

BLOG POST

WHAT IMPACT WOULD A NO DEAL BREXIT HAVE ON EUROPEAN PARLIAMENT ELECTIONS?

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AND FINANCE

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Until now, Brexit has not significantly affected the upcoming European Parliament elections, which will be held from 23-26 May 2019. Since the June 2016 Brexit referendum, presidential and legislative elections in various Member States have not revealed similar wishes to leave the Union by other electorates. Indeed, Brexit itself has attracted relatively little public attention on the continent.

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THE IMPACT A NO DEAL SCENARIO COULD HAVE ON EUROPEAN PARLIAMENT ELECTIONS, AN ISSUE THAT SHOULD MOST CERTAINLY BE CONSIDERED

Meanwhile, the United Kingdom (UK) is still dithering about the future relationship it wants with the European Union (EU) and how it can prevent the return of physical checks at the border with Ireland. At this point, the possibility of the UK leaving without an agreement, the so-called *No Deal* scenario, is no longer off the table. The last hope for the UK to resolve its internal contradictions are eleventh hour concessions by the EU that would allow the country to avoid a worst-case outcome. But for the EU there is no point to engage in negotiations without credibility. So if the EU-27 Member States remain firm on their support for the fundamental principles of the Union, even at the risk of a *No Deal* scenario, how will European citizens react?

There are many estimates of the economic impact a *No Deal* scenario would have in the short and medium term. They indicate a much greater cost compared to alternatives that would keep the UK more closely aligned with the EU. On the other hand, there has been little analysis of what impact a *No Deal* scenario could have on European Parliament elections, which will take place less than seven weeks after the scheduled Brexit on 29 March 2019. This is an issue that should most certainly be considered.

The 2019 vote will likely be unprecedented and reflect the ongoing changes of the political landscape in most EU Member States, where the once dominant position of traditional political parties has steadily eroded. We can thus expect increased support for extreme political positions that are hostile to European integration, though this support could still be limited and attenuated by persistent divisions between the different political currents.^[1]

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WOULD A NO DEAL SCENARIO CATALYSE CRITICISM OF THE EUROPEAN UNION AND LEAD TO A PROTEST VOTE, OR WOULD IT HAVE A SCARECROW EFFECT AND BOLSTER POPULAR SUPPORT FOR THE EU?

In this context, would a *No Deal* scenario catalyse criticism of the European Union and lead to a protest vote, or would it have a scarecrow effect and bolster popular support for the EU? Could it reinforce existing cleavages? Several variables may influence the views of European citizens and their vote, in particular the causes of the *No Deal* scenario, the attitudes shown by British citizens, and the willingness of the EU to cushion its impact.

1. The reality of a *No Deal* How bad is it, doctor?

The popular image that likens the *No Deal* scenario to jumping of a cliff illustrates that without a bilateral agreement, the UK would not only be reduced to third-country status on 29 March (or relegated to the third division, to put it in football terms), but also that the exit agreement currently under negotiation would not see the light of day, including protections for the status of British citizens living in the EU.

Contingency plans, bilateral agreements or unilateral concessions could all mitigate the consequences of Brexit. Without them, the *No Deal* scenario should in theory have a major impact. There are some 759 agreements associated with EU membership that govern the daily lives of British citizens that would no longer be valid for the United Kingdom.^[2] The most striking illustration is that civilian aircraft from the UK could be grounded the day after Brexit. They would be unable to fly not only to the EU, but also to other destinations around the world, since third-country authorisation comes under bilateral agreements signed by the EU. These would have to be renegotiated for them to continue being applicable to the UK.

The UK would have to comply with WTO rules to access the Single Market on which it is highly dependent (44% of its exports of goods and services and 53% for its imports are with the EU). It would face quotas for some agricultural goods and customs tariffs that range from 2% for minerals and metals to 11.5% for clothing, 11.6% for fish products and even 35.9% for dairy products. Without regulatory alignment, exporters would also have to deal with all the complications of restored borders, such as certification and controls, which could result in additional delays and congestion at the border. Mobilising the technological and human resources to ensure border controls is in itself a challenge. The combination of these logistical problems, ancillary administrative burdens and additional costs would permanently hinder bilateral trade with the 27 Member States of the EU.

