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Brexit: Six months on

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Six months on: where are we now?

By Anand Menon

‘Brexit means Brexit’, declared the Prime Minister immediately after taking over the leadership of her party and the country. The British people had just voted by a small but significant majority to leave the European Union. Six months on, it’s time to take stock.

It has become steadily clearer that ‘Brexit’ could in fact mean a whole number of things, at least in terms of the UK’s future relationship with the EU’s single market, customs union and policies in many areas. Take your pick between soft Brexit, hard Brexit, white Brexit, black Brexit, grey Brexit, red, white and blue Brexit, clean Brexit, dirty Brexit, stupid Brexit, smart Brexit or dog’s Brexit.

The roots of this confusion can be traced back to the referendum campaign, when both process and substance conspired against clarity. As Simon Usherwood argues in this report, the decision by the then government to forbid the civil service from carrying out any planning for a possible ‘Leave’ outcome has limited our understanding of what Brexit might entail. There was, in any case, no way of finding out the possible outcome of UK-EU exit negotiations until after a vote to leave.

Moreover, people voted in June for the idea of Brexit, with no choice over those who might put it into practice. Those who campaigned for ‘Leave’ were in no position to deliver, being either outside government, or unable to guarantee their future position within it. The ‘Leave’ campaign, therefore, was in no position to implement whatever programme it had laid out.

Which brings us to the second problem. There was no clear programme. Indeed, the ‘Leave’ side was profoundly divided along a spectrum ranging from those interested in significantly reducing migration and those who see Britain’s future as being more - rather than less - internationalist and are far less concerned with pulling up the national drawbridge.

In other words, as Jonathan Portes pointed out [even before the referendum](#), three outcomes were squeezed into the binary container that was the ballot paper. ‘Remain’ was arguably clear enough; but ‘Leave’ encapsulated at least two options – what we now know as ‘soft’ and ‘hard’ Brexit. Briefly put, the softest conceivable Brexit involves continued membership of the single market (the ‘Norway model’), while hard Brexit implies no agreement with the EU on future trading relations (the ‘WTO model’).

It is no surprise, then, that recent weeks have seen a lively debate as to the outcome the Government should seek. Talk has resurfaced of the Norwegian, Canadian and Swiss (though not, as yet, Albanian) models which figured so prominently during the campaign. Meanwhile, as Sara Hagemann argues here, statements from the UK’s European partners have set out the limits of what they are willing to contemplate.

Yet for all the chatter, six months on it is striking that we seem little closer to knowing what Brexit actually means. Indeed, chatter is pretty much all that has occurred since that fateful day in June. While the media are full of Brexit stories, these are, of necessity, speculative. Everyone knows that something big is going to happen. The problem is, we can’t be sure of what it will look like until it does.

Nevertheless, it seemed apposite, after these first six months, to cast an eye more systematically over what has transpired. To that end, we have looked at a number of areas of relevance to the Brexit process, to see just where we have got to.

We open our report with John Curtice’s analysis of post-referendum public opinion, which suggests that the country is as divided as it was six months ago. I argue that the logic of post-referendum politics is nevertheless for a ‘hard Brexit’ and that Brexit forms part of a potentially broader shift in the UK political landscape. Matthew Goodwin pursues this further, showing how Brexit is exposing and exacerbating potentially fatal strains in, especially, Labour’s traditional electoral coalition. Meanwhile, Simon Usherwood identifies the ‘massive shock and apparent inertia’ characterising the UK Government in its preparations for the Brexit negotiations, as it struggles with internal reorganisation and difficult politics at home and in the EU. Sara Hagemann confirms that opinion towards the UK has hardened in other member states since the referendum, to the extent that the EU27 appear to have achieved a rare degree of unity.

Catherine Barnard argues that the legal framework for the Article 50 negotiations also poses severe challenges for the UK, because of the two-year timeframe it allows, and because it excludes negotiation of any long-term agreement. Meanwhile, the Great Repeal Bill promised for 2017 is set to be another apparent legal formality that will raise challenging questions across a whole raft of policy areas. As Michael Keating and Jo Hunt show in their contribution, the signs so far are that both the Great Repeal Bill and the Brexit negotiations could severely strain the UK’s current devolution settlement.

Richard Whitman suggests that UK-EU negotiations over a future foreign, security and defence policy relationship could be relatively straightforward, although the challenge remains for the Government of defining the place of future relations with the EU in the UK’s wider international relations. By contrast, Jonathan Portes and Iain Begg suggest that, with regard to free movement/immigration policy and the EU budget, respectively, negotiations are likely to be extremely difficult.

Iain Begg’s piece also highlights that the impact on the UK public finances of the UK-EU budget settlement will be dwarfed by that of the macroeconomic effects of Brexit. In a further contribution, he and Jonathan Portes set out how the UK economy has not suffered anything like the shock from the vote that most observers had expected. However, they argue that the economy’s current performance may not be sustainable, and that the macroeconomic effects of Brexit will anyway mostly be felt over the medium to long term. These effects will depend in part on the UK’s future relationship with the EU, specifically with the single market and customs union. Concurring with my analysis, Angus Armstrong suggests the indications so far are that the UK is unlikely to be in either – that is, that Brexit is likely to be ‘hard’, although how hard remains to be determined.

All in all, six months on, we do know more about where the UK Government may try to take us. Many key issues, however, remain stubbornly unaddressed or unresolved. And as for where our partners will allow us to go, this is something we will only know once we have pushed the Article 50 button.

As ever, I’d like to thank all those colleagues who contributed to this report, and more broadly to our work over this year. Ben Miller was, as always, key to this publication’s timely appearance. Particular thanks to Brigid Fowler who went far beyond the call of duty to bash this report into shape.

Finally, let me take this opportunity to wish you all a merry and Brexity festive season.

Public opinion

By John Curtice

What has happened?

Britain's voters did not just surprise many commentators on 23 June – they also surprised themselves. In polls conducted on referendum day itself, Lord Ashcroft found 70% reckoning that 'Remain' would win, and YouGov 52% (with only 19% expecting a 'Leave' victory).

So far, however, neither shock at the 'Leave' result nor the ensuing, fierce, debate seem to have done much to cause voters to change their minds. In regular YouGov polling since the referendum on whether Britain was right or wrong to leave, almost 90% of 'Remain' voters typically say that the decision was wrong, and almost 90% of their 'Leave' counterparts that it was right. By definition, therefore, on most occasions slightly more people overall have said that the decision was right.

There is also little consistent evidence that people would vote any differently if the referendum were held again. A couple of surveys immediately after the referendum suggested that many 'Leave' voters regretted their decision; but of the eight readings taken since the start of July, five have put 'Leave' ahead, two had the sides tied and just one reported 'Remain' supporters outnumbering 'Leave'. Six months on, it seems that Britain is just as divided on the merits of the case as it was on 23 June.

What happens next?

The polling evidence on what voters want, now that the UK is set to trigger the formal withdrawal process, is not straightforward to interpret.

Free trade or limit immigration?

It is widely thought that the key choice the UK will face is between retaining full access to the single market and continuing to accept freedom of movement to the UK for EU citizens, or being able to limit immigration from the EU but losing full single market access. As [others have argued](#), in a sense this debate re-runs the central argument of the referendum campaign. Ever since the referendum, polls have found consistently that 'Remain' voters are more inclined to prioritise single market access, while 'Leave' voters consider it more important to control immigration.

However, the polls have not always found opinion to be evenly balanced on the issue. Some have found substantial majorities saying it is more important for the UK to retain single market access, while others - sometimes even by the same company - have reported the opposite. [Much of the explanation for this variation would seem to lie in differences in wording.](#) (There is no obvious trend over time.)

No two polls on this issue, even when conducted by the same firm, have used the same wording. For example, the poll that found the lowest proportion of respondents prioritising access to the single market, by Lord Ashcroft in July, asked people to assess 'securing access to the EU single market at all costs' against 'being able to control immigration'. The poll that found the highest, by ComRes also in July, set 'maintaining access to the single market so Britain can have free trade with the EU' against 'restricting the freedom of movement'. It does not require much imagination to anticipate that 'being able to control immigration' sounds more attractive than 'restricting the freedom of movement', and 'maintaining access...to have free trade' more attractive than 'securing access...at all costs'.

