 p.19

⁴¹⁰ Ibid

⁴¹¹ Ibid

highest share of euro denominated foreign exchange trading⁴¹².” A further point is that if the UK was to leave the single market, and it can be even argued even if it had partial access to the single market, it would lose some if not all protection by the European Court of Justice. An example of this has been an attempt by the European Central Bank to have all euro clearing houses within the Eurozone area. Britain successfully appealed this and won a judgement in its favour of discrimination within the single market not being viable, and this is also seen to be a breach of free movement⁴¹³. This protection would not be guaranteed post Brexit. Figure 37 shows how 38% of respondents have the opinion that it is at least ‘fairly likely’ that they would relocate away from the UK, if the UK left the single market.

Schildbach further demonstrates this point of relocation by referring to non-European banks as well: “Non- European banks would have to find other ways into the single market, probably boosting Ireland’s position (which is already strong in certain segments such as fund management or hedge funds⁴¹⁴).” This of course assumes that on Brexit, the UK would leave the single market, where as I am by contrast assuming that upon Brexit the UK would remain a part of the single market or at least enter into a single market lite form of agreement. However under a single market lite I perhaps should concede that there could be a difference in regulations between the UK and other EU member states. As Schildbach states: “For European banks doing business in Britain, being forced to comply with different rules than in the EU would reduce the attractiveness of the market⁴¹⁵.” There is also an issue for British banks doing business in the EU as well, as Schildbach writes: “British banks’ business in the rest of Europe would equally suffer from more difficult market access, higher regulatory and compliance costs and a less favourable legal and political environment, in turn affecting these banks abroad and at home.” The implication here being that EU member states whether deliberately so or by accident would make it/ it would become harder for UK banks to enter and to do business in their countries post Brexit. See figure 36 for claims on banks by both the UK and the EU in the UK and EU.

This would imply, in my opinion at least that there is limited scope for other financial districts in Europe to take away business from London post Brexit. As a lot of the advantages that London has will still be the case post Brexit as well.

⁴¹² Schildbach in Böttcher and Schmithausen, 2014 p.14 citing Bank of England (2013). BIS Triennial survey of Foreign Exchange and over-the counter interest rate derivatives markets in April 2013. UK Data.

⁴¹³ Schildbach in Böttcher and Schmithausen, 2014 p.14

⁴¹⁴ Ibid

⁴¹⁵ Ibid

Figure 38 shows how over 40% of respondents believe that a Brexit will very negatively or moderately negatively affect their country's employment levels. Figure 39 shows how revenue has the largest concern for industry at 37% believing it will be very negatively or moderately negatively affected post Brexit, compared to 34 % for investment and employment levels. Figure 40 shows that with regards to how respondents believed their company would be affected, revenue again has the highest negative value at 36% either perceiving it to be very or moderately negatively affected post Brexit. This time, investment levels and employment levels had negative concerns at roughly 30% and 28% respectively. So although the majority of firms have neutral or positive perceptions post Brexit, a significant minority have negative concerns.

Figure 41 shows how the finance sector across a range of indicators is seen by respondents to have far more negative than positive effects from Brexit. With the country's employment having the highest negative response.

Figure 42 shows how Polish citizens by far have the highest number of citizens not living in the UK, receiving child benefit. Therefore Poland has the most significant vested interest in any post Brexit agreement securing the rights of its citizens who live in the UK, and have family back in Poland.

To surmise my analysis, I believe that some of my data is relevant to the two theories provided by Kelemen and Yencken. Of the data that is relevant it seems loosely supported by the two theories.

7. Discussion

Irwin's verdict is that the Norwegian style EEA Agreement does not address the UK's political problems with the EU⁴¹⁶. In my opinion, with regards to the EU is that this model is most desirable for the EU as it prevents 'cherry picking' by the UK. The UK can only extract the benefits of the single market by paying in, and accepting the freedom of movement, there are also other countries that have set a precedent to this kind of agreement.

Irwin's verdict is that a customs union agreement modelled on Turkey would be a bad compromise for the UK⁴¹⁷. My opinion is that from the EU's perspective this is also frustrating for the EU. Although again cherry picking is avoided, it becomes now more difficult for the EU to trade with the UK as the union is incomplete. There may be a possible impasse on financial services as well.

⁴¹⁶ Irwin, 2015 p. 6

⁴¹⁷ Ibid

Irwin's verdict is that a free trade agreement is possible to occur but it depends on the deal⁴¹⁸. Here I understand Irwin to also be implying that the desirability of a free trade agreement to both parties, depends on the precise nature of the agreement.

