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# Brexit Seminar : Emergent Understandings of Consequences and Impacts: The Potential Impact of Brexit on Scotland and UK

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## Outline of Talk

1. Brexit – what options are still open/likely?
2. The long-term economic impact of Brexit on the UK, Scotland and the EU
3. Some possible Brexit scenarios
4. Conclusions

Brexit means leaving the European Union, as per article 50 of the Lisbon Treaty.

**BUT** does it mean :

- Abandoning membership of the European Single Market (ESM)?
- Abandoning the EU Customs Union (CU)?
- Not contributing to EU programmes or paying into the EU budget?





## UK White Paper & Mansion House Speech

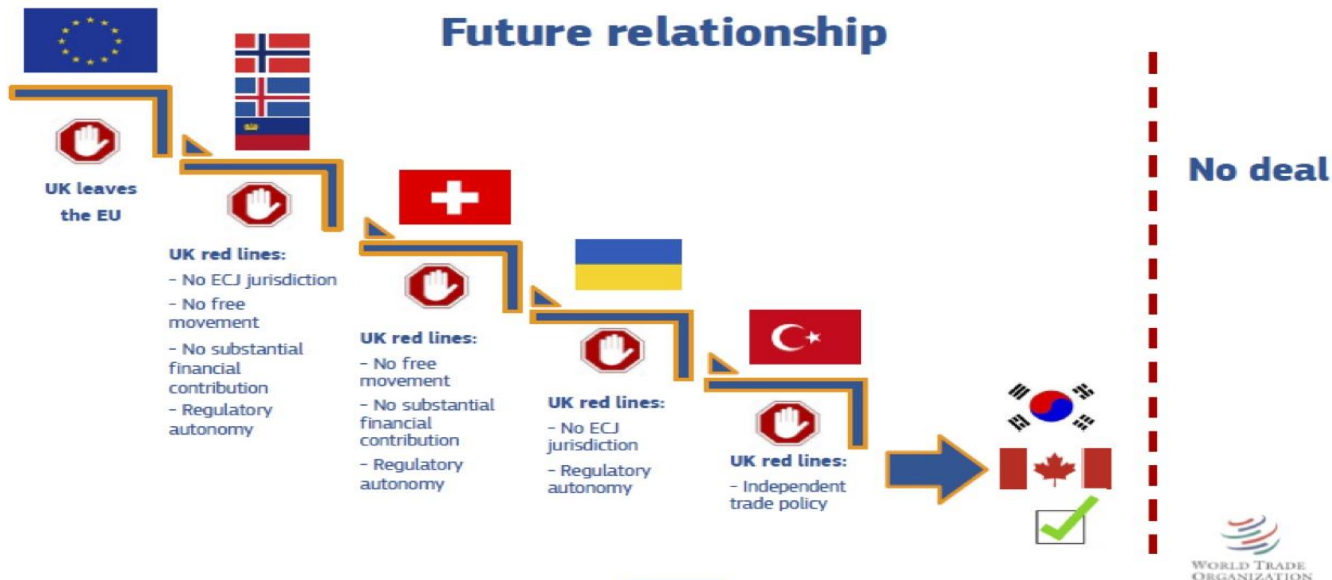
Two key red lines influenced the shaping of the proposals:

- No freedom of movement of labour controlling immigration
- Moving outside the jurisdiction of the CJEU ('no foreign judges')