Such apparent confusion and sensitivity to wording makes it hard to assess exactly where public opinion stands on the issue. It certainly suggests that much will depend on how it comes to be framed, should the UK indeed find itself faced with a stark choice. Most probably however, public opinion is just as divided on the issue as it still is on the merits of the basic Brexit decision. If we make the heroic assumption that the best guide to the underlying balance of opinion on the issue is the average of the dozen, very divergent, poll readings since the referendum, 45% apparently prioritise maintaining access to the single market, and 41% being able to limit immigration.

The wrong choice?

But there is another important reason why polling on 'free trade versus immigration' apparently presents such difficulties. Voters' attitudes are simply not structured in the same way as the views of those who lead the EU, for whom free trade and free movement go together.

Rather than asking respondents which matters to them more, [in September and October NatCen invited respondents simply to say whether they were 'in favour' or 'against'](#) various possible components of a UK-EU deal. No less than 90% said that they were in favour of 'Allowing companies based in the EU to sell goods and services freely in Britain in return for allowing British companies to sell goods and services freely in the EU'. However, 74% stated that they were in favour of 'Requiring people from the EU who want to come to live here to apply to do so in the same way as people from outside the EU'. Indeed, more generally, majorities – including of both 'Remain' and 'Leave' voters – backed options that are typically seen as comprising parts of both a 'soft' Brexit (such as bank passporting) and a 'hard' Brexit (such as leaving the EU customs union).

To many in the EU, the British public's apparent desire to retain free trade while no longer granting freedom of movement will seem like a wish to have their cake and eat it. An alternative view, however, is that many people in the UK – including some who voted 'Remain' – reject the EU's recipe for baking the cake in the first place. For them, freedom of movement as currently implemented in the EU is not a necessary concomitant to free trade. None of this is likely to make it easier for the UK Government to secure a deal that is welcomed by a majority of voters, in what looks like a country just as divided as it was six months ago.

The politics of Brexit

By Anand Menon

What has happened?

Parliament and Brexit

Parliamentary opinion was arguably an important factor behind the referendum outcome. Although David Cameron's renegotiation of British EU membership was intended in part to bring [undecided Conservative MPs](#) over to 'Remain', in the event 138 Conservative MPs backed 'Leave' – many more than senior civil servants had privately expected.

Nevertheless, a clear majority of MPs favoured remaining within the EU. Of the 650 MPs, [479 are reckoned to have backed 'Remain'](#) – including more than half of Conservative MPs.

Politics and public opinion

By backing 'Remain', many MPs in England and Wales were at odds with their constituents. [Chris Hanretty's research](#) has suggested that 400 of the 574 English and Welsh constituencies voted to leave. Meanwhile, [John Curtice's analysis](#) of post-referendum polling by YouGov and Lord Ashcroft suggests significantly fewer than 50% of 2015 Conservative voters backed 'Remain', while significantly more than 30% of Labour voters backed 'Leave'. Especially for pro-'Remain' MPs, therefore, the referendum result raised difficult questions about the role of MPs and Parliament in general, and about their own position vis-à-vis their constituencies, now and in future.

What is happening?

Shifting political positions

The post-referendum period has seen MPs re-evaluating their positions, most importantly on immigration. This has been driven by not only the referendum result but also the available evidence about the state of post-referendum public opinion (as discussed in John Curtice's contribution here), continued campaigning by former 'Leave' leaders and newspapers and – for Conservatives – the formation of Theresa May's 'Brexit means Brexit' government.

Labour MPs in the party's traditional heartlands are especially vulnerable to the immigration-based challenge from UKIP, which came second to Labour in 44 seats in the 2015 General Election. UKIP's new leader Paul Nuttall was quick to state his ambition to 'replace the Labour Party'. Initial [research by Matthew Goodwin](#) has identified 20 constituencies where Labour is most vulnerable to the UKIP challenge, on the basis that they have relatively small Labour majorities, voted 'Leave', and made UKIP second or a close third in 2015.

Reflecting this pressure, some high-profile Labour politicians have shifted their pre-referendum stance. Centrist pro-'Remain' MPs

including Emma Reynolds, Stephen Kinnock and [Rachel Reeves](#) have publicly backed limiting free movement, while [Chuka Umunna](#) has argued that loss of single market membership is a price worth paying if necessary to end free movement. Meanwhile, [Labour Deputy Leader Tom Watson](#) has insisted that Labour has no intention of blocking Brexit, while castigating the Liberal Democrats as 'Brexit deniers'. However, with Labour in disarray, the Liberal Democrats sense the potential for a comeback as the voice of the '48-ers', especially after their shock win in the early December Richmond by-election.

Conservative MPs have also been quick to adjust to the new reality under a Prime Minister committed to showing that 'Brexit means Brexit'. It has been striking to see how former Remainers among Conservative MPs have swung behind the prospect of even a 'hard' Brexit. For example, as Jonathan Portes discusses in his contribution, new [Home Secretary Amber Rudd](#), formerly a prominent 'Remain' campaigner, promised the Conservative Party conference in October to reduce immigration from the EU – which implies an end to the current EU free movement regime – as well as tighten the regime for work and student immigration from elsewhere.

Some interpreted the Richmond by-election – which saw the Liberal Democrats overturn a Conservative majority of over 23,000, after a campaign fought largely on Brexit – as a sea change in these politics. But Richmond is an affluent London seat, hardly representative of the rest of the country. The Liberal Democrats would be unable to throw the kinds of resources they invested in ousting Zac Goldsmith into all constituencies in a general election. And the addition of one more Liberal Democrat MP does not alter the parliamentary balance of power. The long-term implications of the Richmond result will likely not be as great as many are suggesting.

What happens next?

Parliament and Brexit

The immediate prospects for Parliament rest on the outcome of the Government's appeal to the Supreme Court on whether the legislature must authorise the triggering of Article 50, to start the UK's formal EU withdrawal process. The Supreme Court is expected to rule in January. Assuming, as is likely, that the Supreme Court upholds the High Court verdict, and that Parliament will therefore be required to vote, the Government must pass a hasty bill before the end of March.

Any post-Richmond uptick in confidence among former 'Remain' MPs might embolden a few more to oppose an Article 50 authorisation bill. However, the logic of post-referendum politics outlined above means that most MPs will back the legislation. Even pro-'Remain' members of the House of Lords will think twice before being seen to block Brexit. The same logic will apply to whatever amendments Parliament might make to the Government bill, although parliamentarians will at least seek to use their leverage to force the Government into greater transparency. Much depends on whether the large number of MPs – including most Labour MPs – who supported 'Remain' but do not want to be seen to block Brexit can unite behind a coherent position.

However, the tight two-year Article 50 timetable, the likely nature of the Brexit negotiations (complex and probably last-minute), and MPs' unfamiliarity with many of the issues in play will all constrain Parliament's ability to exercise significant influence over the final Brexit deal until it is too late, and Parliament is presented with a 'take-it-or-leave it' choice in early 2019.

Brexit and the new politics

Any difficulties the Government has in getting Brexit legislation through Parliament may not necessarily weaken the Conservatives' overall electoral prospects. As matters stand, the abject weakness of the Labour Party presents the Conservatives with a rare opportunity to plan for the long term, confident that they will win the 2020 General Election.

Indeed, the Conservative Government is signalling its desire to try to attract former Labour voters, with its appeals to those who are 'just about managing'. Achieving an exit from the EU that ends freedom of movement could form a logical part of this strategy. Much will hinge on whether UKIP under its new leader can reassert itself in the battle for these voters; but such a resurgence would harm Labour as well as the Conservatives. Without even considering Scotland, therefore, we can see that Brexit is partly a function of, but is also partly bringing about, a new UK political landscape.

Electoral dynamics

By Matthew Goodwin

What has happened?

Since the EU referendum, party politics has undergone considerable change. Each of the three political parties that are currently the most popular in the opinion polls - the Conservatives, Labour and the UK Independence Party (UKIP) - have held leadership elections. While the Conservatives replaced David Cameron with Prime Minister Theresa May, Labour re-elected Jeremy Corbyn and UKIP - who held not one but two leadership elections - finally settled on Paul Nuttall, a northerner and long-time deputy to Nigel Farage.