In my opinion a free trade agreement is the bare minimum that the UK should be able to achieve. The EU will not want all its own products discriminated against in the UK market. The EU will also not want a tariff war with the UK if its economic rationale presides over any political whims. The form of relationship that the EU and Canada have, can be seen to be a model of this form of agreement.

Irwin's verdict is that a Swiss- style bilateral accord agreement is possible, but may not be attractive to the EU⁴¹⁹. In my opinion the Swiss- style bilateral accord agreement, out of all the possible models would be best for the UK and what it should aspire to. More pertinently perhaps this form of agreement would also be best for the EU, because of mutual gains, as the EU would retain a similar access to the UK market as it does now.

Irwin's verdict is that an agreement based on the MFN approach would be inconsistent with the UK's liberal approach to trade⁴²⁰. I understand that by implication Irwin further means that this agreement would be not be at all desirable and therefore not plausible either.

In my opinion from the EU's point of view, a MFN agreement would also be inconsistent with the EU's approach to trade. This form of agreement is simply the worst case scenario for both the UK and the EU. It is hard to envisage the UK and the EU making such a bad agreement, trade relations between the EU and the UK, would effectively be worse than trade relations between the EU and Ukraine, as well as other countries where recent trade agreements have been agreed.

My opinion is also that it is unlikely that post Brexit EU regulation could be undercut or undermined by the UK. This is because the UK has some financial regulation that is even tighter than the EU, and is likely to remain the case post Brexit as well, e.g. capital requirement for banks is higher in the UK than in the EU.

Furthermore, assuming that the UK maintains significant single market access allows impacts to be assessed that in my opinion would be more realistic. I argue that the implications and costs of the UK leaving will be lower for a soft exit than a hard exit. The costs and implications found under a soft exit would also apply for a hard exit. The costs and implications found under a hard exit would not all apply under a soft exit.

⁴¹⁸ Ibid

⁴¹⁹ Ibid

⁴²⁰ Ibid

In my opinion, this point implies that if the EU becomes a more economically efficient area, then the UK will suffer more costs from leaving economically speaking, as opposed to if the EU is unable to become more economically efficient. But it could also be interpreted that if the EU becomes more dynamic further gains from the UK helping to push the agenda, i.e. liberalising will be lost, and therefore costs will occur. A further point is that if the EU fails to become more dynamic economically there may still be substantial costs to both sides as the EU will lose the British economic force and liberalising agenda which may have been able to minimise some of the negative effects of a lack of dynamism in the European economy, had the UK remained in the European Union.

It has been argued by some that the EU will be a more unified aggressive negotiator without the UK. This is arguably most true with China, where “the UK has been criticised for making a rush to launch negotiations, without obtaining prior commitments⁴²¹.” Thus the UK has been effectively undercutting and undermining the EU’s negotiation power at least in my opinion. This would chime in to some degree to Yencken’s theory that the UK also does harm to third countries perceptions of the EU. It may though be able to have a more coordinated foreign policy without British ‘interference.’

Eurozone clearing being removed from the UK would be much more likely following Brexit, as the UK would no longer be protected by ECJ enforcement of single market rules, if the UK left the single market in a post Brexit agreement.

Once economic arguments are taken into consideration it is unlikely that the EU would seek to punish the UK for Brexit by also punishing itself.

I do believe that social interactions between the UK and the EU are and will continue after a British exit to be continuous. We have already had the EU/ British re- negotiations which were a revision of the state of affairs and the relationship between Britain and the EU. Brexit as a process would also be a state of revision, as many believe that it could last up to ten years. In this timeframe the two actors of the EU and the UK would be in a continued process, negotiating, and there would be a state of revision, bargaining leading to a different outcome from what was at the start. I.e. The UK would be a member of the EU having just voted to leave the EU.

I believe that the most likely form of Brexit will be a combination of the Swiss bilateral agreements, and the free trade agreement model due to economic concerns outweighing political concerns. However this may not be the case.

⁴²¹ Irwin, 2015 p. 23

This point that Oliver raises, I disagree with⁴²². Article 50 of the TEU has been enshrined into EU law, and is therefore I would argue not unconstitutional, furthermore it seems right that the EU has a process through which states can leave, just as it has a process through which states can join. It can also be argued with some contention as to whether or not European integration is irreversible.