This implies rejecting membership of the European Single Market through EFTA/EEA



## Future relationship



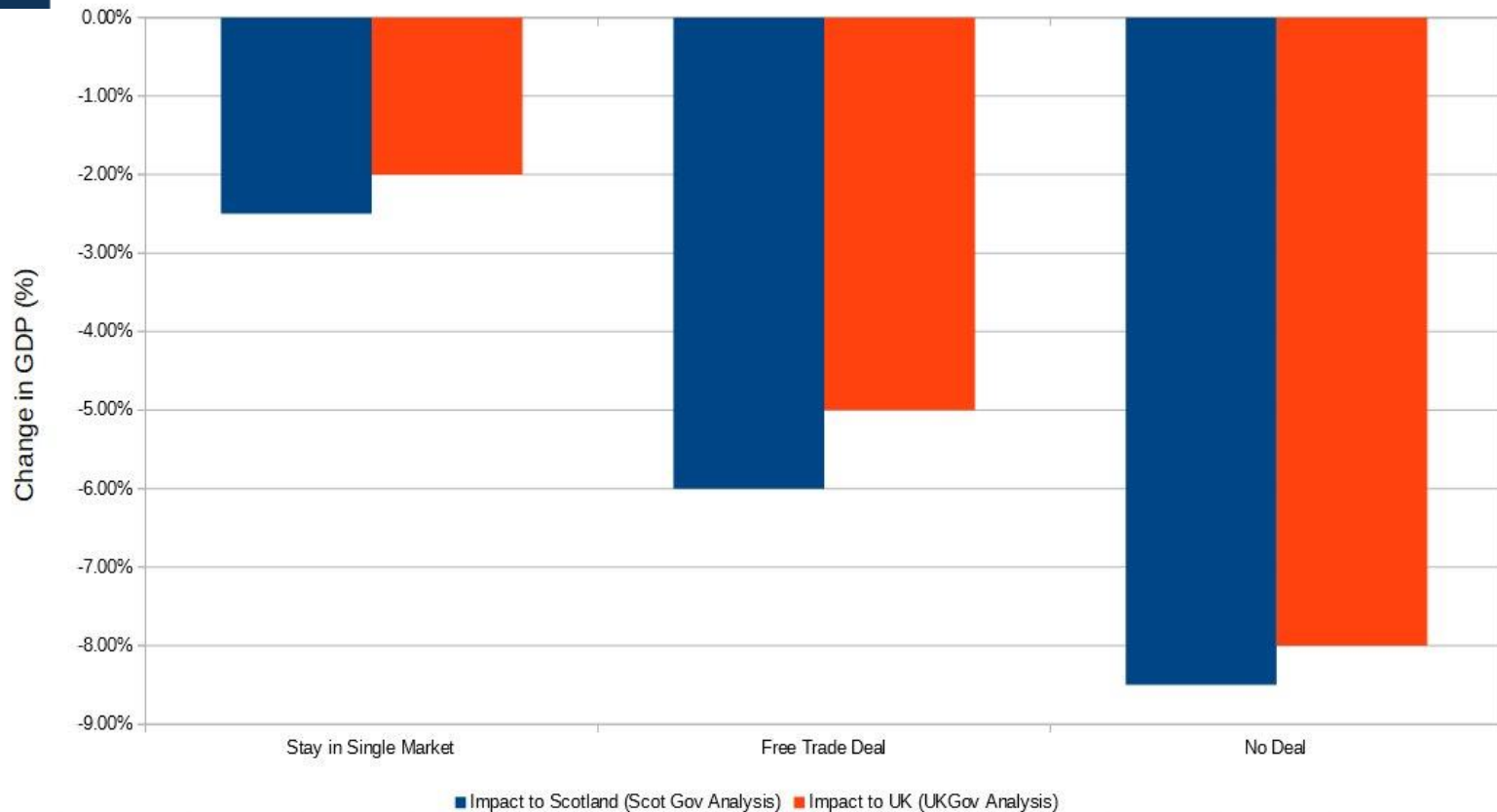


## 2. The long-term economic impact on the UK, Scotland and EU of Brexit

- Reduction in economic efficiency due to reduction in trade – mostly through non-tariff barriers
- Budgetary effects consequent on trade effects
- Less inward migration to UK reducing labour supply
- Less inward foreign direct investment to the UK
- Lower productivity growth due to lower trade
- Less regulation?
- A (minority) alternative view: costless reallocation of trade to non-EU markets, increasing efficiency of UK economy