While Labour's Corbyn was the only leader among the top three to survive the year, there have since emerged big questions about his party's ability to survive as a competitive opposition party. To assess the scale of the challenge that faces Labour, it is useful first to recall the reality that met the party after its defeat at the 2015 General Election. That earlier contest saw Labour reduced to only one seat in Scotland, barely 30% of the national vote and 232 seats in the House of Commons – its lowest number of seats since 1987 and third-lowest since the 1930s. In the aftermath of Labour's defeat, which paved the way for Corbyn, [analysis revealed](#) that, unless Labour dramatically reversed its situation in Scotland, to stand any chance of winning a majority at the next General Election it would need a poll lead of at least 12.5 percentage points. To put this challenge in perspective, in late 2016 Labour is typically 12-16 points behind the incumbent Conservative Party, which since the referendum has enjoyed strong poll leads. The prospect of a Labour majority at the next election is therefore very slim. Additional pressures have also started to bear down on the Labour Party - far more than at any other time in its history. These challenges also throw light on how British politics more generally has been evolving since the referendum.

What is happening?

First, it has been [estimated](#) that nearly 70% of Labour-held seats voted for Brexit, with industrial, northern and economically left behind seats leading the way. That an estimated 70%+ of voters in Labour constituencies like Kingston-upon-Hull East, Stoke-on-Trent North, Doncaster North, and Walsall North opted for Brexit, while over 70% of voters in Labour constituencies like Hornsey and Wood Green, Streatham, Hackney North and Islington North opted for Remain, exposed a deep and widening divide in the political geography of Labour support. This tension between working-class, struggling, eurosceptic and anti-immigration and more financially secure, middle-class, pro-EU and cosmopolitan wings poses strategic dilemmas for Labour, and provides opportunities for its main rivals.

Labour's chief rival, the governing Conservative Party, is enjoying a new period of dominance. Aside from a near-record lead in the polls,

and despite infighting among some Conservative MPs, in the wider political climate Prime Minister Theresa May and her government are in a strong position. According to [August polling](#), May is seen far more favourably than Corbyn among almost every group in society, holding leads over Corbyn of 57 points among pensioners, 26 points among 50-64 year-olds, and 17 points across every social class. Only among 18-24 year-olds - who generally vote in lower numbers - and voters in Scotland, where Labour has fallen off a cliff, is Corbyn ahead. On issues, too, the Conservatives are dominant. Far more voters trust May and her government than Labour on the economy, Brexit and immigration, all of which are guiding concerns for voters. Unsurprisingly, therefore, were a General Election held tomorrow, forecasts suggest that Theresa May would be handed a much larger parliamentary majority, perhaps of more than 100. Labour, meanwhile, could be reduced to its lowest number of seats since the 1930s.

But it is not only the Conservatives who are causing Labour problems. Two smaller parties are each, in their own ways, posing a challenge in Labour seats. Since the referendum, the populist right UKIP has continued to attract more than one in ten voters in polls. Its new leader, Paul Nuttall, has now declared his intention to target northern Labour seats. UKIP is already entrenched as the second party in 44 Labour-held seats, and will now be looking to [target seats](#) where a large majority of voters endorsed Brexit and Labour's majority is within reach. Examples include northern seats like Hartlepool, Heywood and Middleton, Mansfield, Stoke-on-Trent and Great Grimsby, and Dagenham and Rainham in outer-east London, although it is important to note that even here UKIP's grassroots organisation remains weak.

Labour's dilemma is magnified by a simultaneous problem at the other end of the political spectrum, namely a resurgent Liberal Democrat party. Fresh from their win at the Richmond Park by-election in December, the Liberal Democrats are looking to capitalise on angst over Brexit among pro-Remain voters (although some, like Anand Menon in the present report, are more cautious about the wider implications of the result). That the Liberal Democrats were able to take Richmond Park from the Conservative incumbent Zac Goldsmith, while Labour failed even to make the 5% threshold, is a further warning shot to Corbyn.

Should the Liberal Democrats, rather than Labour, manage to project themselves as a 'new' political home for Remainers who loathe Brexit and the Conservative Party, but also despair of Corbyn's leadership, then in some seats this holds the potential to divide the more socially liberal and Remain-focused group of voters, at the same time as UKIP is trying to win over working-class voters who used to support Labour. In pro-Remain Labour seats where the Liberal Democrats are already second, Labour could find itself further squeezed by the beginnings of a realignment, in seats like Hornsey and Wood Green, Bristol West, Cambridge, Bermondsey and Old Southwark, and Cardiff Central.

Were the Liberal Democrats and their leader Tim Farron able to project themselves as the chief architects of a 'Remain Revolt', this could also cause problems for Conservative MPs in seats where a majority backed 'Remain' and Liberal Democrats have a decent presence. After Richmond Park, attention should turn to seats like Lewes, Twickenham, Kingston and Surbiton, Bath, Cheltenham, Cheadle, and Oxford West and Abingdon, where public disquiet over Brexit could cause problems for Conservatives with slim majorities. There are 17 Conservative seats where Remain won a majority at the referendum and the Liberal Democrats are already in second place. This is why a Liberal Democrat revival could impact on both Britain's traditional main parties, although any such development would still leave Britain's traditional third party a long way from its glory years in the late 1990s and early 2000s.

What happens next?

The year 2016 has taught us to be wary of predictions. It is extremely difficult to see through the noise of post-referendum politics. However, if movements over the past six months are anything to go by, it appears fairly safe to predict that volatility and change will remain firmly on the menu in 2017. A fresh set of local elections in the spring of 2017 offers a new chance to explore the direction of currents in party politics, especially as many will be held in traditionally Conservative southern areas as well as Labour areas in Wales. In addition, a parliamentary by-election in the northern Labour stronghold of Leigh, which Andy Burnham may vacate to become mayor of Manchester, will give observers a new opportunity to test the thesis that UKIP will cause Labour real problems in northern England. We will not have to wait long, therefore, for new evidence on the direction of post-referendum Britain.

UK government

By Simon Usherwood

What has happened?

The six months since the EU referendum on 23 June have been some of the most tumultuous in British political history:

- within a day, the Prime Minister had resigned and Scottish independence was put firmly back on the agenda;
- within a week, the Leader of the Opposition was facing a leadership challenge, and Nigel Farage had stepped aside from the leadership of the UK Independence Party (UKIP);
- within a month, a new Prime Minister who had been on the losing side of the referendum was elevated without an election, heading a Cabinet with a mix of Leavers and Remainers, and new Secretary of State positions.

While none of these alone is unprecedented, there has been no comparable moment in the post-War period when so much has happened almost at once.

Alongside these political developments, the referendum precipitated a major reorganisation of Whitehall. This has seen the marginalisation of the Treasury and Foreign Office, the creation of new ministries and a rebirth of Cabinet government, albeit one in which Prime Minister Theresa May plays a very central role.

And yet, seismic though these events have been, remarkably little has changed substantively since June. The UK Government has still to announce what form of post-membership relationship it will seek with the EU, or even to table formally its intention to leave. Even as the Supreme Court decides whether Parliamentary authorisation is needed to make that notification, questions remain about the role that Westminster will play thereafter - in particular, how MPs will scrutinise the negotiation as it happens, either through the new Exiting the EU Select Committee or more generally. Further legal challenges, such as one mooted about leaving the European Economic Area (EEA), remain in the category of 'known unknowns': their potential existence is acknowledged, but their ramifications are not.

Despite the appointments Theresa May made on entering Number 10, it is not clear who will be responsible for negotiating Brexit, at either the ministerial or more technical level. The new Department for Exiting the EU (DExEU) is still recruiting its mid- and junior-level personnel, and there are regular counter-briefings from different parts of government on who does what and to what end. The EU Exit and Trade Cabinet Committee contains mostly 'Leave' supporters, but May still holds a tight rein.

The combination of massive shock and apparent inertia is in part explicable in terms of the lack of planning by the British political system for a 'Leave' outcome. This in turn was partly due to an unwillingness

by the Government to provide succour to Leavers; and partly (perhaps largely) to wishful thinking about the outcome. As referendums across Europe on EU-related topics have shown time and again, it is complacency that frequently undermines the government-approved line.

What is happening?

The lack of preparation meant that the initial hiatus, triggered by David Cameron's prompt departure, was a moment to step back from the shock and consider how to proceed. May's bid for the leadership was built precisely on being a 'safe pair of hands', who would pursue Brexit in a calm and considered manner, with a Chancellor who would do the same.

