

Brexit train is rolling, but it risks being derailed

WEDNESDAY
MARCH 29, 2017

The European Union is at an existential crossroads, as the United Kingdom prepares to leave the EU. Both sides are navigating through uncharted territory. Although our main scenario is British withdrawal from the EU in the spring of 2019, this is far from certain, among other things because the EU is currently a "moving target". Below we list 14 questions and answers about the timetable of the "Brexit" process and its tortuous path ahead.



1. The UK has started Brexit: What will happen?

The countdown has begun. The UK and EU have two years – until **March 28, 2019** – to reach agreement on withdrawal terms and preferably a new trade treaty. This deadline **may be extended**, but then requires a consensus by all 27 other EU countries. Late this spring, the UK will initiate the task of either phasing out or incorporating EU laws where desirable.

2. What will Brussels do – when do talks begin?

EU heads of state and government meet **April 29** to decide on guidelines for the EU's position in the negotiations with the UK. These **guidelines** will show the EU's priorities in the talks and indicate the **probability of a soft or hard Brexit**. After the decision is made, the EU-27 must formally appoint the European Commission as their main negotiator. This mandate needs full EU-27 support. In practice this means Brexit talks will not begin before **late May/early June**.

3. What are the EU and UK negotiating positions?

The EU's hard demands can be summarised briefly in three points: **1.** Accept the **EU's four freedoms**; **2.** stay **under the jurisdiction of the European Court of Justice**; and **3.** Contribute to the **EU budget**. The British side wishes to proclaim national sovereignty, and its message is that the UK

intends to **leave the single market**, have its own **immigration controls** and seek a **customs union** with the EU. **There are consequently many potential conflicts.**

4. What must London and Brussels agree on?

The Brexit process is a **three-stage rocket**. The first stage is a withdrawal agreement with **financial obligations**: The EU believes the UK owes it EUR 60 billion, while the British say they would like to pay EUR 9 billion. A bigger stumbling block, however, is what **civil rights** the British will be granted in the EU, and what rights EU citizens will enjoy in the UK. This includes access to health care and various other benefits elsewhere in the EU that are part of EU membership. Only once agreement has been reached on the first stage can the next stage begin: negotiating a trade pact between London and Brussels and transitional rules. In the final stage, the UK must negotiate new trade treaties with non-EU countries.

5. When will we know how the talks are going?

After the EU has agreed on a negotiating strategy, the world's focus on Brexit will decrease somewhat. Michel Barnier, the EU's chief negotiator, will be at the heart of the process. We expect that by sometime **early this coming autumn, it will be possible to draw conclusions about the negotiating situation and what outcome can be expected**. If the talks reach an impasse, this is expected to happen quickly.

6. And if London and Brussels can't agree?

A lot is at stake for both sides. There is a great risk of delays, for example because individual EU countries oppose parts of the agreement. Most likely, negotiations will continue after March 28, 2019 if the two sides see there is a chance of reaching agreement. If not, the UK will leave the EU and its single market anyway and gain WTO status in relation to the EU. The UK probably has more to lose if negotiations fail.

7. Isn't the timetable a bit too optimistic?

In this context, two years is a very short period. For example, when Greenland left the EU in 1985, it took 3 years. The new trade pact between the EU and Canada took more than 7 years to put in place. Another circumstance that will cause great difficulty is that early in the Brexit process, the EU will be focusing a lot of time on domestic politics, elections and its own future (the White Paper). Discussion of the EU's new

strategic direction will be especially intensive until the organisation's December 2017 summit (see below).