### Long Term Impact of Brexit



# OBR projections of fiscal effects of Brexit

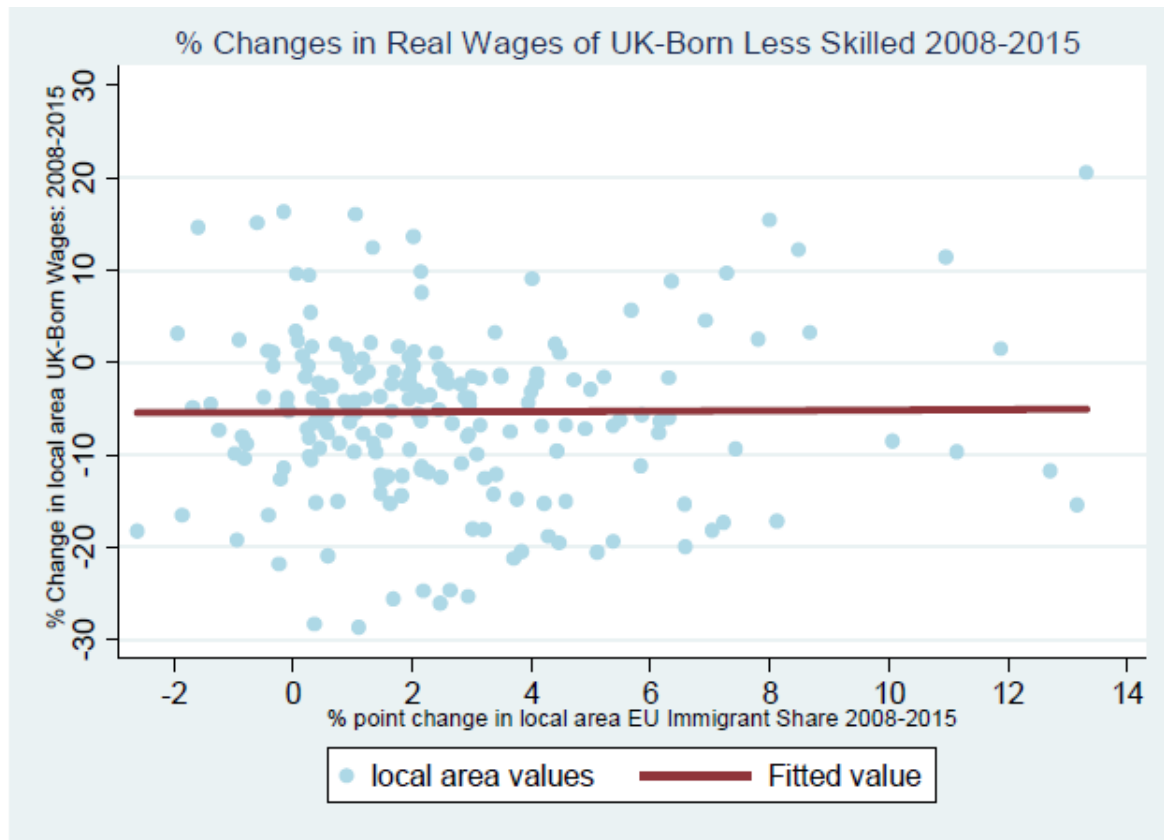
|  | £ billion   |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
|  | 16-17       | 17-18       | 18-19       | 19-20       | 20-21       |
| <b>Total</b>                           | <b>3.5</b>  | <b>9.9</b>  | <b>15.4</b> | <b>14.7</b> | <b>15.2</b> |
| <i>of which:</i>                       |             |             |             |             |             |
| <b>Lower migration</b>                 | <b>0.8</b>  | <b>1.9</b>  | <b>3.0</b>  | <b>4.4</b>  | <b>5.9</b>  |
| <b>Lower trend productivity growth</b> | <b>0.0</b>  | <b>1.2</b>  | <b>4.2</b>  | <b>5.5</b>  | <b>7.2</b>  |
| <b>Cyclical slowdown</b>               | <b>2.3</b>  | <b>7.6</b>  | <b>8.6</b>  | <b>5.4</b>  | <b>2.3</b>  |
| <b>Higher inflation</b>                | <b>0.9</b>  | <b>2.7</b>  | <b>2.3</b>  | <b>2.0</b>  | <b>2.2</b>  |
| <b>Lower interest rates</b>            | <b>-0.5</b> | <b>-1.1</b> | <b>-1.3</b> | <b>-1.6</b> | <b>-1.8</b> |
| <b>Other factors</b>                   | <b>0.0</b>  | <b>-2.5</b> | <b>-1.5</b> | <b>-1.1</b> | <b>-0.6</b> |