But six months later, the hiatus looks less like calmness and more like transfixion in the Article 50 headlights. May has staked her credibility on getting to the Article 50 notification without undue delay, locking in the end of March 2017 as her deadline. However, the articulation of little more than a series of unrelated and mutually-conflicting aspirations cannot hide the absence of a game-plan.

This basic problem has been compounded by a series of decisions:

- May has been unwilling to let other Ministers take control of parts of the Brexit brief, while DExEU and the new Department for International Trade remain in their start-up phase.
- The traditional sources of expertise – such as the Foreign Office – have been marginalised, both intentionally (to avoid using a part of government seen by many as having 'gone native') and accidentally (as EU specialists try to get away from undoing their life's work).
- The legal challenges regarding Parliament's role have been a source of delay, not least because of the Government's insistence on appealing the initial High Court decision to the Supreme Court.

Meanwhile, and despite an ineffective Parliamentary opposition, factions on both sides of the Conservative Party threaten to hamstring May as she inches along the Brexit tightrope. The defeat of Zac Goldsmith in the Richmond Park by-election in early December, followed by Parliament's insistence on seeing a Government Brexit plan before the triggering of Article 50, highlight both the ability of collaborative opposition efforts to frustrate the Government and the fragility of May's parliamentary majority.

What happens next?

The next six months will be crucial: by 23 June 2017 we will know more clearly whether the UK is heading for a departure without an agreement with the EU27, and indeed whether it is heading for departure at all. May's only politically-acceptable reason for delaying the Article 50 notification past March would be if Parliament were caught up in passing authorising legislation. Otherwise, the internal pressure on her would become much greater. At the same time, the pressure from the EU27 to launch the Article 50 process will also rise, because - as Sara Hagemann makes clear in her contribution - they do not wish to spend any more time on the issue than necessary.

Only with the Article 50 notification will clarity emerge about the terms sought: the EU27 are refusing to enter into even informal negotiations before that point. However, the difficulty remains that neither side knows what the other wants: May does not want to ask for something she might not get, recalling her predecessor's experience; while the EU27 do not want to give up their strong position within the Article 50 framework.

The presentation of all this to each other and to publics will be central, especially in the UK. If May feels constrained by a press that appears deeply unwilling to let slide any aspect of the claimed 'Leave' mandate, she may find she has little option but to head for the harder end of the Brexit spectrum. And around all this will continue to swirl a debate about whether a second referendum is required, to decide whether to accept whatever deal is agreed.

The rest of the EU

By Sara Hagemann

What has happened?

Six months after the UK referendum on EU membership, we still have few details regarding how and when the UK will leave the EU. But one thing is clear: the remaining EU states have priorities of their own, and the UK Government will have a hard time finding a proposal that can satisfy both its partners on the continent and its domestic audiences.

Since the UK's referendum on 23 June, Prime Minister Theresa May has – as would be expected – toured many European capitals to meet EU heads of governments. British representatives have also attended several EU Council (Council of Ministers) and European Council meetings in Brussels. Obviously, Brexit has been a major issue at these meetings. However, the tone has hardened as the months have passed. The UK Government has failed to ease concerns over how it wishes to pursue Brexit – in terms of both process and content. Confronted with this situation, the message from the remaining EU members is by now remarkably cohesive: only when an Article 50 text is presented to the European Council will discussions about the terms of departure and any future arrangements begin. It is also clear that whatever deal the UK seeks to get, none of the remaining members will agree to an arrangement that looks attractive to their own eurosceptics.

Brexit has thus united the EU27 to a degree rarely seen before. It has even increased popular support for the Union in several member states. This may be short-lived, but it has come at an important time, as EU governments seek solutions to the numerous problems besetting the continent. These problems outweigh the challenges of Brexit and hence take precedence when government representatives meet.

What have we learned about other member states' policy?

In the immediate aftermath of the referendum, all the remaining member state governments openly voiced their regret - and several even their strong concerns - about the British decision. German Chancellor Angela Merkel appeared visibly shaken by the outcome. Britain has several close allies in the EU, and [research has shown how a group of countries often side with the UK](#) when negotiating legislation and seeking political agreements. These countries - including the Netherlands, the Scandinavian countries, and at times the Czech Republic, Poland and Germany - will greatly miss the UK's liberal, progressive and outspoken voice.

Yet, while several of these countries first expressed the hope that a solution would be found to keep London 'closely involved in EU affairs', attitudes are now quite different. The UK Government is seen as working opportunistically with only UK interests in mind and little consideration for wider European issues and priorities. Therefore, support for the British has declined significantly even amongst London's erstwhile friends. Even Denmark, the UK's 'little brother' which usually follows closely in its footsteps, has made clear that any concessions that do not benefit Copenhagen will simply be rejected. The UK Government can take the tone and position of this small and likeminded ally as a signal of what is ahead when actual negotiations begin during 2017.

This is not to suggest that all EU27 countries share the same concerns when it comes to Brexit. Different countries and regions in the EU will be affected differently by the UK's absence from the table, in both economic and political terms. In bilateral talks, they would therefore each be likely to concede on some of their 'red lines' if equally compensated from the British side. But Theresa May has stopped short of granting any assurances regarding her partners' major concerns - notably the status of the 3.9 million EU citizens based in the UK, or EU budget commitments going forward. Consequently, her tour of European capitals seems to have generated little support for the British cause. By now, it is also clear that negotiations will be closely coordinated among the EU27, with a strong role for the EU institutions' appointed negotiators, in particular European Commission negotiator Michel Barnier and European Council President Donald Tusk. In this way, national leaders can rely on the EU institutions to deliver tough messages on their priorities in the negotiations without having to confront the British in informal, bilateral meetings.

What happens next?

Coordinating a common EU position is also necessary as the continent prepares for political uncertainty in a number of member states. The year 2017 will see elections in France, Germany, the Netherlands and the Czech Republic. Following its referendum on constitutional reform on 4 December, Italy may also have to prepare for elections in 2017, with potentially significant consequences for Eurozone stability and the EU as a whole. And in the EU institutions, the European Parliament may have to clear its agenda to elect a new president after the departure of the incumbent Martin Schulz, who recently announced his candidacy for the German elections.

Taken together, these events may significantly alter the political landscape on the continent relatively quickly, and everything about the UK's relationship with its European partners looks uncertain as a consequence. Of course, developments may turn out favourably for the UK should politics in Europe undergo drastic changes. But as it stands, the remaining EU member countries are attempting to maintain a common stance, and the UK government is in a weak position vis-à-vis its European partners.

The law

By Catherine Barnard

When the electorate voted to leave the European Union on 24 June, the political and legal worlds collided. Lawyers were forced to address the political reality of the situation; political scientists had to become lawyers very quickly. Everyone is now an expert on Article 50 of the Treaty on European Union, the rudimentary provision which governs the process of taking the UK out of the EU. This has been the subject of hours of political and legal debate, a momentous decision of the High Court and, soon, an equally momentous decision of the Supreme Court. So, what have we learned in the last six months?

Triggering Article 50: who can do it?

The national constitutional traditions of the UK determine how and when to trigger Article 50. But what are those constitutional traditions? In a country such as the UK, with an unwritten Constitution, this is uncharted territory. The UK Government argues that it should be able to trigger Article 50 due to its executive or 'prerogative' powers. These are the powers by which it makes and unmakes international treaties. By contrast, the claimants in the case brought by Gina Miller and others argued that, because the consequence of triggering Article 50 is to take the UK out of the EU, and thus to deprive UK nationals of key rights such as the right to free movement, this is something over which Parliament should have its say, probably through an Act of Parliament. The High Court agreed with Gina Miller.

Will the Supreme Court decide any differently? The Government has made a stronger case for its appeal, with the benefit of academic commentary which has proliferated since the High Court decision. But, crucially, the Government has not changed its mind on the concession it made to the High Court that Article 50, once triggered, is irreversible. The political reason for this is clear: if the Article 50 process is reversible, Brexit will no longer mean, well, Brexit. But there is a legal reason too: if there is uncertainty over whether a decision to trigger Article 50 is reversible, this is a matter for the European Court of Justice (ECJ) to decide, on a 'reference' from the Supreme Court. The Supreme Court, as the court of last resort in the UK, is obliged to make a reference if the point is necessary to enable it to give judgment. The delay resulting from any reference, together with the potential of a serious political backlash if 'Europe' is seen to be impeding the Brexit process, make a reference unlikely.

