

EU referendum: the beginning, not the end, of Brexiteers' problems

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Summary

On 23 June 2016, Britain voted to leave the European Union. The referendum outcome triggered resignation of Prime Minister David Cameron and his replacement by former Home Secretary Theresa May. This brief enquires into why Cameron lost the referendum battle and what the major challenges facing the new prime minister are. May, who supported the 'Remain' campaign, will have to prove that she can deliver Brexit. That will not be an easy task, with obstacles at home and abroad. Scotland and Northern Ireland voted to remain in the EU, and their reluctance to leave the EU could complicate May's plans. PM May will also find it difficult to win hearts in Brussels. Britain tested the patience of the EU institutions with its reform demands, and Brussels will be reluctant to make things easier for the UK in Brexit talks. Member-states may be more receptive to Britain's concerns, but the UK will probably not be offered any special treatment.

EU referendum campaign: Why Cameron lost the battle

The outcome of the UK referendum came as a shock to political commentators across Europe. Britain has always been a 'reluctant European', but the EU trusted that British common sense would trump anti-EU sentiments and that Britain would opt to remain a member of the EU. This is also what Cameron had hoped for in February 2016, when he came back from Brussels with his reform deal and advocated continued membership in the EU.¹ But at the referendum held on 23 June, Britain decided to ignore Cameron's arguments and voted to leave the EU, by almost 52% to 48%. Why did Cameron lose the referendum battle?

'Britain Stronger in Europe', the officially designated 'Remain' campaign, had hoped that explaining the economic risks of Brexit would suffice to convince undecided voters. 'Remain' thought that it held strong cards: both the Bank of England and

the International Monetary Fund had warned that Brexit could lead to a recession – i.e. two successive quarters of negative growth. But focusing on economic arguments proved to be the wrong strategy. Polls showed that although the British people recognized that the UK economy would be worse off in the event of Brexit they did not think that Brexit would affect them directly.² Attempts to predict how much poorer the British people would be in the event of Brexit failed to resonate with voters. The Treasury's claim that Brexit would make each family £4,300 worse off was seen as scare-mongering, and also too precise to be realistic.³ It failed to convince voters. As Charles Grant argued in his post-referendum analysis, many Britons wanted to find out how their country could lead the EU if it stayed, rather than what would happen to its economy if it left.⁴ But 'Remain' failed to make a positive case for Britain's continued EU membership.

'Vote Leave', the officially designated campaign in favour of leaving the EU, knew that challenging the economic data would be difficult. It decided therefore to focus on EU migration and on the 'Brussels diktat' – arguments that Cameron would struggle to rebut. In the past Cameron himself had contributed to Brussels-bashing, and had done little to set the record straight when his fellow Eurosceptics portrayed EU migrants as benefit-scrungers. Leading a government committed to cutting all forms of immigration, Cameron could not convincingly make a case for the positive impacts of immigration from the EU. Brexiteers, including the charismatic Boris Johnson, argued that only by voting to leave the EU would Britain be able to liberate itself from (allegedly) onerous EU regulations, and gain control of its migration policy.

1 Cameron promised in his Bloomberg speech in January 2013 and in the 2015 Conservative manifesto to re-negotiate Britain's settlement with the EU and to ask British people whether they want to stay in the EU on this basis or leave it.

2 Marcus Roberts, *Remain or Leave: what the numbers below the headlines tell us about the outcome*, YouGov, 14 June 2016: <https://yougov.co.uk/news/2016/06/14/remain-or-leave-what-numbers-below-headlines-tell/>

3 HM Government, *HM Treasury analysis: the immediate economic impact of leaving the EU*, May 2016, see: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524967/hm_treasury_analysis_the_immediate_economic_impact_of_leaving_the_eu_web.pdf

4 Charles Grant, *How Leave outgunned Remain: the battle of the 'five Ms'*, CER insight, 25 June 2016.

The media also had a role in shaping people's views. British tabloids rejected Cameron's reform deal even before it was finalized, and they maintained a xenophobic tone during the referendum campaign. The broadcast media were also of little help. To the disappointment of many experts, the BBC struggled to debunk many of the misstatements made about the EU.⁵ Jeremy Corbyn, leader of the Labour Party, did not make it any easier for Cameron either. Corbyn backed 'Remain', but his public appearances were half-hearted and often confusing.⁶ They 'contained as much criticism of the EU as praise'.⁷ The party was also divided on the principle of free movement of EU workers within the EU. Corbyn tried to defend the status quo, but many Labour MPs (including strong supporters of remaining in the EU) called for the current rules to be revised. As a result, Labour voters were confused about the party's stance on the EU; 35% of them supported 'Leave'.⁸

