

Forum: Economic and Social Council

Issue: Establishing a sustainable post-BREXIT economy in Europe

Student Officer: Safal Aryal

Position: Assistant President

Introduction

On the 23rd of June 2016, 52% of voters in a referendum for the United Kingdom to leave the European Union voted affirmative to the premise (“UK Parliament, House of Commons Bill 2”), putting the economic condition of Europe in a standstill. With the UK still not having left the EU, trade between the two parties is still tariff-free. However, post-leaving, these tariffs will be more heavily imposed by governments on either side if there is no trade deal. According to statistics published on November 1st, 2019, post-referendum, the EU is still the UK’s largest trading partner, with exports amounting to £291 billion and imports totaling £357 billion; constituting 45% of the UK’s exports and 53% of imports respectively. Trade with the EU was at a deficit of £66 billion as of 2018, with a surplus of £28 billion in the service industry outweighed by a deficit of £94 billion in the trading of goods. This means that the EU is dependent on the UK as a market for their goods, whereas the UK is dependent on the EU as a market for her services. The current economic model between the two countries facilitates trade rather than hinders it, with the exclusion of taxes, allowing for smoother operation of companies spanning the two economic entities. The main argument made by the Brexit party is that the UK is at the losing side of this equation, as the EU’s dependence on the UK outweighs the UK’s reliance on the EU. However, the imposition of tariffs could also lead to a sharp decline in service employees in the UK, many of which are citizens of EU countries. This is why it should be the committee’s main goal to pass a resolution that mutually regards the interests of both sides while preserving economic ties.

Definition of Key Terms

BREXIT

The action of the United Kingdom withdrawing its membership from the European Union. What it could entail economically depends entirely on the manner of the exit and whether a trade deal between the two parties is formulated or not.

BREXIT Divorce Bill

The hypothetical bill required to be paid by the United Kingdom to the EU upon withdrawing its membership.

European Union

The international union of European nations united by a shared culture, economic and political values, including those of the free market, free trade, open borders (within the Schengen area), and a common currency (within the Eurozone).

Article 50

An article of the Treaty on the European Union enacted on Dec 1st, 2009, which specifies the procedure any EU member state has to follow if they wish to withdraw membership. In essence, it mandates the drafting of an agreement between the member state and the EU before.

EU Referendum

The referendum conducted on the 23rd of June 2016, where 52% of voters in the UK decided to steer the country towards the direction of BREXIT and to withdraw from the EU.

Single Market

The market for single goods in any given country or association.

Euroskepticism

The skepticism or negative attitude that a person, party or nation holds towards Europe and the EU.

Background

Early history

The United Kingdom has a long history with what is now known as the European Union. In 1951, an organization known as the European Coal and Steel Committee (ECSC) was founded by the Treaty of Paris. The members were West Germany, France, Italy, Belgium, Luxembourg, and the Netherlands, with the United Kingdom declining the offer for membership. These same six countries established another two organizations through the Treaty of Rome later in 1957, the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). The EEC aimed to establish economic links and free trade between the nations as mentioned earlier through the creation of a supranational institution, that is to say, an institution with power transcending local boundaries. In 1960, a rival body – the European Free Trade Association (EFTA) – was formed by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the UK. It had the same goal as the EEC but sought to avoid the establishment of a supranational institution instead of seeking to establish free trade where each member's legislation was prioritized first. During the 1960s, the member states of the EFTA would take the name of the "Outer Seven" whereas the EEC was known as the "Inner Six", indicative of their statuses as nations in Europe. The general attitude towards the EEC in the UK at the time was quite negative among the majority Conservative government at the time, many viewing it as "vehement". Thus, it was a shocking turn of events when under Prime Minister Harold Macmillan (himself a Tory), the UK submitted its first application to join the organization. According to a 1961 article by the Guardian on the issue, it was met with backlash from the public, people considering Macmillan "a national disaster"

