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# BREXIT

# IN FOCUS

## Six ways it will fundamentally change the EU

## Summary

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The debate surrounding a potential BREXIT has largely focused on the costs and disadvantages for Britain of making such a move. However, Britain leaving the EU would also alter the strengths and profile of the European Union. Britain is the EU's second largest economy, a significant net contributor to the EU budget, hosts Europe's only global financial centre and is an important driver of single market reform on the European stage.<sup>1</sup> In her absence, the EU will lose a key proponent of the market economy and free trade as drivers of economic growth and prosperity. In this context, while BREXIT would be a catastrophe for Britain, it would also, as this INFOCUS identifies, fundamentally change the profile and focus of the EU.

The ongoing debate over BREXIT symbolises Britain's detachment from Brussels based European affairs, a process hastened by the economic crisis of recent years. From a London perspective, long term doubts over the viability of the Euro have been reinforced by the depth of Britain's economic recovery (relative to the Euro zone) and by the EU's rule based approach to furthering economic governance. This detachment is physically apparent across the EU's institutions. Although currently accounting for over 12% of the EU's total population the proportion of British nationals employed in policy influencing roles in the European Commission has declined to just 5.3% in 2014.

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<sup>1</sup> Although, for 2014, the difference in economic size with France remains within the margin of error.



Less than 3% of all applicants taking the EU civil service exam (the concours) were British in recent years.<sup>2</sup> In a wider context, Britain leaving the EU (and the uncertainty over the exact nature of the future relationship) poses a number of significant challenges for Brussels based policymakers:

## 1. A vote here, a vote there

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A British exit, due to the loss of 29 votes in the Council (8.5% weighted), would require a redefinition of the qualified majority threshold. This could have a considerable impact on the balance of power including a potential shift of power to the larger states. Moreover the absence of Britain, as the largest non-Euro zone member of the EU, would also change the dynamics between Euro and non-Euro members.

Longstanding British support for building common interest relationships with Euro and non-Euro member states may be replaced by an exclusive focus on the Euro zone as the engine for further integration and a more defined two tier approach to EU membership. Finally, if Britain chooses to leave the EU then countries that possess certain opt-outs based on the British example (e.g. Denmark, Sweden) will find it increasingly difficult to continue making the same arguments without British support in the future.

## 2. Bye-bye London, hello Frankfurt?

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Overall policy priorities in the EU would also shift following a British exit. The traditional Anglo-Saxon view of the single capital market and external trade as key drivers of future growth and prosperity would be replaced by a more interventionist approach in these areas. In addition, given the recognised role of the City of London in providing the EU with a financial centre of global importance, a British exit could damage the efficiency of the broader EU financial framework.

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<sup>2</sup> British Bankers Association, *British Influence in the EU*, July 2014.



Any short term gains arising from the potential relocation of global financial institutions to other EU members states would be more than offset by the loss of British expertise and the dissipation of institutions across multiple EU centres (such as Frankfurt, Paris, Luxembourg and Dublin). Moreover additional losses will be inferred due to the increased trade costs for other member states that will be caused by a potential BREXIT. The latter point has been specifically addressed in the existing research.<sup>3</sup>

### 3. More talk, less action

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Strategically, the loss of Britain would result in a diminished world profile for the EU, particularly relating to security and defence issues. Britain is an important geo-political operator and future intra-EU cooperation in these areas would be hindered by her absence. The EU will also suffer from losing British expertise on issues of international economic governance and also by the potential weakening of relationships with developing countries operating within the wider Commonwealth based “anglosphere”. The loss of British global security aspirations (coupled with the absence of her nuclear deterrent) would increase pressure on the Franco-German axis to significantly increase military expenditure and expand their range of strategic options.

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Given the current position of both EU and national budgetary frameworks, such an extensive enhancement of their security profiles can only be envisaged in the long term, if at all. Additionally a possible BREXIT would raise issues globally regarding the viability of the EU as a coherent global entity. In key global partners such as the United States, BREXIT will reinforce the view that Europeans

are unable to work effectively on a global stage due to their internal rivalries.

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<sup>3</sup> Bertelsmann Stiftung, *Brexit – Potential Economic Consequences if the UK exits the EU*, April 2015.



## 4. Clinging to the lifeboat

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Britain's traditional allies on economic and trade issues – such as Ireland, Netherlands, Denmark, Sweden (and often Germany) will lack the natural support of another large member state in future EU policy negotiations. The absence of an important counter weight to any prevailing policy consensus could result in a further concentration on the priorities of the remaining larger member states. The UK has been a consistent driving force behind wider reform efforts in the EU. Britain remaining in the EU may require a series of significant reforms to be implemented on a diverse list of topics ranging from the Working Time Directive to the Common Agricultural Policy.<sup>4</sup>

However, if Britain does indeed leave, the impetus to tackle much needed reforms at an EU level will be significantly diminished. Finally, it should be acknowledged that for Ireland the situation is even more complicated given long established economic dependencies and her physical land border with Britain (Northern Ireland).

## 5. Let's talk about the money

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Britain remains a key contributor to the EU budget with net annual contributions of around 5 billion euros over the 2007-13 period. Moreover the UK possesses 12.5% of Europe's population and 14.5% of its economy. Additionally Britain's economy is the sixth largest in the world with exports that account for nearly one fifth of total EU exports.

A British exit would therefore require other member states to increase their contributions, or agree to a permanent reduction in expenditure. The benefits of progressing some aspects of budgetary reform (including a reassessment of existing rebates) would be offset by a lessening of pressure to increase efficiency and reform larger areas of expenditure

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<sup>4</sup> Open Europe, *EU Reform Index: Evaluating 30 Potential Proposals for EU Renegotiation*, May 2015.



such as regional policy and agriculture. In effect, a British exit would deprive other net contributors of an important ally and make significant budget reform less likely.

## 6. Spillover effects

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Creating a precedent of a referendum that led to a member state leaving the EU will create all kinds of dangerous aspirations in the minds of europhobics around the continent. More importantly, anti-EU parties will start demanding similar referendums in their respective member states. Given the current political context, opposition to such “national democracy” could be presented as a sign of shrinking EU legitimacy and accountability. In the specific case of Scotland, it is hard to imagine a situation where any BREXIT scenario does not result in a clamour for another Scottish independence referendum and ultimately the potential dissolution of the United Kingdom.