The Remain strategy, Eurosceptic media and Jeremy Corbyn can all be criticized for much, but the blame lies mainly with David Cameron, who had promised a referendum in the first place. Cameron thought that the referendum would cure the Tory party of its obsession with the EU; he hoped that he could win the vote and put the question of British EU membership to bed. But this was a miscalculation for which Cameron paid a high price. After the results of the referendum had been announced he resigned as leader of the Conservative Party and prime minister, and was replaced by Theresa May.⁹

However, it would be naive to think that EU referendums are solely about European matters. They constitute an opportunity to punish governments for their domestic policies. Deeper analysis of voting preferences indicates that the outcome of the referendum had a lot to do with the growing divides in British society along financial, educational and generational lines.¹⁰ London, which is a cosmopolitan city, voted strongly to Remain, but academic research has shown that poorer and less educated areas were more likely to vote to leave the EU.¹¹ Blue-collar Britain feels disillusioned as much with the West-

minster political elite, which failed to deal with their concerns, as with the EU. The referendum offered them an opportunity to express their frustrations, and they grasped it.

Theresa May seems to realize that her government will need to address social injustice better. In her first speech as prime minister, she pledged to give more weight to the interests of the socially disadvantaged.¹² But this is only one of the many challenges that PM May will face in her new role.

Theresa May's many battles at home

Brexiters argued that the next prime minister should be one of 'them'. May, who supported Britain's continued membership of the EU, will have to prove that she can deliver Brexit. One of her first decisions was to appoint Brexiters – Liam Fox and David Davis – as secretaries of state for international trade and for Brexit, respectively. She also made Boris Johnson, one of the most prominent voices in the Leave campaign, her foreign secretary. May presumably hopes that these appointments will boost her standing with hard-line Eurosceptics.

But the decision to bring Brexiters into the cabinet may also mean something else: the British prime minister may want Brexiters to deal with the consequences of their campaign. Prior to the referendum they argued that British withdrawal from the EU would be straightforward. Some even held that Britain could ignore Article 50 of the Treaty on European Union (TEU) (which sets out the legal procedure for a member-state to leave the EU), regain its individual seat at the World Trade Organization (WTO) and start negotiating trade deals with third countries.¹³ Legal experts warned that this would not be the case.¹⁴ There is no way Britain can avoid triggering Article 50 if it wants to leave the EU in an orderly way. Britain will also have to strike a new deal on tariffs with all WTO members. The UK is a member of the WTO but it is currently represented there by the European Commission. And, as long as Britain is a member of the EU it will not be able to negotiate its own trade deals: common commercial policy is among the EU's exclusive competences, and Britain is bound by the EU's international trade agreements as long as it remains in the EU. But even if that were not the case, the emerging powers would be unlikely to want to discuss any free trade deals with Britain until they had clarity about Britain's WTO membership and its relationship with the EU.

When Fox, Davis and their fellow Brexiters realize that cutting this Gordian knot will not be easy they may try to exert pressure on May to take a more confrontational tone with the EU. They

5 For an analysis of BBC reporting on EU matters see Mike Berry, *Heavy duty: what are the shortcomings of the BBC reporting of the EU?*, LSE BrexitVote blog, 26 February 2016.

6 Corbyn's approach during the referendum campaign was one reason why Labour MPs challenged his leadership, and triggered a party leadership election. At the time of this writing, Jeremy Corbyn and Owen Smith were competing for the votes of party members. The election results are supposed to be announced on 24 September.

7 Charles Grant, *How Leave outgunned Remain: the battle of the 'five Ms'*, *CER insight*, 25 June 2016.

8 Peter Moore, *How Britain voted*, YouGov, 27 June 2016, <https://yougov.co.uk/news/2016/06/27/how-britain-voted>

9 Cameron's resignation triggered party leadership elections in two stages. In the first, Conservative MPs reduced the number of candidates to two through successive rounds of voting. In the second, Conservative party members would have voted on these two candidates; but after Andrea Leadsom withdrew from the campaign Theresa May was confirmed as prime minister without further voting.