and asserting that "the risk and dangers of failure are very great" (Shrapnel), perhaps laying the foundation for the first Euroskepticism to be seen in the UK. This first British application to the organization was vetoed by the President of France, then Charles de Gaulle, because "the nature, the structure, the very structure that are England's differ profoundly from those of continentals", that is to say, England and mainland European nations are ideologically incompatible (de Gaulle 2). This established a divide, framing England as "the other" relative to the EEC nations. Shortly after, in 1965, Euratom, the EEC, and the ECSC were combined into one massive body known as the European Communities (EC). The UK, under Labor PM Harold Wilson, was then again denied membership when applying on the same grounds. The year after, a customs union that abolished all import duties between EC member states was established, making international trade between the nations much easier. It was after this that finally, in 1973, the UK was able to become a member state, alongside Denmark and Ireland successfully. Norway did not join on the grounds of a local referendum voting against. From here on, the UK's issue on the stance eased. A 1975 referendum yielded results of 67% to 33% in favor of staying in the EC (however, only with Margaret Thatcher reallocating and reducing monetary contribution), so their membership continued along until and past the Maastricht Treaty of 1992, by which the European Communities became the European Union. Despite all of this progress, however, the UK often stuck to its principles, such as not opening themselves up to the Schengen area (no open borders for other Europeans) and not adopting the Euro as legal tender. An amendment of the Maastricht and Rome treaties, the Lisbon treaty of 2009, significantly strengthened the power of the European parliament and increased the European Council.

Buildup to the referendum

As demonstrated by the events above, the United Kingdom held a generally favorable stance towards integration with the rest of Europe. However, the image of Britain being a separate, distinct entity from the rest of Europe had always manifested itself. This image was perpetuated by many Prime Ministers, starting with Winston Churchill, persisting through until Tony Blair and David Cameron, rooted deeply in the cultural differences with the people across the channel. This attitude throughout the 1990s and later on led to an enabling environment for anti-EU thought to be developed and nurtured. In 1993, a Conservative party member named Nigel Farage withdrew his Tory membership and joined the then recently founded United Kingdom Independence Party (UKIP), which was in favor of the UK withdrawing its EU membership working with the Euroskeptical political party of the time. Finding the best platform for voicing his thoughts, Farage was elected to the European Parliament thrice, first in 1999, again in 2004 and 2009. In 2006, he was appointed the leader of the party. Under his direction, the party expanded from just having the one goal of leaving the EU to implementing many socially conservative policies, such as immigration crackdowns. Economically, UKIP under his direction proposed in a libertarian economy, one with minimal government and foreign intervention. This leadership proved quite useful, as, in 2009, UKIP secured 17% support in total during the European Parliament elections that year and won 13 of the United Kingdom's 72 seats. Even after being pushed out of Parliament during the election in 2010 with a 3% support total, Farage persisted, and UKIP returned as 3rd in the ballot, retaining its popular status.

In 2010, the ruling majority in the UK Parliament was the Conservative-Liberal Democrat coalition, led by David Cameron and Nick Clegg, with the former serving as Prime Minister. Many more hardline, ideologically

grounded members of the Conservative party held the sentiment that the coalition had failed to deliver. Farage took advantage of this climate by campaigning aggressively against the coalition, campaigning for tightening of border controls, independence from the EU sans deal, and tax cuts domestically. This campaigning proved effective, as UKIP gained 14% of the seats in England by the 2010 general election, mostly at the expense of the Conservatives. Pressured by the increase in popularity of the UKIP party, Cameron, in January 2013, promised a referendum by 2017 (one of the UKIP party's central tenets), allowing citizens to vote to leave the EU or remain a member state. Rather than increasing the Conservative party's popularity in the general elections, by 2014 UKIP had gained 27% of the popular vote, resulting in 24 seats, amounting to a first-place finish and the first time since 1906 that a party other than the Labor or Conservative parties had won an election. Farage cited counterterrorism and domestic protection as the main reasons to leave the EU, stating that the 2015 Paris attacks were caused by a "gross policy of multiculturalism" (BBC), mostly ignoring economic impact as a side concern. This echoes the rising right-wing, anti-immigrant sentiment in the West (similar to America) and around the world. After the referendum, with a 52% victory margin, Farage resigned as leader of the UKIP party, stating that his goal had been fulfilled. David Cameron promptly followed by resigning as Prime Minister, leaving it to his successor Theresa May to pass legislation allowing a "divorce" agreement between the UK and the EU.