Such a *hard Brexit* would also have consequences for the UK's trade with the rest of the world. When the UK leaves the EU, it will no longer be covered by the 40-some-odd free trade agreements signed by the EU. In other words, their trade policy would restart from a blank slate. Restricted access to the Single Market would reduce the attractiveness of the UK to third countries and the level of foreign direct investment could fall even more sharply.

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THE SHOCK WOULD BE MUCH GREATER FOR THE UK THAN FOR THE EU-27.

The cost of such a scenario would vary across economic sectors. The shock would be much greater for the UK than for the EU-27, since the UK is more dependent on access to the Single Market than the EU-27 are on market access to the UK. In 19 Member States, trade exposed to Brexit is less than 2% of GDP, and in 12 of them it is even less than 1%.^[3] Over ten years, the UK's GDP could fall by 4.9% compared to only 0.7% for the EU.^[4] The UK government's own estimates imply a loss of 8% of GDP for the country over a 15-year period.

While the magnitude of macroeconomic effects from a *No Deal* scenario are quite clear, the list of other problems that arise continues to grow. The re-establishment of a border between Northern Ireland and the Republic of Ireland could restart the bloody conflict that ended with the 1998 Good Friday Agreement. Daily life in the UK would be affected, as the supply of medicines and food products depends largely on imports. Even the interoperability of Netflix, Spotify and other subscription services incorporated in the EU would end.^[5]

Everyone would blame each other should the *No Deal* scenario come to pass. The UK's contradictions, European intransigence, internal divisions of the Conservative Party, Theresa May's weaknesses, and other factors would be invoked in turn. But the effects of this scenario would vary greatly depending on how it is implemented and what form it would take.

2. Potential *No Deal* scenarios: catharsis, accident or stoicism

No Deal is no strategy. Such an outcome can only be the result of a political crisis. But its impact on the European Parliament election campaign would vary depending on the cause of the crisis. It could result from the failure of the UK and the EU to reach an agreement in November or December, or even by early January. In this case, both sides would be compelled to begin implementing their emergency plans. Notwithstanding the collective responsibility for this outcome, the UK would denounce Brussels' intransigence and lay the blame on the EU.

However, this scenario is less realistic than the possibility that the two sides do reach an agreement, but the agreement doesn't get ratified by the UK Parliament. In this case, the UK would still be pushed towards a *No Deal* Brexit, although European citizens would see the outcome more clearly as a responsibility of the UK.

In addition, how the UK approaches a *No Deal* scenario would be another important variable. The extent of the chaos would vary depending on whether one is dealing with a cathartic, accidental or stoic *No Deal* Brexit.

- **Catharsis:** Brexit fatigue is felt throughout the United Kingdom, as it has been front page news for more than two years and created divisions between and within parties, and between regions, generations and families. This could increase the temptation to reach a cathartic outcome, such as a veto by Parliament. If the issue is about cutting the Gordian knot that binds the UK to the EU, it may be best if it were tragic, so the country could let off steam and cool down
- **Accident:** The UK government's commitment to prepare an **orderly *No Deal*** outcome that limits potential disruptions may be insufficient. Denial or inadequate preparation could leave many individuals and businesses, especially SMEs, brutally exposed to *No Deal*. This outcome would be accidental not because of its cause but because of the management of the process.
- **Stoicism:** Finally, a *No Deal* scenario could also be stoically confronted by the British people, drawing on their Churchillian past and once again demonstrating the capacity for resilience in the face of adversity. Theresa May's speech at the Conservative Party Conference could have helped to raise the patriotic spirit of a people that considers itself self-reliant first and foremost.

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Finally, although the *No Deal* scenario would have a collateral impact on European companies that are trading with the UK, the vast majority of European citizens would not be noticeably affected. The damage would ultimately be asymmetrical and much more painful and complex to manage for the UK. It then remains to be seen to what extent Europeans would have a political interest in mitigating the psychological impact of this chaos on European citizens.