10 Matthew Goodwin, *Why Britain backed Brexit*, *The UK in a changing Europe*, 4 July 2016: <http://ukandeu.ac.uk/why-britain-backed-brexit%e2%80%8f/>

11 Matthew Goodwin, Oliver Heath, *Brexit and the left behind: a tale of two countries*, *The UK in a changing Europe*, 26 July 2016: <http://ukandeu.ac.uk/brexit-and-the-left-behind-a-tale-of-two-countries/>

12 Theresa May's first statement as prime minister, 13 July 2016: <https://www.gov.uk/government/speeches/statement-from-the-new-prime-minister-theresa-may>

13 Prior to the referendum, Vote Leave published a framework for taking back control and establishing a new UK-EU deal after 23 June; full text available at: http://www.voteleavetakecontrol.org/a_framework_for_taking_back_control_and_establishing_a_new_uk_eu_deal_after_23_june

14 Agata Gostyńska-Jakubowska, Adam Łazowski, *The Brexiters' exit plan: legally dubious, unfeasible and likely to antagonise our neighbours*, LSE BrexitVote, 22 June 2016.

may hope that this would speed up the withdrawal process and – as a consequence – negotiations with other parties. But May should resist this. It is the EU, and not Britain, that has the upper hand in withdrawal talks. Article 50 TEU allows only two years to negotiate an exit agreement. This is a short period of time to agree all the terms of the divorce, including sensitive issues such as the rights of EU citizens living in Britain and the responsibility for paying for projects in the UK partly funded by the EU and not completed by the time of Brexit. Member-states could agree unanimously to extend the two-year deadline, but they are unlikely to do so: there will be elections to the European Parliament in 2019, and Brussels would like to see Britain gone before the new Parliament is elected and a new Commission appointed. If Britain does not reach an agreement with its EU partners within two years, the EU treaties will cease to apply to the UK, and Brexit will come automatically – bad news for British businesses and citizens, who would be left in legal limbo.¹⁵

Theresa May does not want to let this happen. But she lacks experts and trade negotiators to help her steer Britain through the uncharted waters of Brexit. Britain has not needed many negotiators till now: the European Commission negotiates trade deals with third countries on behalf of the EU and its member-states. May and her ministers will have to recruit new EU and trade experts and fill the new Brexit department with experienced civil servants.

But before May formally initiates withdrawal negotiations with the EU she will have to engage in talks with the UK's devolved administrations over Britain's withdrawal and its future relationship with the EU. England and Wales voted to leave the EU, but 62% of the voters in Scotland and 55.8% in Northern Ireland wanted to remain. Following the June vote, Nicola Sturgeon, Scotland's First Minister, announced that she would explore all options for keeping Scotland in the EU, including a second referendum on Scotland's independence.¹⁶ Moreover, Britain's departure from the EU and the possible re-imposition of border controls with Ireland could undermine the peace process in Northern Ireland. Its Deputy First Minister, Martin McGuinness, has already called for a referendum on a united Ireland. Any attempt to ignore the concerns of Scotland and Northern Ireland would upset the devolution settlements and embolden nationalists in both Edinburgh and Belfast.¹⁷ Theresa May will have to tread carefully when planning her Brexit strategy, to avoid joining David Cameron in history as the prime ministers who broke up the United Kingdom.

15 Agata Gostyńska-Jakubowska, *The seven blunders: why Brexit would be harder than Brexiters think*, CER insight, 28 April 2016.

16 Nicola Sturgeon is unlikely to call a second referendum unless she is certain of winning it. YouGov public opinion polls conducted between 20 and 25 July showed that 53% of Scots would vote to remain in the UK. See https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/ihg707zgux/ScottishTrackers_25-Jul-2016_Indy_W.pdf

17 Jo Murkens, *Brexit against the wishes of Scotland and Northern Ireland would violate the UK constitutional settlement*, LSE EUROPP, 27 June 2016.

May's talks with Europe: dialogue of the deaf?

Preparing the British administration for such unprecedented negotiations takes time. May has already announced that she will not initiate formal negotiations before the end of this year.¹⁸ Article 50 puts Britain at a disadvantage and May is in no hurry to trigger it. Once she notifies the EU of Britain's intention to leave, the clock will start counting down the two years for negotiation.

May's reluctance to initiate Brexit talks quickly has irked EU institutions. The Presidents of the European Parliament and European Commission fear that Brexit could embolden Eurosceptic forces in other member-states and make national leaders even more reluctant to pursue further integration. The Commission and the Parliament think that prompt negotiations (and a painful result for Britain) would help to send a strong message to Eurosceptics on the Continent that Brexit will consolidate the EU rather than weaken it. Member-states, on the other hand, seem to be more willing to give Britain time to prepare for withdrawal negotiations. On her first tour of European capitals, May was told by leaders in Berlin and Warsaw that they would not push Britain to trigger Article 50. But Angela Merkel also made clear that, until Britain has a clear idea of what kind of relationship it wants to have with the EU post-Brexit, London should not expect other leaders to spend too much time on Brexit deliberations.

