

Brexit + 3 months

British Chemical Engineering Contractors Association (BCECA)
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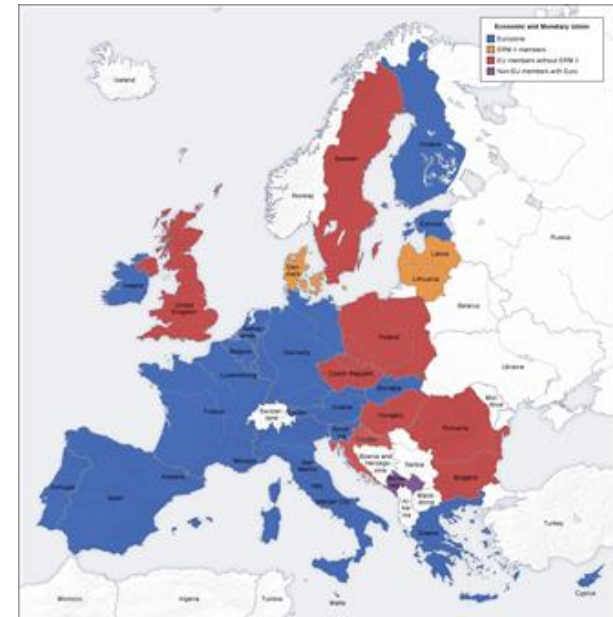
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“Should the United Kingdom remain a member of the European Union or leave the European Union?”

23 June 2016

- Leave - 51.9%
- Remain - 48.1%



Choice

- More of the same, or something (anything) different?
- No clarity on elements of EU to be rejected (consider EEA / EFTA (Norway, Switzerland, Iceland, Liechtenstein)
- “*Brexit means Brexit*”!

Progress since referendum?



Legally, nothing has happened ...

- Referendum not legally binding
- No notification under Article 50
- No timetable for notification
- No clear negotiating position
- No decision on whether to leave European Customs Union
- “... *no negotiation without notification*” (concern over prolonged uncertainty)

Economically ...

- Spending, production and investment stable?
- Impacts delayed? (consumer impacts lag with job market)
- Short term benefit from
 - swift resolution of Conservative leadership contest
 - Government commitment to ease austerity
 - Economic stimulants - tax cuts, spending plans interest rate cut

Treaty on European Union: Article 50



- 1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.*
- 2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal*
- 3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.*

...

“Treaties” = Treaty on European Union / Treaty on the Functioning of the European Union

European Atomic Energy Community (Euratom)

- Separate legal personality with shared institutions
- BUT “Article ... 50 ... of the Treaty on European Union ... shall apply to this Treaty”

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- *“... agreement ... setting out the arrangements for its withdrawal”*
- 2 year long stop from notification (extendable by agreement)
- Concerns withdrawal - not future relationships?

2 years may be adequate to cover mechanics of withdrawal, but not:

- UK's future trading relationships, both within and outside EU
- UK domestic law, preserving or replacing countless EU directives, regulations & decisions (23,000 EU laws in force?)

Terms of withdrawal



- Access to single market / future trading relationship with EU
 - Physical trade
 - Financial services / passporting rights
- Free movement of people
 - Assumed intention in voting to leave?
 - Pre-condition to single market?
 - How much access to the single market should be traded off against control of migration flows?
- Free trade agreement (EFTA) (but EU has previously insisted on free access for EU people)
- Hybrid – free trade + limited access to single market
- Withdrawal from European Customs Union?
- EU budget contributions
 - UK currently one of largest net-contributors
 - How will gap be filled when UK is gone?
 - Maybe EU negotiating stance will be softened if UK agrees to continue some budget contribution?

Exit from the European Customs Union?



European Customs Union

- EU member states + Turkey (for goods only)
- EU negotiates trade deals and sets common external tariffs for all members
- Government indication that decision will precede Article 50 notification
- Exit necessary for UK to negotiate post Brexit bilateral trade deals

If leave:

- Additional administrative burden to trade
- All exports to EU would have to be declared
- Customs checks at UK borders
- Does not preclude access to single market – provided UK does not change common external tariff
- Brings EU rules of origin into play

Commission approach – threat or opportunity?



“But never before have I seen such little common ground between our member states,”

“Never before have I seen representatives of the EU institutions setting very different priorities, sometimes in direct opposition to national governments and national Parliaments. It is as if there is almost no intersection between the EU and its national capitals anymore.”

“Never before have I seen so much fragmentation, and so little commonality in our Union.”

(Jean-Claude Juncker, president of European Commission, State of the Union Address 2016, 14 September 2016)

“If we organize Brexit in the wrong way, then we’ll be in deep trouble, so now we need to make sure that we don’t allow Britain to keep the nice things, so to speak, related to Europe, while taking no responsibility,”

(Sigmar Gabriel, the deputy chancellor of Germany, 28 August 2016)

Commission approach – threat or opportunity?



- Desire to set an example treats Brexit only as a threat - masks underlying issues:
 - Sentiments of (small) UK majority not unique
 - Re-consider “ever closer union”?
 - Risk of further departures / instability
- Visegrad four (Hungary, Poland, Slovakia and Czech Republic) demand for looser integration and the repatriation of some powers
 - Concerns over erosion of democracy
 - Concerns at loss of UK as a brake on integrationist states
 - Concerns that status quo will lead to more calls for withdrawal
 - May veto any agreement that would limit citizens rights to work in UK
- Two tier Europe?
 - Core – “ever closer union”
 - Second tier – single market + common foreign policy (UK and others may join)
- Second tier as route for expansion? – but consider:
 - Consistency with fiscal integration required for common currency?
 - Is single market possible without free movement? (of people / workers?)
 - Would membership of second tier still “*mean Brexit*”?
- Objective - creation of second tier or agreement of special (unique?) terms for UK?

Impact on business?



Impact on key enablers

- Access to markets
- Ability to trade and move goods, services and capital
- Ability to access the best talent
- Stable regulatory regimes

Risks

- Uncertainty – enemy of investment
- Willingness of foreign investors to invest?
- Impact of protectionism (UK stance / European approach)
- Loss of access to international markets

Opportunities

- Freedom to forge trade deals
- Opportunity for economic gain from further deregulation?, but consider:
 - impact on single market access
 - effect of eroding rights and protections

Impact on business?



In UK

- Access to talent
- Domestic economy
- De-regulation

Europe

- Uncertainty

Globally

- Opportunities, but:
 - any loss of passporting rights may undermine London as the logical entry point for investment
- Trade deals, but
 - China supported remain (UK currently top destination for Chinese investment)
 - Us supported remain (40% US financial services exports to Europe go via UK)
 - Any loss of passporting rights may undermine the assumption that London is the logical entry point to Europe
 - Impact of protracted negotiations?