3. Mitigating the *No Deal* scenario: up to what point?

The UK government will do everything in its power to limit the negative impact of a *No Deal* scenario. Theresa May has already pledged to protect the rights of European citizens resident in the UK, pending a reciprocal commitment from Brussels for British nationals resident in the EU-27. The number of issues on which it would seem reasonable to make exceptions and concessions is significant. But what would be the position of the EU?

For more than a year now, the European chief negotiator, Michel Barnier, has been calling on companies to prepare for the possibility of a *No Deal* outcome. The European Commission has published dozens of sector-specific Brexit preparedness notices, which offer instructions for the most likely disruptions. Recommendations have also been addressed to the governments of Member States to take steps at the national level, particularly in border countries facing major logistical challenges. The European Commission is furthermore considering an accelerated decision-making procedure that would allow essential regulations to be passed in a few days in cases of emergency. The focus would primarily be on the Irish question, transportation, customs and financial services.

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WHY SHOULD WE DIS-
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All these measures would be coherent with a principle of political responsibility, which seeks to defend European economic interests against the unilateral decision of the UK to leave the EU. There could be an additional challenge should a well-managed *No Deal* scenario take place that would require the protection of European interests, including through unilateral concessions, that would in turn make a *No Deal* Brexit less painful for the UK. The impact of a *No Deal* Brexit on the UK would depend to a large extent on these concessions (starting with a flight permit for British aircraft)

regardless of the emergency measures adopted by the British themselves. But up to what point should the EU-27 ease the consequences of a *No Deal* Brexit for the UK? Without an imminent deadline, i.e. the European Parliament elections, this question would likely be less relevant.

Would the UK's decision to leave the EU be trivialised if the worst-case scenario of Brexit turned out to be less tragic than expected? Why should we discourage Europeans from feeling a little *schadenfreude*? Far from being incidental, this question is a matter of political accountability, especially should the results of the European elections express a rejection of Brexit or similar temptations. At present, there are no parties in the other Member States that are comparable to Nigel Farage's UKIP, which has been committed to the independence of the United Kingdom for years. Can we therefore safely ignore the effects that a *No Deal* scenario may have on the European elections by catalysing criticism of the EU?

4. What will be the impact on the European Parliament elections ?

- **Dramatic media coverage:** As the kick-off date for European Parliament campaigns coincides with a theatrical Brexit, the *No Deal* scenario would be a godsend for the media. Its numerous disruptions would provide a limitless source of dramatic images. As with the media attention on the Y2K bug in 2000, there would be countless stories in the build-up to the event, for example, how citizens prepare, especially in regions close to the United Kingdom. After Brexit, there would also be its visible effects, with numerous reports ranging from port congestion to the closure of production lines due to the lack of spare parts or intermediate product supply. This media coverage could certainly amplify the fears and impact of a *No Deal*
- **Distraction and collusion:** The day after the Brexit referendum, the EU-27 set out to separate the EU's agenda for the future from that of Brexit. But for the European Parliament

election campaign, which is usually already captive to national political issues, the daily coverage of a *No Deal* Brexit would be an additional distraction. It would divert the attention of voters from a substantive debate on alternative choices about the future of the EU. Instead, it would once more provide a platform for Brexiteers to interfere in European debates, albeit with criticisms that are closely linked to the idiosyncracies of British insularity and the United Kingdom's complex relationship with the continent.

- **Polarisation of opinions:** The more cathartic or accidental a *No Deal* Brexit would be, the more chaotic would be its outcome. Such confusion would contribute to the polarisation of opinions, in particular in Member States that have held strong positions on the issue in the past, such as France, Germany, Ireland, the Netherlands, and Italy. Some would point to the repellent effects of Brexit. A *No Deal* scenario would bring even more attention to the uncertainty that British citizens and the UK economy face. This is even more uncomfortable in light of the growing confrontation between the United States and China, which threatens a lasting trade war between two major powers. Without the protection of the EU, the United Kingdom would be exposed and more vulnerable to pressure from Donald Trump or Xi Jinping.