But PM May is yet to determine her Brexit strategy. During her trip to Bratislava on 28 July she argued that the EU and Britain should 'find a solution that addresses the concerns of the British people about free movement, while getting the best possible deal on trade in goods and services'.¹⁹ This vague statement does not say much about what kind of relationship Britain has in mind, but it seems to indicate that the UK will probably not opt for the 'Norwegian model'. Norway is a member of the European Economic Area and enjoys access to the EU's single market. But it also has to pay into the EU budget, respect the EU's principle of free movement of labour and accept many EU regulations – without having a seat at the negotiations table. That model would be difficult for May to sell at home. One reason why the British voted to leave the EU was to 'take back control' over migration policy.²⁰ The Norwegian model could be attractive for the British economy, but would not deliver what many Leave supporters thought they had voted for.

This is why perhaps David Davis has argued that the EU's Comprehensive Economic and Trade Agreement with Canada

18 It is up to a departing member-state to decide when to notify its intention to leave the EU, and Article 50 of the TEU does not set any deadline for such notification.

19 Theresa May's statement in Bratislava, 28 July 2016; full text at: <https://www.gov.uk/government/speeches/pm-statement-after-meeting-slovakian-prime-minister-fico-in-bratislava-28-july-2016>

20 'Take back control' was a slogan used by Vote Leave; it resonated well with the British public, which had for years been fed biased stories in the media about 'Brussels diktat'.

(CETA) should be a 'starting point' for the UK.²¹ CETA is seen as the most robust free trade deal that the EU has ever negotiated with a non-European partner. It eliminates tariffs on most industrial products (although not on cars) and on agricultural products; it also provides a framework for gradual regulatory convergences in services. But the Canada model would not be ideal for Britain either. Among other things, it does not fully cover financial services, which constituted 8% of the UK's total gross value added (GVA) in 2014.²²

Many Brexiteers still think that Britain can get a better deal than the ones that Norway and Canada have negotiated with the EU. But this is wishful thinking. The EU's single market is based on four inseparable freedoms. If Britain wanted to maintain full access to the single market it would have to accept the EU's principle of free movement of EU workers. Any special status for Britain would encourage Eurosceptic forces in other member-states to push for a similar settlement. The Netherlands, France and Germany all face elections in 2017; more flexibility for the UK on the issue of free movement would play into hands of French and Dutch populists who have already called for similar referendums on EU membership. The EU's Central and East European (CEE) members would also oppose the idea, fearing that it could trigger demands from within the EU to revisit the current rules on free movement of EU workers. CEE citizens have seen the free movement of labour as one of the EU's major success stories rather than a problem, and they have no desire to see the rules revised.

21 David Davis, *Britain would be better off out of the EU – and here's why*, Conservative home, 4 February 2016.

22 For a more extensive overview of Britain's options after Brexit, see Jean-Claude Piris, *If the UK votes to leave the EU: the seven alternatives to EU membership*, CER Policy Brief, 12 January 2016; Gloria Tyler, *Financial services: contribution to the UK economy*, Library of the House of Commons, 26 February 2016.

There is a growing division between new and old member-states over various EU policies (migration policy being one of them) and the future direction of the EU. But on 29 June, 27 member-states were unanimous in declaring that 'any agreement, which will be concluded with the UK as a third country, will have to be based on a balance of rights and obligations'.²³ The sooner Brexiteers accept this, the less disappointed will they be over the course of negotiations.

Conclusions

Brexiteers argued that by voting to leave the EU, Britain would 'take back control' of its borders, economy and money. But the outcome of the referendum is only the beginning, not the end, of Brexiteers' problems. There are the first signs of an economic slow-down in Britain, with the Bank of England expecting growth of just 0.8% in 2017 rather than the 2.3% previously forecast. Brexit has also posed a challenge to the current devolution settlement, triggering calls for a second referendum on Scottish independence as well as one on Irish unification. These are serious issues for the new prime minister, who has Herculean tasks ahead of her. Britain will have to negotiate divorce terms with the EU, a new tariff and quota regime with all WTO members, its future relationship with the EU and (once it has left the EU) free trade agreements with third countries. It will take years if not decades to finalize all these talks. But one thing is already certain: Britain will hardly be able to get a better deal than the one it had achieved as a member of the EU.

23 *Statement from the informal meeting of 27*, 29 June 2016, Brussels: <http://www.consilium.europa.eu/en/press/press-releases/2016/06/29-27ms-informal-meeting-statement/> 26 February 2016

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