The Supreme Court is likely to want to decide the case without reference to the ECJ, preferably by a unanimous decision of all eleven judges hearing it. An eleven-justice court is a first for the Supreme Court – necessitated by the need to avoid any perception that the members of any five-judge panel, the normal size, had been selected for their pro- or anti-EU sentiments.

Article 50 and timing

As Sara Hagemann explains in her contribution, EU politicians have made it abundantly clear that there are to be no negotiations without notification. In other words, no formal or informal soundings between the UK and EU can take place until Article 50 has been triggered. This is more problematic than first appears, due to problems with timing and sequencing.

Article 50 allows two years for the exit negotiations, unless this period is extended by unanimous agreement, which is thought unlikely. But if Article 50 is triggered by the end of March 2017, as Prime Minister Theresa May has promised, the following two years include the period of the French and German elections, when key politicians will be distracted by domestic issues, not least the time that will be needed to form a German government. The timetable must also factor in time for discussions between London and the UK's devolved administrations, as outlined in Michael Keating and Jo Hunt's contribution here, and consideration of any draft deal by the European Parliament – not to mention the risk of time being taken up with any unexpected crises. Guy Verhofstadt, Brexit lead for the European Parliament, has said that the negotiating period will be only 14-15 months; and the European Commission's negotiator, Michel Barnier, said in early December that any deal needed to be wrapped up by October 2018, to allow time for approval. And there are major issues to be discussed in this period: UK budgetary contributions and the cost of the 'divorce', pension liabilities for British officials working for the EU institutions, the relocation of EU agencies currently based in the UK, research funding, and the UK's position in respect of obligations to third countries entered into by the EU on behalf of the member states, to name but a few.

And all of this says nothing about the future relationship between the UK and the EU. Article 50 does not provide the basis for concluding any such agreement: this will have to be done on the EU side by using the powers laid down in Articles 207 and 218 of the Treaty on the Functioning of the European Union, which allow the EU to negotiate international agreements with non-member states. Any such agreement is likely to be a '[mixed agreement](#)', which means that it will require the unanimous agreement of the 27 member states, the consent of the European Parliament and the agreement of 38 national and regional parliaments, including that of Wallonia in Belgium, which initially blocked the EU's recent trade agreement with Canada (CETA). And, at the moment, the EU is insisting that it will not begin negotiations on its future relationship with the UK until the latter becomes a 'third country' – that is, only after the divorce is completed. However, Article 50 does make clear that the divorce negotiations must take 'account of the framework for [the UK's] future relationship with the Union'. This would indicate that there should be some agreement on the direction of travel for the UK, and probably some transitional arrangements.

The Great Repeal Bill

At the domestic level, the (misnamed) Great Repeal Bill will be working its way through the parliamentary process. Intended to repeal the European Communities Act (ECA) 1972 (the Act that took the UK into the then European Economic Community), the Great Repeal Bill will in fact expand the volume of legislation on the statute books, since it will provide a UK footing for all EU legislation in the name of legal certainty. But that legal certainty is undermined by the huge uncertainty generated by having to replace with British equivalents more than a hundred EU agencies which currently service, for example, the EU financial services regulation. At its smallest since the Second World War, the civil service is going to have its work cut out.

The nations and regions

By Jo Hunt and Michael Keating

Brexit poses severe challenges to the relations between the UK's constituent territories. Scotland, Northern Ireland and Wales have their own governments, elected representatives and law-making powers whose status may well change after the UK leaves the EU.

What has happened?

The vote on 23 June played out differently across the nations and regions. Scotland and Northern Ireland voted to remain by 62% and 55%, respectively. In Wales, 52.5% voted to leave. All English regions except London voted to leave.

In Scotland, nationalists have taken the result as a mandate for remaining in the EU, or at least the single market, and perhaps – if these prove impossible – a new independence referendum. The Welsh Government, which campaigned for 'Remain', is resigned to Brexit but seeks to soften it. The position in Northern Ireland is seen through the lens of the partisan divide, with the Democratic Unionist Party supporting 'Leave' and Sinn Féin supporting 'Remain'. London Mayor Sadiq Khan is seeking to increase the city's autonomy – for example on immigration policy.

The UK Government has stated that it wants a 'UK approach' to Brexit, but it is not clear what this will mean.

In the six months since June, a number of structures have been set up to feed the perspectives of the devolved nations into the UK negotiating position:

- The Secretaries of State for Scotland, Wales and Northern Ireland attend the Cabinet Committee leading on Brexit - the EU Exit and Trade Committee - on an 'as required' basis (not as permanent members).
- A new Joint Ministerial Committee (European Negotiations) of the UK and the devolved administrations has been established. The existing JMCs proceed largely by consensus but the UK Government has the last word.
- In normal EU policy-making, devolved ministers can, by invitation, attend meetings of the Council of the EU (Council of Ministers) and are on the circulation list for papers; they do not attend the European Council. There is no indication that they will attend negotiating meetings around Brexit or receive the relevant papers.

What is happening?

Work to identify key policy priorities is ongoing:

- Agriculture is important in Wales and Northern Ireland and, to a lesser degree, Scotland. Under current arrangements, agricultural support policy will be the exclusive competence of the devolved governments post-Brexit, but there is no indication of how it would be funded. International agricultural trade will remain a competence of the UK government, but this is in practice intimately linked to agricultural support.

- London has a strong interest in securing single market access for financial services, as does Scotland.
- On free movement, there is a difference in the positions of the UK Government and the Scottish and London administrations. The latter wish to preserve free movement of workers. The Welsh Government wishes to preserve it in key areas of the economy.
- The UK is a net contributor to the EU budget, but both Wales and Cornwall receive more from the EU than they put in. However, the way in which moneys returning to the UK for former EU competences - such as agriculture - will be distributed is not yet known.

The Scottish Government has argued for 'soft Brexit', within the single market, for the UK as a whole. It is also preparing proposals for a differentiated status for Scotland. And it is keeping up its sleeve its claim to be able to call another independence referendum, while conceding that this would require Westminster consent.

In Northern Ireland, all parties are committed to keeping an 'open border' with the Republic. It would be possible to retain the Common Travel Area between the UK and Ireland under a bilateral agreement. It might also be possible to avoid a physical border - customs can be managed without border controls, and obstacles to free trade in services do not depend on physical barriers. This does not mean, however, that Northern Ireland could remain in the single market if the UK did not: there would be obstacles to free trade in goods and services.

The Welsh Government's preference is for continued UK participation in the single market, at least for goods and services. While Plaid Cymru calls for an independent status for Wales in the EU, the focus of the governing Welsh Labour Party is on calling for a post-Brexit redefinition of the relationship between the component parts of the UK.

What happens next?

Broadly, the nations (and London) have a number of options:

- Acceptance. They can simply accept the referendum result.
- Opposition. They can seek to block Brexit or secure a 'soft' one.
- Secession. Scotland and Northern Ireland could leave the UK in order to stay in the EU.
- Differentiation. The devolved territories could seek a differentiated form of Brexit.
- Make the most of it. With Brexit, some competences repatriated from the EU will come back to the devolved authorities - unless Westminster should legislate otherwise. These include agriculture, fisheries, environment and much of scientific research. This has been presented by some politicians as an opportunity, although the funding arrangements for these policies would need to be negotiated, as they do not come under the existing block grant system.

The Supreme Court judgment expected in January could recognise that the devolved nations need to be involved in the triggering of Article 50. If the Westminster Parliament is required to legislate to trigger notification, the potential for the Sewel Convention to be engaged arises. This Convention provides that the Westminster Parliament will not normally legislate on devolved matters without consent from the devolved legislatures. As with all constitutional conventions, the issue of a lack of legal enforceability arises. The Scotland Act alone contains a conditionally phrased statutory form of the Sewel Convention. While it is extremely unlikely that the devolved legislatures will get any sort of veto power over Brexit, if the Sewel Convention is deemed not to apply at all it could raise questions about the value of the Convention in general, and the resilience of the current devolution settlement.

Equally, if the Convention does apply, and consent to the Article 50 stage or any later stage in the Brexit process is not forthcoming (such as the ratification of a withdrawal package, or the passing of the Great Repeal Bill), this will create its own complications. Whatever the result, the constitutional tensions between central government and, in particular, Scotland will not swiftly dissipate unless a 'soft Brexit' is the agreed course.