Post-referendum discussion – a “divorce” deal?

Although the anti-immigrant and nationalist sentiment perpetuated by Farage and the UKIP party resonated with a large portion of the UK's population, his rhetoric left one very important aspect of the relationship between the UK and the EU completely out of the question: the economic impacts. The UK relies on the EU for the sustenance of its service industry, whereas the UK is a prime market for EU goods. The UK, at the time of writing, has not left the EU and is still located within the European free trade zone, meaning that trade is free of tariffs. This eases the exchange of goods between the two parties. It is not that a no-deal Brexit will necessarily stop the status quo; it could continue as it is now. The problem arises with the uncertainty of a no-deal Brexit. There is no guarantee that the UK will not impose tariffs on bilateral trade, nor is there a guarantee that the EU will not impose such tariffs. This puts the futures of many multinational companies operating by trading between the two regions at stake, such as European car manufacturers who have stated that the impact on trade would be “seismic” were there to be a no-deal Brexit (Guardian).

Indeed Point 2 of Article 50 of the Treaty of Lisbon states that "the Union shall negotiate and conclude an agreement with that State [leaving], ... taking account of the framework for its future relationship with the Union". This is indeed what Theresa May attempted to orchestrate during her tenure as Prime Minister. May negotiated out a trade agreement with Brussels, which proved to be very unpopular domestically in the UK (the reasons for this will be discussed in the section regarding past proposed solutions to the issue) and was rejected by Parliament thrice on three different occasions, leading to her resignation. This is also the reason for the delaying of Brexit; it was initially scheduled to happen on the 29th of March, 2019, but due to the lack of a "divorce" agreement as required by Article 50, it was pushed back to the 31st of October 2019 by Theresa May's successor, Conservative Boris Johnson. The deal proposed by Johnson is very similar to that of May's, with a few changes on tariffs that will be discussed in the section regarding past solutions. However, due to further disagreements on the issue by MP Oliver Letwin of Farage's

new Brexit party, Johnson was forced to extend the deadline further through Brussels to the 31st of January 2020. This creates more time for Farage's new party to once again advocate for a hardline no-deal Brexit while stalling the Conservatives' deal, which has been in place since Theresa May's tenure as Prime Minister. This means that the issue is currently at a standstill with no accurately predictable outcome.

Economic impacts of Brexit

The economic impacts of Brexit are wide-reaching to every single European country. However, the primary economic impact of Brexit will take the form of declining coordination between the two parties in terms of their labor forces and industries. For the United Kingdom, this means fewer imports of skilled service workers from EU member states and also less EU vehicle trade with nations such as Germany. Whereas for the European Union, the consequences are more pronounced. Firstly, the political composition of the EU will change quite dramatically, as with 12% of the EU's population, the UK is a significant player in the European Parliament, contributing more right-leaning ideologies. With them gone, the whole of Europe is more liable to lean left and implement more left-wing policies. These could include less overall budget but more overall contribution, tax harmonization (implementing a unified tax system throughout Europe), and prioritization of renewable energy sources over nuclear energy sources. However, it must be considered that the UK is a major contributor to the EU budget at 8.9 billion GBP or 10.445 billion euros. With them gone, Germany will have a much more substantial contribution towards the EU's budget and thus larger economic control over Europe. The resulting power balance and the bill the UK will have to pay is something that will have to be addressed in a potential resolution.

Major Parties Involved

United Kingdom (UK)

The United Kingdom is tied with the European Union as the most important stakeholder impacted by this issue. The stance of the current United Kingdom government, led by Boris Johnson, is one of leaving with a deal that allows freely coordinated bilateral trade with any nation rather than without one, though there is a significant domestic conflict that could change this official stance within the span of an election. Without an economic deal with the European Union, the services sector could be damaged domestically. In addition to this, British expatriates residing in the EU could see their employment threatened. Both parties would lose their most important trading partners, being forced to look for newer partners. British companies operating in the EU could also be impacted by a no-deal Brexit, as tariffs could harm the flow of a currently somewhat open and cordial market between the two parties, once again forcing companies to look elsewhere for new markets. The UK also holds a cultural stake in this issue. Throughout history, being across the English Channel has caused the UK culturally to be a distinct entity from the rest of continental Europe, inspiring a sense of self-determination within the country, leading to the rise of movements and parties such as the UKIP as mentioned earlier. This sentiment can overshadow the genuine interdependence between the two parties in people's minds, which is why it is essential for the committee to pass a resolution that considers these unique needs while creating an effective trade deal.