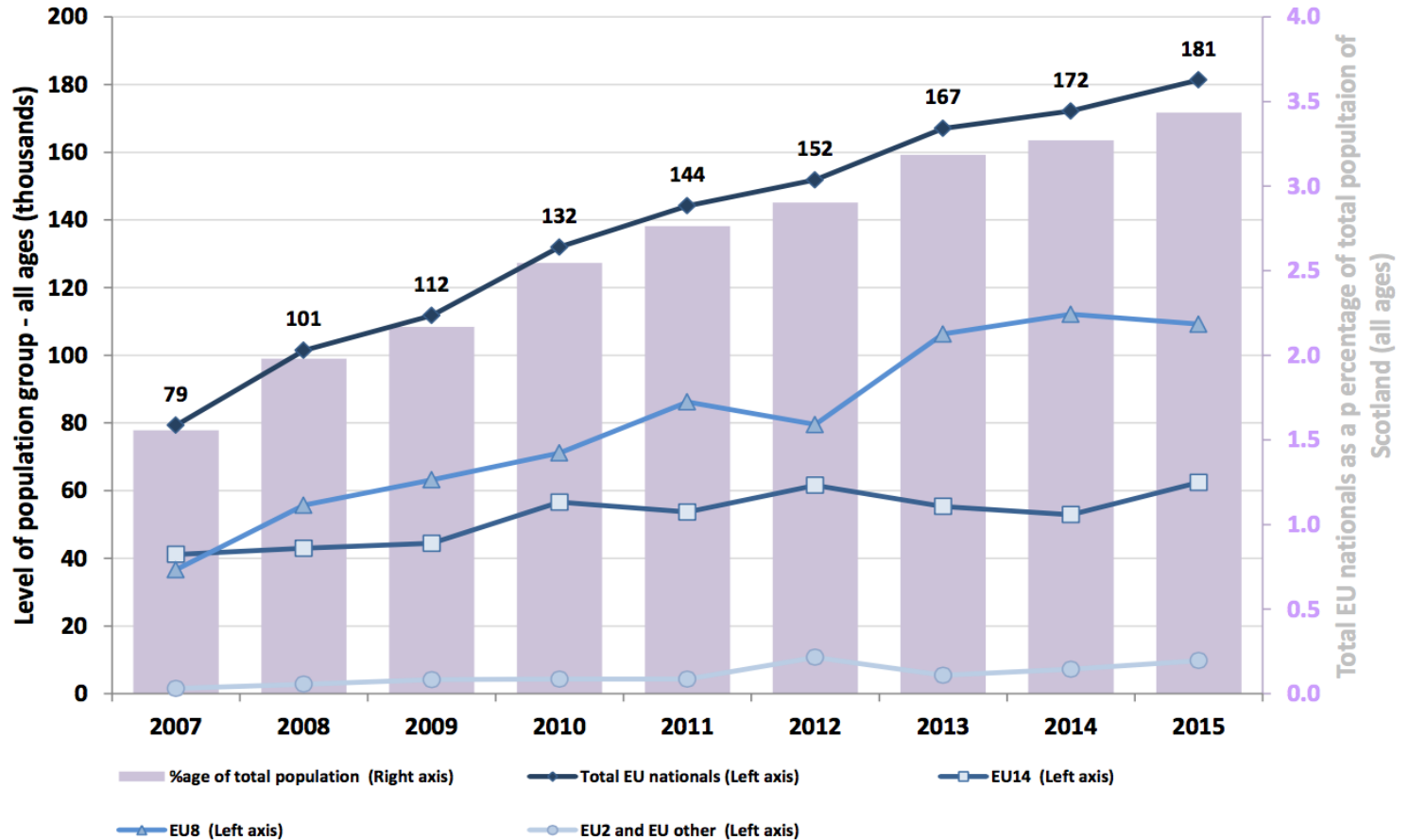
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# The (non-) impact of EU immigration on UK real wages & unemployment

Source: Brexit and the  
Impact of Immigration in  
the UK, J Wadsworth et  
al., CEP, 2016



# EU immigration to Scotland



Source: Scottish Government - EU nationals living and working in Scotland, Annual Population Survey 2015



## UK/EU trade and demand effects

- The EU in 2014 accounted for
  - 44.6% of UK exports of goods and services
  - 53.2% of UK imports of goods and services
- Strong economic growth in emerging economies has led to the proportion of UK trade accounted for by the EU to fall since 1999
- UK is a sizeable source of demand for EU-27, but not huge: 0.5-0.6%; EU-27 exports to the UK are 3-4% of EU-27 GDP
- By contrast UK exports to EU-27 are much more important to the UK economy – about 12-13% of UK GDP

## Issues for EU-27 of Brexit

- UK businesses are more upstream in global supply chains in a number of sectors
- As a % of GDP trade with the UK is important for some countries ; fisheries access is also an issue.
- UK holds a stock of FDI from EU countries whose value is at risk
- The UK might 'undercut' the EU on social regulation and taxation to seek to attract more jobs – but 'level playing field' commitments likely to be part of FTA
- Brexit may negatively affect the liquidity and cost of financial services in Europe
- The EU will lose its second biggest net contributor to the EU budget, after Germany
- EU may shift towards less market-friendly positions



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### 3. Some Possible Brexit Scenarios

