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BREXIT AND THE EU BUDGET

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On the 20th of April 2017, the Jacques Delors Institute, the Centre for European Reform and France Stratégie co-organised a seminar aimed to discuss the cost of the "divorce bill" and the upcoming negotiations on the EU's Multiannual Financial Framework (MFF). During this seminar, two papers were presented: "The €60 billion Brexit bill: How to disentangle Britain from the EU budget" by Alex Barker (*Financial Times*), published by the CER and "Brexit and the EU budget: Threat or opportunity?" by Eulalia Rubio (JDI) and Jörg Haas (IJD).

Although it was not the focus of much debate during the Brexit campaign, the question of the "bill" related to the United Kingdom's departure from the EU is a key issue in the exit negotiations following the official trigger on 29 March 2017. The agreement of the European Council dated 29 April 2017 on the guidelines for the Brexit negotiations sets out that talks will be conducted as a single package ("Nothing is agreed until everything is agreed") which should in particular contain a single financial settlement, ensuring that both parties "respect the obligations resulting from the whole period of the UK membership in the Union". There are more far-reaching issues for the European Union as the 27 member states will have to come to an agreement to offset the end of the UK's net contribution to the EU budget.

This seminar, co-organised by the Jacques Delors Institute (IJD), the Centre for European Reform (CER) and France Stratégie, and chaired by **John Springford** (CER), aimed to **discuss these two questions, namely the cost of the "divorce bill" and the upcoming negotiations on the EU's Multiannual Financial Framework (MFF)**. Two papers published by the CER and the IJD were discussed: "The €60 billion Brexit bill: How to disentangle Britain from the EU budget" by Alex Barker (Financial Times) and "Brexit and the EU budget: Threat or opportunity?" by Eulalia Rubio (IJD) and Jörg Haas (IJD).

Vincent Aussilloux (France Stratégie) underlined that the size of the financial settlement is a central yet complex issue which has the potential to stall negotiations – an undesirable outcome for all stakeholders. Three conditions must therefore be met for the discussions to be successful: they must be conducted honestly and amiably, without the EU-27 attempting to punish the UK, and without the UK seeking to turn the EU into a scapegoat; costing must be defined on a healthy and common basis, while first establishing the points of disagreement; and agreements must be found as early as possible with regard to the potential use of an external arbitrator to resolve these points of disagreement. Vincent Aussilloux also reminded those present of the challenge that Brexit poses for France: due to its status as a net contributor, the UK's withdrawal could have a significant impact by raising its net contribution to the EU budget, thereby worsening a domestic budgetary situation that is already sensitive. Fuelling tensions and resentment towards a long-term strategic partner also seems an unwelcome prospect.

Yves Bertoncini (IJD) reminded the audience that, as with any divorce proceedings, there is a financial settlement and compensation is rightfully expected by the injured party. Moreover, it is not impossible to conceive that the UK could continue to contribute financially to the EU following its withdrawal, as with the Swiss and Norwegian cases. The technical financial debate seems much less complex than the potential sources of political friction. Yves Bertoncini also stressed that the definition of the EU's contributors and beneficiaries results from the EU budget's resource and expenditure structure, and that debate should actually be focused on this structure itself. **Ultimately, Brexit could turn out to be an opportunity to review the structure and missions of**

the European budget, a statement on which Yves Bertoncini and Vincent Aussilloux both agreed.

The article "The €60 billion Brexit bill: How to disentangle Britain from the EU budget" by **Alex Barker** (Financial Times) focuses exactly on the costing of the "divorce bill". An amount of €40-60 billion was allegedly unofficially suggested by the EU, while Theresa May has firmly stated her intention to put an end to Britain's "vast contributions" to the EU budget.

While the United Kingdom must honour its legally-binding financial commitments, the negotiations focus on their delimitation. Three types of obligations are central in the debate: the budgetary commitments made by the United Kingdom which will only be paid after its withdrawal; the pension promises made to EU officials; and contingent liabilities (owed should certain events occur). The amount to be deducted from this bill is also controversial: the UK's share of EU assets—the European Commission's buildings for example; the EU's commitments to the UK; and the UK's budget rebate in the year following its withdrawal. Another contentious issue is the calculation of the UK's share in all these commitments: 12.1% if based on the country's average contributions from 2012 to 2016, after rebate, or 15% if based on its gross national income, i.e. its share if it did not receive a rebate.