European Union (EU)

The European Union's stake in this issue is very similar to that of the United Kingdom's, being that of economic dependency. The stance of the European Parliament has been one of the maintenance of relations: the negotiation of a deal has always been emphasized strongly. The dependence that the EU has on the UK, although very evenly balanced, is actually more so than vice versa, because of the fact that the UK overall has a trade deficit with the EU. This, combined with the high percentage of UK imports, means that a no-deal Brexit would adversely impact the raw materials trade into Europe, forcing countries to look for alternative trading partners to compensate for the huge gap. When viewed from a historical context, the cultural separation by the English Channel has been rather large for Europe as well, as can be seen from the Background section, where Europe rejected three successive applications to the EC. This could have contributed to Euroskepticism in the UK further, as sentiment resonating on the inability of the UK and Europe to work together could have been fueled by these events. In addition to this, the example of the UK has increased the confidence of Euroskeptic leaders within continental Europe itself while also reducing the faith of the people in the EU, as illustrated by 44% of Belgians stating they do not trust the EU. This is why it is imperative for the committee to draft a resolution to demonstrate the importance of negotiating a deal between the two countries to maintain prosperity. Some countries majorly affected by Brexit are **France, Germany,** and other larger European countries.

Previous Attempts to Resolve the Issue

Although the UK's influence in the UN Security Council and General Assembly has already changed, perhaps even reduced since the initial Brexit referendum and subsequent delays (Economist), there have been no resolutions passed by any organ or body of the United Nations to address this issue. However, domestic solutions are numerous and worth analyzing so that a better understanding of the failure for any proposed deals to pass through the UK parliament can be better understood.

The first solution proposed was Theresa May's much-scrutinized Brexit deal. It seems to have been met with almost universal hate – but why? The UK Labour Party's website has described it as a result of "half-baked negotiations over a period of two years", while Nigel Farage stated that it merely enabled the UK to move on the next stage of humiliation. The main issue that many have had with May's deal was the "backstop", the continuation of an open border and a lack of barriers between Ireland and Northern Ireland post-Brexit, enabling free flow between the UK and the EU (Joint Report From the Negotiators of the European Union and United Kingdom Government). The reason that this was met with such vehement criticism was that many who favored a more Farage-Esque hardline Brexit felt that this "backstop" would trap the EU and the UK to maintain a close relationship with Ireland and Northern Ireland being used as proxies. All other aspects of the solution were generally not argued upon by anyone but those who support a no-deal Brexit, aspects which encompass the rights of UK citizens in the EU and vice versa operation of multinational companies within those territories.

The solution later proposed by the government of Boris Johnson was more of an amendment of Theresa May's solution rather than a distinct deal in and of itself. It maintains the uncontested stances on companies and rights but changes the "backstop" policy quite significantly. Rather than an open land border between the UK and the EU, the border between Ireland and Northern Ireland is now under this deal to function as a checkpoint for UK customs

officers to inspect goods coming in from Europe and impose any suitable tariffs on them. This deal was met with more backlash by the Conservative party members than May's deal; however, it still faced significant opposition from Labor. Most importantly, this deal was delayed as well, by Farage's Brexit Party, in favor of a no-deal divorce with the EU, which could potentially injure any economic ties that may have to be pursued in the future to maintain stable economies for both sides. Farage's and UKIP's popularity in the past could be a concerning aspect of this solution and a reason for it being ineffective, potentially requiring delegates to think in different ways from what has already been laid out.