- Phase 1 of negotiations completed in Dec 2017
- Phase 2: A transitional arrangement agreed in outline; Irish border issue still not agreed, particularly text on 'backstop'; future framework still unclear – about to enter a crucial phase.
- We have seen in negotiations so far how weak the UK bargaining position is





# Three Brexit scenarios

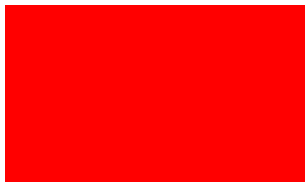


## 'Cliff-edge Brexit'

- No final agreement on withdrawal (less likely now)
- No or limited transitional agreement – less likely now, but cliff-edge could come later, during transition
- UK trades under WTO rules

UK Govt  
objectives

Economic  
Outcome



## 'FTA/Hard Brexit'

- Withdrawal agreement
- UK-EU FTA deal in future (Canada++ very difficult)
- Irish border issue
- Transitional agreement until Dec 2020 with outline of FTA negotiated during transition; arrangements for extending transition
- Difficult for services



## 'Single Market Brexit'

- Withdrawal agreement and transition
- Transition agreement allows for extension
- Policy reversal by UK, maybe if transition extended beyond 2020, esp with 2022 general election
- Possibly with EFTA-type pillar
- Customs Union?





## Issues around a bilateral FTA(+) model

- A 'bespoke model' – 'deep relationship'? Or simply Canada style FTA? 'Three buckets model' already rejected by EU.
- Is there any scope for a(ny) deal on services (equivalence?; mutual recognition?)
- Is there scope for shadowing EU regulation? An example is how Swiss laws and regulations shadow some EU laws and directives
- Sectoral deals are problematic for WTO – Article XXIV of GATT

“We [the British] lost on every issue, not by the process of rational argument in debate but by the solid massing of the cohorts which voted automatically with America, [particularly the Latin Americans,] whose representatives could be depended on to read, sometimes with considerable difficulty, the speeches prepared for them by the Secretariat of the United States delegation.”