8. Implications for Practice

An inherent advantage of my thesis compared to other publications is that it will be published close to the referendum date. As such it will be most up to date on the subject, and therefore needs to include up to date material. Also if the UK does vote to leave the European Union on June 23rd, then my thesis can be used to analyse the potential impacts upon the European Union politically, economically, to business and legally as well. Also my thesis can be seen as to what mechanisms will come into play post Brexit, and who stands to gain or rather lose the most.

9. Conclusion

The impacts of a Brexit on the EU is dependent on the form of the Brexit. There will be uncertainty, which is another cost, until the form of Brexit is formalised by an agreement between the EU and the UK post Brexit. The EU and its member states will be undoubtedly weakened politically and economically by Brexit. The EU may however be able to present itself at trade deals and with foreign policy as a more united force.

There is also a risk of political contagion. What the UK has demanded for may be demanded elsewhere. Fear of immigration and lack of trust and confidence in the EU may spread from member state to member state. As mentioned by Irwin: "Brexit would have a wider political impact on the EU, both by disrupting internal political dynamics and because of the risk of political contagion if the 'proof of concept' of leaving the EU encourages disintegrative forces in other member states⁴²³." An example of this is the Dutch voting in a referendum against the EU- Ukrainian free trade agreement, and Dutch euro-sceptics wishing to send a message to the UK that it's possible to say 'no' to Europe. Other impacts are that the EU would lose esteem and influence around the world

Different sources use different assumptions and methods to collect their data, and therefore conduct their analysis. I.e. some assume a soft Brexit, some a harder form of Brexit, and as a result their conclusions differ. I find that under a soft Brexit, which is favourable to both the UK and the EU, there are still severe negative political and economic impacts, and that this would affect business

⁴²² Oliver, 2013 p.16

⁴²³ Irwin, 2015 p.39

confidence, and that legal uncertainty would add to this. I conclude that Brexit has far more negative impacts than positive on business, political and legal parameters.

I also find that the UK leaving the EU would be a form of disintegration. It would be a limited secession by a key member.

9.1 Further Research

There are many areas for further research. One is looking at the impacts upon the UK of a Brexit. Also if the referendum vote is for the UK to remain in the EU, then the ramifications of that decision, and the future relationship between the UK and the EU could be researched and examined. I.e. how would the UK be received by its European partners if it comes close to having the left the Union? Would the UK be marginalised, or move to the centre of a reforming agenda of the EU?

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11.Appendices

11.1 Appendix One: Open Europe’s detailed explanation of how a single market lite arrangement could look like

Policy area	What would that allow the UK to do?	Treaty Articles
Free Movement of Goods	The free movement of goods is a key principle and policy of the EU. This policy has led to the elimination of internal tariffs, the harmonisation of product standards and the elimination of artificial barriers to cross-border trade allowing physical goods to be bought and sold across borders with minimal interference and legal protection.	Art 26, 28, 34 - 37 [Article 28 is difficult to disentangle from Customs Union]
Customs Union	As well as allowing free movement of goods between states, the EU is also a customs union in which the free movement of goods is facilitated within a common external customs wall. The Customs Union is not an EEA policy, so being a part of the EEA could exempt the UK from participation in this area. However there are some parts of the EU legislation the UK may wish incorporated in the EEA: <ul style="list-style-type: none"> • Customs facilitation and harmonisation, customs cooperation. • Common external commercial policy (trade deals), either as a full party to the trade deals or with the right to participate if it wishes to. 	Art 28, 29, 30, 31, 32, 33 200-204 Common Commercial Policy art 206, 207
Agricultural products	The EU’s single market and customs union includes the free movement of agricultural goods. The EEA does not include agricultural goods and Norway operates its own agricultural policy, subsidising it to a higher level than the EU. If the UK wished to exempt itself from the EU’s Common Agricultural Policy it would either have to gain guarantees that EU agricultural policies and subsidies would not distort trade in these goods. Alternatively the UK could remain outside the customs union.	
Free Movement of Services	The right to sell services across borders <ul style="list-style-type: none"> • Right of establishment in other EU states on equal terms • The facilitation of mutual recognition on qualifications 	Art 26, 49-62
Free Movement of Capital	The right to invest in other EU member states on the same terms as domestic companies	Art 26, 63-66
Catch all power?	The EU includes powers on the “approximation of laws” that allow it to act to push forwards the single market in areas that do not obviously fall under other treaty articles. Although misused in the past to push measures it was not intended to cover some form of power may be necessary.	Art 114 and 115