Foreign, security and defence policy

By Richard G Whitman

What has happened?

Foreign policy is the dog that is yet to bark post-Brexit. This is surprising, if only because the decision to leave the EU will herald a major shift in the UK's diplomacy. It is, moreover, being implemented just as a US President who has questioned central foundations of the UK's foreign policy prepares to enter the White House. Donald Trump has criticised both free trade and the notion of a transatlantic security alliance rooted in an unambiguous US military commitment to European defence through NATO. For all the post-Brexit silence on foreign affairs, the UK is embroiled in the most challenging period for its diplomacy since the Second World War.

What have we learned about UK Government policy?

Since 23 June the UK's post-Brexit foreign policy debate has not advanced much beyond the coining of the [new slogan](#) 'Global Britain'. The [Foreign Secretary's first 'vision' speech](#) on 2 December [did not provide a detailed account of what this actually means](#). As a consequence, there is as yet no sense as to how the UK's international affairs will be reorganised and recalibrated. They are currently heavily intertwined with EU policies - in foreign and security, border, asylum, cross-border policing and justice policy, and on immigration, trade, aid, the environment, energy and development. The UK faces a major task in devising new policies to replace those it currently pursues as a member of the EU.

The key issues that arise for both the UK and the EU include:

- the extent to which both sides will seek a relationship that sees the UK remaining committed to the same objectives as the EU;
- how shared objectives and policies would be coordinated;
- more broadly, what a relationship would look like, given that none of the models for the possible future UK-EU trade relationship come with a defined foreign and security policy component;
- finally, how a new foreign, security and defence policy relationship would be agreed, given that Article 50 of the Treaty on European Union offers no guidelines.

For its part, the UK will need to determine the degree to which it wishes to seek autonomy from the EU, and the extent to which it might envisage its own policies diverging from the portfolio of existing EU policies. At present, the EU provides efficiencies for the UK in

addressing a wide range of foreign policy and security issues, via a multilateral format, with 27 other European countries.

Once outside, the UK is unlikely to be happy simply to adopt EU policies which it has played no role in framing. However, shared borders and a common neighbourhood should certainly dictate the need for partnership post-Brexit. The foreign, security and defence policy component of the future EU-UK relationship should, therefore, represent a relatively straightforward negotiation.

Some voices in the UK Government will argue for a more arms-length relationship. During the referendum campaign, it was [suggested by the Leave camp that NATO was a far more significant contributor to European security than the EU](#), and that exit from the EU's foreign, security and defence policies would not be significant for the UK. This zero-sum view of the UK's security policy choices is now somewhat complicated, not only by the election of Donald Trump but also by the [recent agreement between the EU and NATO](#) to broaden and deepen their relationship.

What have we learned about other member states' policy?

The UK will not be exiting the EU for at least two years. The implication of the extended transition is that there is a need for a balancing act between exit negotiations and the simultaneous participation of the UK in EU policy-making. This is of real significance for the EU, as the UK has been active – and often strident – in shaping collective policies towards third countries and the EU's role in international affairs more generally.

The UK's vote to leave also coincides with the EU's own decision to map out an ambitious vision for its international role in the next decade. The EU's [new Global Strategy](#) (EUGS), published after the UK referendum but instigated before it, sets out a roadmap for an enhanced foreign, security and defence policy role for the EU. The work to realise its ambitions is already underway, but it is not clear how the UK will respond to these developments. The connected, contested, more complex world the EU strategy identifies maps onto the [UK's own analysis within its 2015 National Security Strategy](#). The linkage between external and internal security is a hallmark of British thinking on the new security environment. Consequently, the UK will not want to be a passenger during the Brexit transition, and will remain active and engaged in areas and activities in which it sees its national interests in play.

The development of the architecture of future EU security and defence policy does, however, present a challenge for the UK. For the remaining 27 member states, the immediate impact of Brexit has been to give impetus to ideas on reforming EU defence policy which have been in circulation for some time. A key reason why defence is an attractive area to focus on is because the UK has vetoed modest proposals for the development of the EU's Common Security and Defence Policy (CSDP). The UK has shifted from being a leader, in the late 1990s, to a laggard in recent years. London has not been willing to engage at a significant level with CSDP military operations. Further, it has been resistant to proposals to further deepen defence integration among EU member states.

Germany and France are the key players in this initiative, enthusiastically supported by the High Representative/Vice President Federica Mogherini and the [European Commission](#). After an [initial public repudiation by UK Defence Secretary Michael Fallon](#), the UK has softened its position. Thus, it has quietly agreed to increase the budget of the European Defence Agency (EDA) which it had previously resisted.

What happens next?

Foreign, security and defence policy are areas in which the UK has significant national capabilities and influence. Whether these will, can or should be leveraged to the UK's advantage in the Brexit negotiations will only become apparent once Article 50 is triggered. Either way, Brexit will impact significantly on the way Britain pursues its engagement with the outside world.

Immigration and free movement

By Jonathan Portes

What has happened?

The [Quarterly Migration Statistics released on 1 December](#) show that EU migration remained roughly flat, at historically high levels, in the year to June 2016. There is no evidence that migration slowed in the run-up to the referendum or that there was any ‘surge’ or ‘closing-down sale’ effect’ from EU nationals wishing to establish residence rights in the UK before Brexit.

There are only tentative data about post-referendum trends in migration flows:

- In June-September, the number of EU nationals in employment rose by just under 50,000, considerably less than in most recent quarters. In a reversal of recent trends, the number of non-EU-born rose by considerably more than that of EU-born. However, these data are affected by seasonal fluctuations, making it too early to say if they mark a turning point.
- In June-September, National Insurance registrations by EU nationals fell slightly.

There is some anecdotal evidence (for example, in the university and health sectors) that EU nationals may be less willing to move to, or remain in, the UK, as a consequence of what is perceived to be a less welcoming and secure climate.

Overall, information to date tends to support the view that net migration from the EU to the UK is likely to fall, perhaps quite significantly, but it is too early to be certain of the magnitude of this impact.

What have we learned about UK Government policy?

As Anand Menon suggests in his contribution, the balance of UK political opinion has swung clearly against free movement in anything like its current form. The UK Government has made a number of broad policy statements on the desired shape of a post-Brexit immigration system:

- the Prime Minister stated that “we are not leaving the EU to give up control of immigration again”, and rejected a ‘points-based system’ as proposed by Vote Leave;
- the Home Secretary reaffirmed the government’s commitment to reducing migration to the “tens of thousands”;
- the government rejected the assurances by some Vote Leave campaigners (including some now in the Cabinet) that a new system would be more liberal for skilled non-EU migrants;
- the Secretary of State for Exiting the EU said that policy would ensure that “key sectors” did not suffer from labour shortages, and the Chancellor said it would still enable labour mobility for highly skilled professionals in the financial sector;
- the Government stated that while it fully expected that those EU nationals resident in the UK would be given residence

rights, this would form part of the negotiations with the EU and would be subject to reciprocal assurances from other EU states.

Together, these statements indicate that the Government intends the new system:

- to be fully under UK Government control (that is, there will not even be a modified version of free movement if it requires the UK to sign up ex ante to a set of obligations as part of a deal);
- to be relatively restrictive, resulting in a large fall in EU migration as well as continued downward pressure on non-EU migration;
- (probably) to retain some degree of preference for EU nationals compared to non-EU nationals; and
- (possibly) to include at least some sector-specific schemes.

However, probably because policy development within government is still at an early stage, we know little about:

- whether the Government seriously intends to set policy so as to achieve the “tens of thousands” target within a given timeframe, or whether – as in the last Parliament – this will remain an aspiration;
- whether there will be hard numerical caps for EU migrants, either overall or for specific subgroups;
- how any new controls would be administered, especially the nature of the administrative burden on employers, given that control will in practice take place primarily at the workplace, not the border;
- if, as seems likely, the vast majority of EU nationals currently resident are granted permanent residence, what the qualifying conditions will be, how any such scheme will be administered and what will happen to those failing to qualify; and
- the implications for border controls, both in general and specifically at the Northern Irish border.

What have we learned about other member states’ policy?