Through various calculation methods[1], Alex Barker comes to the conclusion that **the United Kingdom's bill would be within the €24.5-72.8 billion range.** He stresses, however, that the technical details are probably going to be a secondary issue in the final settlement, and the amount resulting from the negotiations, should they be successful, is likely to be a political decision. Should the negotiations fail, or without clear case-law and comparable cases, the case will probably be heard by the International Court of Justice, and **the outcome of such a hearing is totally unforeseeable today**.

It would seem that the EU has the stronger negotiation position at the moment, as withdrawal without an agreement would have considerable adverse economic repercussions for the United Kingdom. The 27 member states also seem to agree unanimously that the UK has to pay—the net contributors to the EU budget do not wish to pay out more, while the net beneficiaries do not wish to be short-changed. **However, Theresa May has shown that she is not inclined to pay such a bill.** The promises of Brexit campaigners during the referendum campaign—to recover £350 million per week, in particular—make any financial settlement delicate for British domestic politics, especially as very little has been done to "prepare the ground" and the British tolerance for such a payment is unknown. The early general election in June could give those in power more room for manoeuvre and legitimacy in negotiations. While a €60-billion bill may seem quite low in view of relative sizes of economy, **the determination of the final amount will be based more on politics and a strong negotiating position rather than a real financial issue.**

To reach a compromise, Alex Barker states that, for the British, the final annual payment must be significantly lower than the past UK annual contributions and that it has to be presented as a "Brexit implementation cost", rather than in relation to past commitments (which could make the deal unsellable to British public opinion). For the EU, the amount must at least cover the British contribution in the budget set until 2020.

As a complement, the second article ("Brexit and the EU budget: Threat or opportunity?") by **Eulalia Rubio** and **Jörg Haas** (IJD) **tackles the issue from the standpoint of the EU-27, going beyond the negotiations of the next two years.** Brexit could affect the EU budget in several ways, and the article attempts to define how the gap left by the United Kingdom in this budget—estimated at €10 billion per year—could be offset. This is a key question, particularly as negotiations on the next EU MFF will begin in 2018.

Three scenarios are discussed in the article: increasing national contributions to the EU budget; EU spending cuts; or a combination of both. Increased contributions would likely be resisted by net contributors, who would have to shoulder most of the burden. Countries that currently benefit from a 'rebate on the British rebate' would be among the most affected. Budget cuts, on the other hand, would likely hurt net recipients by reducing spending on the two largest budget titles, namely the CAP and the structural and cohesion funds, resulting in these countries also demonstrating opposition. The article suggests

1. Maximising or minimising the liabilities and assets, including or excluding contingent liabilities, the rebate for 2018 and the allocations for 2019-2020.

that various country coalitions are possible as part of discussions on the next MFF. **France's position in this case would be quite awkward, as although it is a net contributor to the EU budget, it is also the largest recipient of CAP subsidies.**

A fourth scenario is discussed, in which no agreement is found. In this situation, the Treaties provide that the level of spending for 2020 would be maintained until a new agreement is reached. **The timing of Brexit would then become crucial**: if the UK leaves the EU in 2019 or 2020, this would trigger a revision of the current MFF for its last year. The result of this is unforeseeable. However, if Brexit negotiations are extended and the United Kingdom leaves the EU in 2021, the level of spending for 2020 would be equivalent to that projected today. In this case, failure to reach an agreement on the next MFF would lead to an increase in contributions while spending levels remain the same, which would penalise net contributors.

The article concludes that **there is a high risk that the divisions between EU net contributors and beneficiaries will be further entrenched**, and that failure to reach an agreement could result in cuts to essential but non-allocated spending (e.g. on research or infrastructure) and in the introduction of new "rebates", which would further complicate an inefficient system. Brexit however could also offer an opportunity for reforming the EU budget: net contributors could agree to increasing contributions in exchange for a deep reform of the expenditure side of the budget, making spending more flexible, conditional and performance-oriented. The EU could also benefit from new resources, by raising its own VAT tax, harmonising corporation tax, creating a carbon tax or a financial transaction tax, for example, based on the proposals of the Monti Report. **Ultimately, the consequences of Brexit on the European budget will be a direct result of member states' drive to turn obstacles into opportunities.**

The question and answer session **highlighted the many uncertainties weighing on the negotiations**. For the European Commission, one particular sensitive point will be to ensure that the United Kingdom does not receive preferential treatment in relation to the other countries around the EU. Such a situation could lead the countries of the European Economic Area such as Norway to reconsider their deal, although this does not seem likely. The UK's interest in some European programmes such as Horizon 2020 could also play a role in the final financial settlement. For the EU, the question of the Eurozone and its future budgetary capacities is also underpinned and could be a determining factor in the negotiations on the next MFF.

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