Others may agree with Matteo Salvini, who accuses Brussels of punishing the British people. This could create a toxic cleavage in the election campaign, because it contrasts the democratic expression of peoples with the rules of the European Union, that is, it juxtaposes politics and law. The Brexit campaign's slogan to "take back control" would thereby find its way into the campaigns for the European Parliament elections. Beyond the aim of politics regaining control over markets, this would challenge the European legal framework itself and would represent a tremendous denial of the stability and security that this legal system provides to our societies. Salvini denounces European rules in the same way that Trump gradually frees himself from the multilateral rules that constrain his policies. These Gullivers consider the nation state as the meaningful level to regain power.

- **Brexitisation of the May 2019 vote.** Despite anxious warnings from Remainers, nobody in June 2016 had fully appreciated the challenges and complexity of leaving the EU. Moreover, Brexiters focused their arguments on leaving the EU much more than they invested in developing a successful strategy for the UK in a globalised world economy. In fact, "Global Britain" only became a slogan after the Brexit referendum, when third countries began to worry about the decreasing attractiveness of the UK outside of the Single Market. *Brexitisation* is therefore not only the temptation of leaving the EU, but a longing for the "great leap into the unknown", which in May 2019 could also result in radical choices at the polls, in search of an alternative to the status quo. The chaos of a *No Deal* Brexit could therefore play the role of a scarecrow against this seduction. On the other hand, an orderly Brexit, with an exit agreement and a transition period that maintains the status quo after 29 March 2019, would be unlikely to have the same scarecrow effect on European voters in May 2019. If the UK would have to temporarily implement EU policies, without being represented in the institutions, European citizens would not notice any immediate impact, especially as many already believe that Brexit has taken place. It is not obvious that the British political crisis itself would be repulsive enough to overcome a trivialisation of Brexit, and dissuade such a *brexitisation* of the May 2019 vote.

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A RISK OF A EUROPEAN
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The efforts on both sides of the Channel to avoid a *No Deal* Brexit may not be enough, given Her Majesty's Government's difficulties in reconciling conflicting interests on the Irish border issue. If the UK Parliament were to oppose an exit/transition agreement between Brussels and London, there would be little time left to move on to contingency plans. It is difficult at this stage to assess the intensity of the disorder from a *No Deal* Brexit, which would depend as much on the British response, either cathartic, accidental or stoic, as it would depend on the concessions made by the Europeans to mitigate negative consequences. In either

case, it is likely to change the dynamic of the European Parliament elections that will take place shortly after.

Current thorough analyses of European Parliament elections relativise the degree of the challenge that extremist and nationalist movements pose. But we must also actively consider the potential effects of a *No Deal* Brexit, which could encourage a greater polarisation of opinions and further inflame anti-European discourse.

If we are to avoid a *No Deal* Brexit from becoming fodder for populist speeches that denounce the constraints of European rules, a compelling narrative must warn voters against the dangers of *brexitisation*, the great leap into the unknown.

In addition, a greater fragmentation of the European Parliament would require the complex work of building coalitions. It would be difficult to create a coherent block that could agree on the major projects of Europe's future. Without raising the awareness of voters before May 2019 and limiting this fragmentation, we risk hurtling toward a European *No Deal* and threatening the future of the Union.

[1] "European Parliament 2019: the Parliament and Europe to Come", Pascal Lamy, Christine Verger et al, Jacques Delors Institute, 6 November 2018: "only major countries send sizeable quotas of MEPs, and the departure of British MEPs will shrink the size of the nationalist camp. Right-of-traditional-right groups already represent 20% of the current Parliament, and will likely remain divided. A significant reconfiguration of the radical left is not expected, though it could win a few more seats."

[2] These agreements include 295 bilateral trade treaties, 202 regulatory cooperation agreements (ranging from competition policy to data sharing), 69 agreements on fisheries, 65 agreements on transport (mainly aviation), 49 agreements on customs controls, 45 agreements on nuclear energy, and 34 agreements on agriculture. Paul McClean, "After Brexit: the UK will need to renegotiate at least 759 treaties", Financial Times, 30 May 2017

[3] The UK in a Changing Europe, "Cost of No Deal : Revisited", 3 September 2018, p. 18

[4] Charles P. Ries et al., "After Brexit: Alternate forms of Brexit and their implications for the United Kingdom, the European Union and the United States", RAND Corporation, December 2017

[5] 30% of food products consumed in the UK are imported.