Other member states have maintained a united front. Their position remains that free movement – as one of the ‘four freedoms’ - is fundamental to both the EU and single market, and that if the UK is not prepared to accept free movement it cannot hope to replicate anything resembling current arrangements for trade in goods and services (including financial services). Member states’ motivations for this line differ: in France and some others, ruling parties do not want to give further ammunition to populist parties by making any concessions to the UK, while for newer member states the priority is the interests of their own citizens who have moved to the UK or might wish to do so.

Free movement does not mean the automatic right to live in another member state or immediately access the benefit system, and Germany and some other member states have made clear that further changes to the detailed practical operation of free movement remain on the agenda. If the UK maintains the stance set out so far by the Prime Minister, this may be of limited Brexit relevance. If, however, the UK shifted to prioritise single market membership, there would be more room for discussion and possible compromise.

Several member states have indicated that they share London’s view that the rights of UK residents in EU states should be generally protected, and vice versa. However, they have held to the line that there can be no negotiation on this or any other issues until Article 50 is triggered.

What happens next?

Over the next few months, the UK Government will continue to develop policy options. However, progress can be only limited until Ministers agree their negotiating objective and key priorities. Both currently appear a long way off, with some – such as the Chancellor and Business Secretary – regarding as important the single market and business’s ability to recruit the workers it needs, while the Prime Minister appears to see restoring full control over immigration policy and reducing migrant numbers as taking precedence.

Intermediate positions are possible (and likely) – but there is no assurance that the EU will accept them even as a basis for negotiation, and even this seems unlikely to become known until Article 50 is triggered. A considerable period of uncertainty is therefore likely, with the UK presenting a relatively general position (with possibly some more specific and conciliatory proposals on EU nationals currently resident in the UK) and then a prolonged negotiating standoff.

The EU budget and public finances

By Iain Begg

What has happened?

A big question about Brexit is whether it will ultimately lead to stronger or weaker public finances in the UK. The Leave campaign's now notorious promise that Brexit would enable the UK to 'take control' over the £350 million a week we 'send to Brussels' means that the issue of the UK's contributions to the EU budget, both before and – perhaps – after Brexit, will remain high-profile politically, and potentially a source of considerable embarrassment to the Government. The £350 million figure [emblazoned on the red bus](#) was always at the very least 'misleading', in the phrase of the [UK Statistics Authority](#), because even under the most favourable assumptions the true figure was around half that amount. It is notable that none of the senior members of the Leave campaign now serving in government has been prepared to repeat the £350 million figure, or suggest that anything like such sums are available for redeploying on domestic priorities.

More broadly, the impact on the public finances of reductions in the UK's EU budget contribution needs to be considered alongside the other effects of Brexit on tax revenue and the level of public expenditure. The data presented in the Chancellor's Autumn Statement in November included projections not only of a reduced growth rate for 2017 onwards but also of lower tax revenues, leading to a further increase in public debt. In subsequent [evidence to the Treasury Committee](#), Robert Chote, the head of the Office for Budget Responsibility (OBR), put the cost of Brexit to the public finances at £12 billion per annum over the rest of this Parliament. If the OBR's forecasts are accurate - and at this point they are just forecasts - the costs of Brexit to the Treasury will significantly exceed the true saving available from no longer paying the EU 'membership fee'. Any 'Brexit bonus' for the UK public finances, allowing more to be spent on the NHS, will at best be delayed, will certainly be much smaller than claimed, and may well be negative.

What happens next?

In the short term, the UK has obligations under the seven-year EU budget deal covering 2014-20. It is open to question whether the UK would remain liable for the full period, irrespective of when it actually leaves. Commitments entered into before the spring 2019 deadline for concluding the Article 50 negotiations will probably still have to be honoured, unless a large one-off 'divorce' settlement is part of the

Brexit deal. Figures emerging from the European Commission negotiating team suggest the bill could be as high as €60 billion (around £50 billion). Ironically, some UK beneficiaries from EU programmes will contribute to this problem: a professor at a British university securing one of the prestigious European Research Council grants in 2017, lasting the usual five years, could expect funding until 2022.

This could mean cash flow from the UK to the EU not only for the duration of the 2014-20 period, but - because beneficiaries can still claim for EU regional development projects three years after the end of the budget planning period - well into the 2020s, and thus a new UK Parliament. Indeed, the German Finance Minister has hinted that such payments could last until 2030, although beyond 2023 any lingering payments would be small, so his warning is exaggerated. These are transitional problems which will gradually fade, although the UK could remain liable indefinitely for a proportion of the pensions of former employees of EU institutions.

All these issues will be part of the Article 50 negotiations. While the implications are relatively insignificant in macroeconomic terms – the question of who pays for a few billion of pension liabilities is trivial compared to broader issues relating to the single market, trade, the City and migration – there is obvious potential for these issues to become high-profile politically, further complicating an already difficult negotiation. Moreover, in 2018 the rest of the EU will start negotiations on its next seven year budget deal, a process that invariably becomes very fractious.

UK policy post-Brexit

It was notable that in the [Prime Minister's speech to the Conservative Party conference](#) she set out two 'red lines' - that the UK should control its own immigration policy and no longer be subject to the jurisdiction of the European Court of Justice – but did not suggest that ceasing to contribute to the EU budget was a third.

A number of Ministers have suggested that the UK could continue to participate in certain EU programmes, such as for research, or the Erasmus scheme for study and training abroad. If so, continuing payments to the EU will be unavoidable, although perhaps acceptable politically if it was clear that the UK was getting very specific things in return (that is, that there was no significant net contribution).

More contentious would be arrangements similar to those for Norway and Switzerland, which would mean a net flow of cash to 'Brussels' indefinitely. The possibility that the UK could, in effect, 'pay for access' to the single market was conceded by David Davis, one of the three 'Brexiteer' Ministers, early in December, eliciting howls of dismay from advocates of a 'harder' Brexit. Subsequently, [Chancellor Philip Hammond endorsed this position](#) even more explicitly, saying that he thought David Davis was "absolutely right not to rule out the possibility that we might want to contribute in some way to some form of mechanism".

While it may have been good politics for the 'Leave' campaign to promise the £350 million a week, therefore, the expectations this raised were wholly unrealistic, in both the short and long term. This issue is thus likely to dog the government further, throughout the period of the Article 50 negotiations and very possibly beyond. As so often, haggling over who pays for what could be a particularly toxic issue.

The economy

By Iain Begg and Jonathan Portes

The British economy in the aftermath of the 'Leave' vote has proved to be far more resilient than widely predicted. Perhaps paradoxically, this is despite a lack of clarity about the economic framework in which the UK will find itself after Brexit. However, even after Article 50 is invoked, the likely economic contours and consequences of Brexit will remain ill-defined.

What has happened?

Before the referendum, most forecasters predicted that a pro-Brexit vote would lead to a sharp fall in the exchange rate, some turbulence in financial markets, and, over the subsequent few months, a significant slowdown in growth (with the Treasury predicting a very mild recession). Some analysts (although not mainstream forecasters) suggested that there was some risk of a broader financial crisis. However, in the event:

- According to [the latest data from the Office for National Statistics \(ONS\)](#), in the first quarter after the referendum the economy grew by 0.5%, exactly the rate previously forecast by the Office for Budget Responsibility (OBR) when then-Chancellor George Osborne presented his budget in March 2016.
- Buoyant employment data tell a similar story. The detailed data reveal that the service sector – accounting for nearly 80% of the economy – has been the engine of growth, whereas manufacturing and construction contracted. Retail sales, in particular, appear to have held up well. There are no signs yet of the predicted fall in investment (although these data are notoriously unreliable).
- The pound has indeed fallen sharply, first in the immediate aftermath of the referendum, and then again after the Conservative Party conference. Although it has recovered somewhat recently, particularly against the euro, it is still down more than 10% on a trade weighted basis.
- The Bank of England cut interest rates in August and announced further quantitative easing. This appears to have supported market and business confidence. Financial markets showed no signs of severe stress either immediately after the referendum or since.

What have we learned?

Does the relatively good performance of the economy since June debunk the [projections released by the Treasury in late May](#), suggesting that the immediate effects of a vote to leave would be a small decline in GDP in each of the next four quarters - that is, from July 2016 to June 2017, constituting a shallow recession? A key assumption was that Article 50 would be triggered immediately, whereas we now know that it will happen no later than the end of March 2017. Plainly the economy has not suffered anything like the shock that was foreseen from a pro-Brexit vote, but it has relied mainly on buoyant consumer spending, supported by higher debt. This may be hard to sustain if higher inflation, now trending higher, induced by the lower pound, results in lower real incomes.