Possible Solutions

- The aforementioned Brexit deals are a viable solution to the problem at hand. The agreements currently already laid out between London and Brussels are quite comprehensive in their treatment of companies operating between the UK and the EU and trying to minimize the impact that Brexit could have on these. As of Boris Johnson's tenure in 10 Downing Street, the issue of the "backstop" is solved by establishing ground checkpoints between Ireland and Northern Ireland to impose any tariffs that the government of the UK deems is necessary. However, there are also several problems with following the Brexit deal as a framework. The first and foremost problem is that depending on the government in the UK, the tariff on EU goods could change, destabilizing the market of goods and leaving companies in the dark as to how much their products will be sold for in a foreign market over the long term, which could significantly reduce profits and incentives for EU services to operate in the UK and vice versa. The domestic opposition to any kind of Brexit deal in the UK must also be considered before this can be used as a framework for a resolution to this issue.
- Another possible solution to the issue at hand could be what is dubbed the "Norway method". As mentioned earlier in the background section, the referendum conducted in Norway in 1973 prevented it from being able to join the EC and, subsequently, the EU as a full member state. However, today, Norway enjoys close relations with the EU while maintaining a reasonable degree of internal control over matters. Norway is a part of the EFTA and the European Economic Area (EEA), which gives it full access to the reduced-tariff market in the EU. This means that Norway and Lichtenstein and Iceland like it have to follow many laws and regulations of the EU but can also maintain local legislation on major industries; fishing or agriculture for Norway. This is done by opting out of certain EU policies, in Norway's case, the Common Fisheries Policy and Common Agricultural Policy. Such a solution would appeal to a portion of Brexit supporters in the UK because of the fact that while suffering very little in terms of trade regulations and tariffs, the UK could enjoy a degree of autonomy in regulating independently essential sectors of the economy without EU intervention, and also allowing them to independently negotiate trade deals without having to comply to EU regulations. On the other hand, this type of solution is likely to face the same kind of scrutiny that May's solution did because of the fact that one such regulation that Norway has to follow is open border and trades with the EU, something that pro-Brexit supporters have been shown to be vehemently opposed to by the "backstop" debate.
- Switzerland is another European nation that maintains close ties to the EU while not being a member state. In alignment with its policy of neutrality, Switzerland has abstained from most regional political stance

related decisions and thus also not joined the EU as a member state. However, like Norway, Switzerland is also an EFTA member state, meaning that it maintains free trade ties with the EU with the price of having to implement some of its rules and regulations. The difference between the Norwegian and Swiss solutions to the problem is through the "guillotine clause"; while Norway could be subject to more EU regulations in the future, Switzerland's agreement with the EU guarantees that it will not be required to implement other new regulations by the European Parliament, mainly hitting them with a "guillotine" of sorts. However, a problem for the UK is that Switzerland is partisan to the Treaty of Schengen, meaning that they are required to open their borders to immigration from other European countries, something that pro-Brexit supporters in the UK are vehemently opposed to. Thus, implementing this solution in a resolution would require consideration of the immigration problem. By both the Norway and Switzerland models, the UK would have to continue contributing only slightly less than the current amount to the EU budget.

- Turkey is perhaps the most unorthodox nation to be mentioned in the solutions as a model for a post-Brexit relationship with the EU. Turkey does not have to follow any immigration rules, any rules regarding laws to be implemented, nor does it have to provide any financial contribution to the EU budget. It does this through a structure called a customs union, which is an agreement between Turkey and the EU that states that Turkish goods do not have to have a heavy tariff imposed on them to be sold in the EU market. They do, however, have to comply with all EU market regulations. More importantly, in the context of the UK, Turkey is not allowed to pursue its bilateral relationships and has to conduct trade with any nation that the EU does. This violates one of the core demands of the Brexit protestors in the UK, that being the introduction of free bilateral trade with any country seen fit. In addition to this, the European Parliament is unlikely to accept this kind of deal as the UK is currently the 2nd most significant budget contributor to the EU after Germany, and thus the EU budget and GDP will be significantly reduced by such a deal. These issues must be balanced out with regulations mandating paying the EU if this is to be implemented as a resolution.
- The final solution that will be suggested here is a flat, plain, and simple no-deal Brexit. This would violate the demands of around half the Brexit supporters in the UK but also satisfy Nigel Farage's Brexit party, which is steadily increasing its foothold. The EU would have to be treated like any other trade partner without special consideration, which depending on the resolution decided by the committee, could be either helpful or detrimental to solving the issue at hand.

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