Date	Timetable (partly indicative) for certain events
2017	
Mar 29	Brexit process begins
Apr	EU unveils proposals for new social dimension
April 23	French presidential election, round 1
Apr 29	EU-27 countries establish negotiating strategies
May 7	French presidential election, round 2
May	EU unveils proposals on harnessing globalisation
May	EU unveils proposals on deepening the euro zone
May 26-27	Group of Seven (G7) summit in Italy
Jun	EU unveils proposals on future defence policies
Jun	EU unveils proposals on its future finances
Jun 22-23	European Council (EU) summit meeting
Jul 7-8	Group of Twenty (G20) summit in Germany
Sep	Juncker's speech: conclusions on EU's future
Sep 24	German federal parliamentary election
Sep	Indication of progress in Brexit negotiations
Oct 19-20	EU summit
Dec 14-15	EU summit incl possible decision on EU's future
Dec	Consensus on cost to UK for leaving EU
2018	
Jan	Negotiations begin on EU-UK trade agreement
Autumn	Brexit agreement voted on in national parliaments
Autumn	Scottish referendum depending on Brexit outcome
2019	
Mar 28	Formal deadline for Brexit process
May	Elections to European Parliament
2020	
May	Latest possible date for UK parliamentary election

8. Who finally decides whether to leave the EU?

Theresa May's government has agreed that **Parliament will have the last word**; a final parliamentary vote will be held before withdrawal from the EU occurs. This theoretically enables Parliament to go against the government and the agreements it has negotiated.

9. Can the British push the "Stop" button?

There are divergent views on whether it is possible to terminate a withdrawal process, but some "architects" behind the EU treaties argue that **this is possible**. If there is a political will to let the UK remain – which is probable – the **process may reasonably be terminated**. In many ways, the situation is unique and there are difficult problems in interpreting the EU treaties. But the British are **full members** until they have left the EU. This is also the reason why it is impossible for the UK to initiate bilateral negotiations on trade agreements until it leaves the union.

10. How probable is a UK snap election?

From a tactical standpoint, Prime Minister **May has good reasons** to call a snap election relatively soon: **1.** She will **greatly strengthen her political position** in Parliament; **2.** she will **postpone the next election** until 2022, i.e. well after a possible 2019 withdrawal from the EU. Otherwise her term of office will expire in the spring of 2020.

11. Can Scotland throw a spanner in the works?

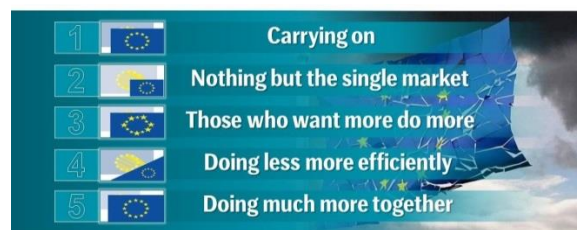
The Scottish National Party (SNP) has said, to London's displeasure, that a new **referendum on independence** may be held some time **between autumn 2018** (when a Brexit agreement may be in place) and **spring 2019** (before the 2-year limit has expired). However, Scottish public opinion surveys provide **no clear indication that the Scottish people wish to leave the UK**. Interest among EU capitals in pursuing concurrent membership negotiations with Scotland is also limited, among other things because of worries that contagion will affect Spain, due to Catalonia's independence ambitions.

12. What will happen with the British pound?

At present the pound is nearly **20 per cent undervalued** against a basket of various currencies. The pound is not expected to rebound in the near term, due to political risks, uncertainty about the Brexit process and the UK's large current account deficit against other countries. If negotiations should proceed smoothly and show signs of successfully reaching an agreement, however, the pound is likely to appreciate substantially compared to its level today.

13. Where is the EU headed?

On **March 1** the European Commission published a **white paper on the future of the EU**. Over the coming months (see timetable) five different scenarios will be discussed, possibly with a **decision being made in December**:



Germany, France, Italy and Spain would like the EU to follow scenario 3 (a multi-speed EU). There are many indications that the negotiations will be complex but that the EU will **move closer to the UK**.

14. Who will plug the new hole in the EU budget?

The EU will lose nearly **15 per cent of its budget** when the British leave the union. Today there is **strong opposition** from individual EU countries against offsetting this loss by raising membership fees. **Two paths** are thus being discussed to deal with the situation: **1.** entitling the EU to **collect a new tax** at the union level; **2.** **cost-cutting** of some kind. Both paths are controversial. Collecting an EU tax would hint at steps towards federalism, and cost-cutting would be a severe burden on already EU-critical countries in Eastern Europe. **The issue of EU finances will probably become acute starting in 2019.**

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