It would, however, be disingenuous to argue that because Brexit proper is in abeyance, we have yet to see its short-term effects. The Treasury had identified financial instability and uncertainty about the process as likely reasons for the economy to slow down, as well as hesitation on the part of investors until the terms of Brexit became clear. No-one can doubt that the first two effects occurred, but there is no indication that either businesses or consumers have yet responded to that increase in uncertainty by cutting back.

However, the poor record posted by short-term forecasts of the impact of the leave vote tell us almost nothing about predictions of the longer-term impacts of Brexit itself. As noted above, the former were based on assumptions about the economic impacts of uncertainty; the latter are based on a longstanding and well-established body of empirical research on the impact of the EU, single market and European Economic Area (EEA) on trade and investment, and the impact in turn of trade and investment on productivity and growth.

What happens next?

The small cut in interest rates in August and the limited boost to spending recently announced by the Treasury are unlikely, on their own, to have induced higher consumer spending, but they arguably boosted economic prospects by underpinning business and consumer confidence. However, most forecasters (including the OBR, as noted above) predict that in the short term the main impact of the pro-Brexit vote will be via the exchange rate: the fall in sterling will boost exports (and reduce imports), supporting growth, but it will also lead to a significant rise in inflation, which will reduce real wages and depress real consumer spending. Growth will slow, although the probability of a recession in the short term remains low. Unemployment may rise, although not rapidly. It would thus be bold to claim that the economy has already shrugged off the referendum. It may have - but the alternative image that comes to mind is of Wile E Coyote, legs spinning furiously as he speeds off the cliff, before realising that there is nothing but air beneath him. Once again, this is the central view; there are, as always, risks to both the upside and downside.

In recent weeks, sterling has been supported in part by a perception that the Article 50 notification may be delayed - by the Supreme Court case, as well as by suggestions that the Government is trying to avoid a 'hard' or 'chaotic' Brexit. It has also been helped by renewed worries in the Eurozone associated with the political problems in Italy. A reversal of these perceptions might lead to a renewed fall in the pound.

Overall, it looks increasingly likely that the impact of Brexit will be felt over the medium to long term, rather than as a sudden shock. Despite speculation about the shape of a Brexit deal, as Armstrong suggests in this collection, there is as yet no visible progress on the key economic issues. Business, on the whole, has emphasised the importance of retaining full access to the single market – and the secretive undertakings given to Nissan to convince it to invest more in Sunderland seemed to suggest that the Government would not countenance trade restrictions that penalise the automobile sector. It is also hard to see a British government not standing up for the City of London. However, several Ministers seem to favour a wider-ranging resetting of the UK's economic links with the continent. The latter could mean a progressive shift towards trade and investment links with other parts of the world. But, although some informal talks about new trade deals have taken place with the likes of Australia and India, non-EU countries remain wary about going much further until the Brexit process is more advanced. There are, as yet, few clues about which side in the Government's internal debates will prevail.

The UK-EU trade relationship

By Angus Armstrong

Those who campaigned for Brexit have fundamentally different views on what Britain's future economic relationship with the EU should be:

- Some wish to preserve many, if not all, of the benefits of single market membership, accepting most of the limitations on national policy that this implies.
- Others see the EU as stifling the UK and wish to break free and allow the country to make its own regulations and trade deals.

However, this is - as the Prime Minister says - not a binary choice; there are a variety of intermediate options.

What have we learned about UK Government policy?

The [Prime Minister's Conservative Party conference speech](#) set out two important 'red lines':

"We are not leaving the EU only to give up control of immigration all over again. And we are not leaving only to return to the jurisdiction of the European Court of Justice".

On the face of it, this implies that the UK will not remain a member of the single market – certainly not via the 'Norway model' of European Economic Area (EEA) membership, which implies acceptance of free movement. The Prime Minister's words do not entirely foreclose a version of the Swiss model of European Free Trade Association (EFTA) membership and single market access agreements with the EU. A key question is obviously: *"How much immigration control?"*. Both the Norway and the Swiss models are under the jurisdiction of the EFTA Court, not the European Court of Justice (ECJ). The two courts are next-door neighbours, and implement substantively the same single market rule book, but they are not the same – hence the door being slightly ajar.

The Government has also made a number of statements that indicate that it would like to conclude a deal or set of deals that continue some form of preferential trade relationship between the UK and the remaining EU.

As Iain Begg discussed in his contribution, Ministers have conspicuously and deliberately failed to rule out the possibility that the UK will continue to make a contribution to the EU budget.

And the Government has not as yet committed to leaving the customs union, although it is hard to see how this is consistent with 'taking back control', if the UK cannot make its own trade deals with the rest of the world. Even Norway and Switzerland are not in the customs union.

The implication is that the UK will seek neither a 'hard' Brexit (where the UK-EU trading relationship is conducted largely under World Trade Organisation [WTO] rules) nor a 'soft' one, where the UK accepts the so-called indivisible 'four fundamental freedoms'. Instead, the UK wants something in between - a 'British Brexit' or, as the Prime Minister puts

it, a "red, white and blue" Brexit. What does this mean?

It appears that the Government's preferred arrangement, although not necessarily its opening position when it finally makes the Article 50 notification, might be something like:

- The UK will no longer be a member of the single market and (probably) not the customs union.
- Goods will be covered by a Free Trade Agreement or a low tariff schedule. The UK requires as broad an agreement on services as possible, perhaps with a series of sectoral arrangements, such as one for financial services – an extension of the so-called Swiss model.
- The UK will also seek to continue to participate in a number of EU programmes for which EU membership is not required, like Horizon 2020 (for research) or Erasmus (for study and training in the EU).
- An extensive agreement covering services requires shared judicial procedures. The Prime Minister seems to have ruled out the ECJ, but not the EFTA Court (although in large part they both apply the same single market rule book). Outside the EFTA Court, the UK would need an 'investor-state dispute settlement' (ISDS) – much despised around the world.
- To make such arrangements acceptable to the remaining EU, the UK would sweeten this with some continuing payments to the EU budget, and preferential access for EU workers to the UK labour market, even after the ending of free movement.

This skeleton leaves a number of important questions unanswered. For example:

- Is it possible, either legally or physically, to be half in and half out of a customs union? Both WTO rules and the practical realities of the way in which customs checks work at borders suggest that a customs union needs to cover the 'substantial majority' of all trade.
- Would sectoral deals - particularly for financial services - really mean anything other than the UK agreeing to follow EU rules and regulations (but with no say in their formulation) in return for market access? Are they available given the EU's position against cherry picking?
- Perhaps most importantly, is it possible for anything other than the broad outlines of such a deal to be agreed within the 18 months or so which are, in practice, available for the Article 50 negotiations? Are they available given the EU's position against cherry picking? And if not, will the UK seek some form of extension or transitional arrangements? And can it get these?

What have we learned about other member states' policy?

Other member states have maintained a united front. As Sara Hagemann shows in her contribution, their common position (whether justified or not) remains that free movement - as one of the 'four freedoms' - is fundamental to both the EU and single market, and that if the UK is not prepared to accept free movement it cannot hope to replicate anything resembling current arrangements for trade in goods and services (including financial services).

However, while this stance rules out 'associate' single market membership for the UK post-Brexit, it does not entirely preclude the sort of complex mixed approach described above. So far, there is little or no evidence that other EU member states have moved beyond their reflexive (and understandable) rejection of the UK's desire to 'have its cake and eat it' to consider what their attitude might be to a more sophisticated and less obviously unreasonable proposition.

What happens next?

The internal dynamics of UK politics suggest that progress towards a coherent position may be limited. As set out above, there is a fundamental difference of approach between different Ministers: some regard as important priorities retaining the maximum possible degree of economic integration with the EU, in terms of trade, regulation and migration, while for others, who campaigned for 'Leave', restoring full control over UK rules and immigration policy takes precedence.

Despite the fixation of the UK press on the triggering of Article 50, the key moment in the next six months will not be this but the EU response to it. The likely scenario is one of familiar EU negotiating territory: long interludes of tedium and small print, interspersed with episodes of late-night brinkmanship, leading eventually to a compromise that satisfies no-one but with which everyone can live. However, if the continental consensus is that the UK is still living on Fantasy Island, we could be heading for a showdown sooner than anyone expects.





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