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# Thank you – Q&A

**WORLD  
CHANGERS  
WELCOME**

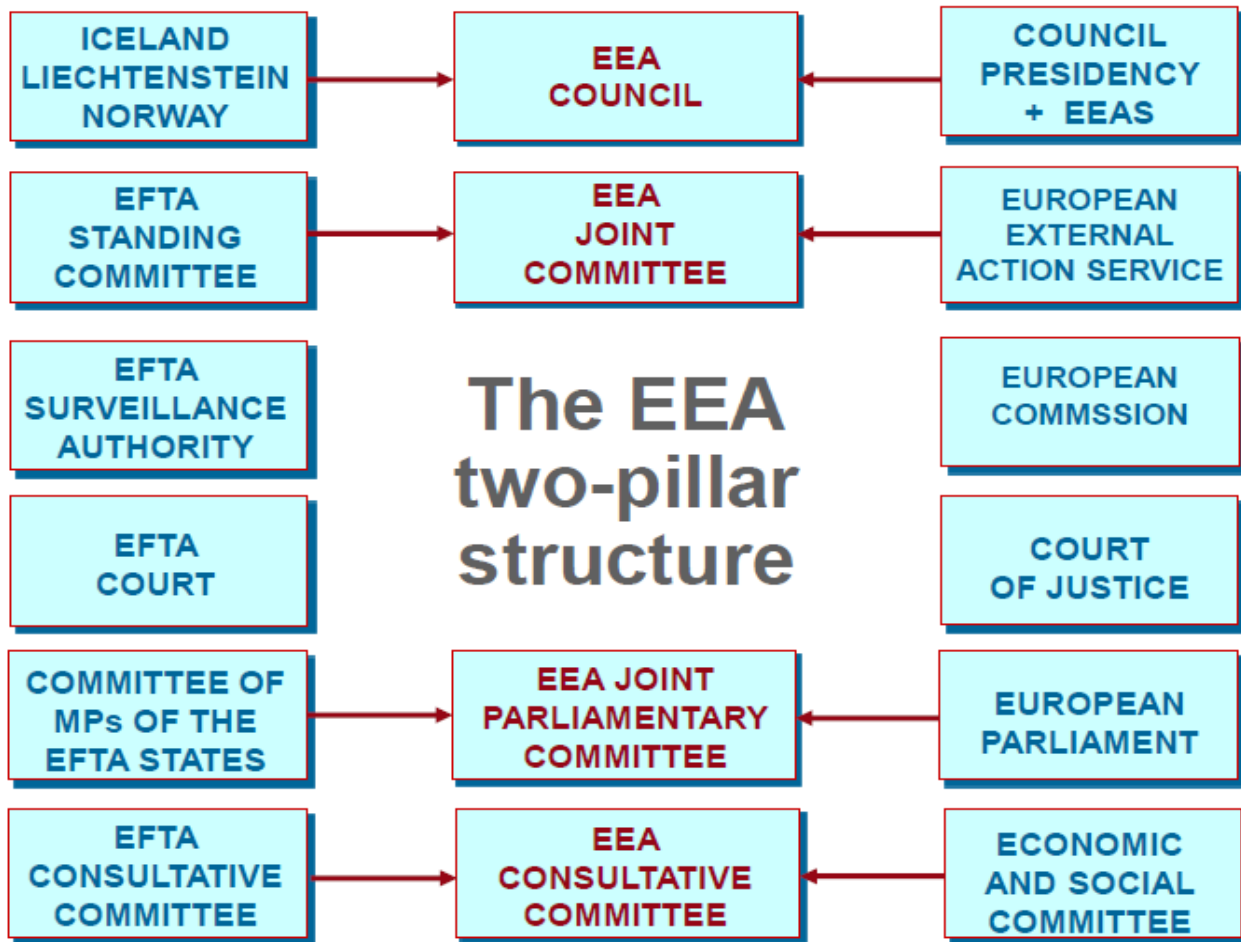
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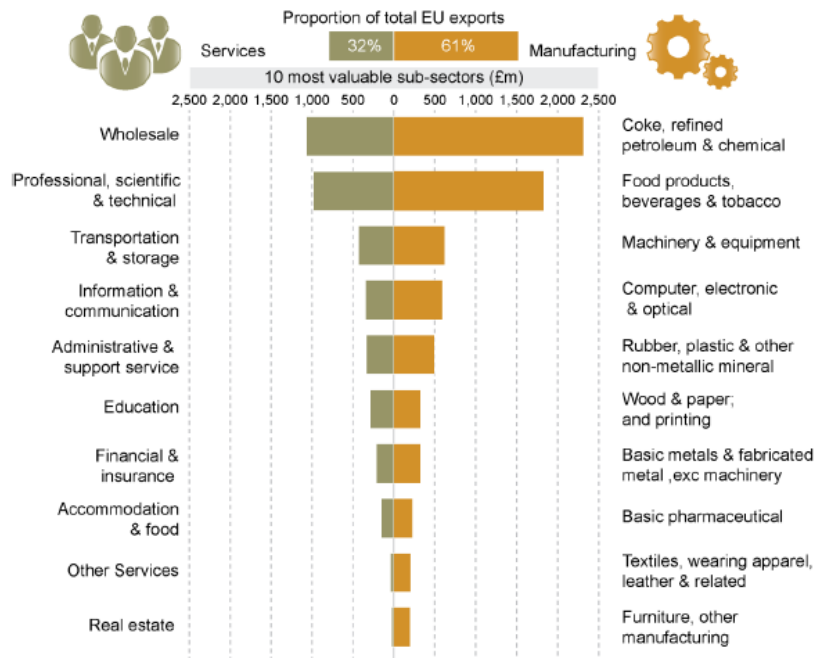
Source: EFTA Secretariat





# Scottish economic considerations

Figure 1: Scottish exports to the EU, 2015



Source: SPiCe [2015](#)

Scottish Parliament CTEER Report, 2017





## Some misunderstanding of EEA/EFTA structures

- EFTA Court has no primacy and no direct effect on domestic legal position in EFTA/EEA countries
- There are no penalty payments in case of non-compliance with an infringement judgment and no written obligation of courts of last resort to refer
- Preliminary rulings not formally binding
- Based on 'duty of loyalty and principle of reciprocity'
- EU Council conclusions in 2008-14. Full ESM access only with EFTA surveillance and Court. Independent mechanisms for surveillance and disputes is major concern in EU/Swiss relationship
- EU Council since 2008 has not concluded new agreements with Switzerland and is urging the Swiss to move to the EEA arrangement.





## **‘Divorce Bill’**

- Could be €40-60 bn
- Includes post-2019 budget commitments and uncommitted planned spending
- Pension liabilities



# Scotland: Standing Council on Europe

## Standing Council on Europe

(appointed on 28 June 2016)

The Council has three principal functions:

- To provide expert advice on securing Scotland's relationship with the EU
- To consider the impact of any proposed changes to the UK's relationship with the EU on Scottish interests
- To advise Scottish Ministers through negotiations in order to secure Scottish interests and objectives