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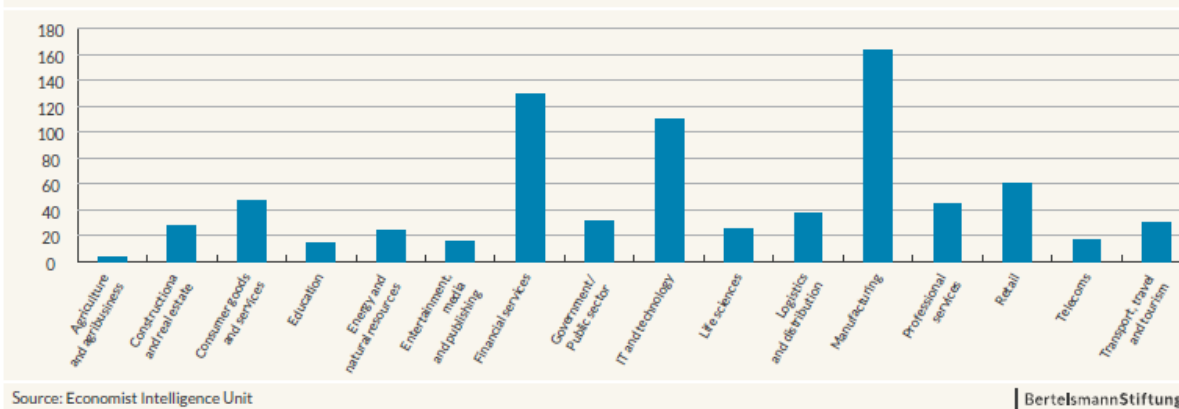
⁴²⁴ Taken from Booth et al., 2015 Annex 2 p.102

Single Market protections: <ul style="list-style-type: none"> • Competition law • Rules against state aid • CAP reform • Nondiscrimination on tax 	<p>The Single Market freedoms are backed up by a series of policies designed to ensure that member states cannot subvert the overall objective of allowing trade on an equal, nondiscriminatory basis. These rules are essential to allowing states to compete on an equal basis and would be something the UK would wish to retain.</p> <p>In addition, as described above, the UK would need to ensure that the trade in (subsidised) agricultural products did not disadvantage UK farmers.</p> <p>The UK would also wish to keep provisions against discrimination by national taxation systems.</p>	<p>Competition: Art 101-106</p> <p>State Aid Art 107-109</p>
Free Movement of Labour	<p>The free movement of Labour was one of the original "four freedoms." Whether it should be considered essential to the Single Market is controversial. Having been originally designed with cross border workers in mind, it is now seen by proponents of EU integration as an essential "EU citizenship right" and a part of building a common nationality.</p> <p>By contrast ASEAN, as a free trade area is based on the "free movement of goods, services, investment, skilled labour, and freer flow of capital."²⁰⁷ NAFTA, however, does not include free movement.</p>	Art 45, 46 and 48
Energy	<p>EU energy policy unites three very different objectives. The liberalisation of the EU energy market by facilitating more cross-border trade, the EU's climate change policies and the EU's external security policy vis-à-vis Russia.</p> <p>It is possible that the UK would wish to participate in a liberalised EU energy market.</p>	<p>The EU includes an article on Energy – Art 194 – included under the Lisbon Treaty. It is arguable that if the aim is a liberalised energy market it could be done so under existing single market articles rather than under the new article that includes security and climate change objectives.</p>
Tax	<p>Tax is subject to unanimity in the EU. The UK would not wish to be bound into EU taxation policies given proposals such as the Financial Transaction Tax. Whereas some taxation policies – such as those on nondiscrimination are potentially beneficial others are more arguable.</p> <p>The major EU taxation policy, outside customs and tariffs, is the alignment of VAT rates. Aligning VAT rates is designed to facilitate cross border trade and distortions and ease the calculation of EU budget contributions. The UK has occasionally wished to diverge, for instance on energy efficient products and food.</p>	<p>Articles 110-112 – non discrimination</p> <p>Art 113 indirect taxes</p>
Transport	<p>The EU has included specific legislation on a "Common Transport Policy". The UK may wish to pare back some of the more integrationist parts of this policy but remain in those parts that promote cross border trade and competition.</p>	<p>Art 91-100 sets out a 'common transport policy'. Removing Art 58 could allow Transport to be dealt with alongside other single market provisions.</p>

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11.2 Appendix two: Bertelsmann Stiftung's sectoral allocation of respondents

FIGURE 1 Sectoral Allocation



⁴²⁵ Taken from Booth et al., 2015 Annex 2 p.103