

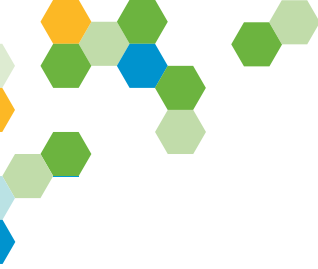


SPECIAL REPORT

The European Union and United Kingdom: A complex disconnect

Madrid, July 2016

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1. INTRODUCTION
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Paul Simon and Art Garfunkel's legendary song, "Bridge over troubled water" could have been about the result of the referendum held June 23 if the United Kingdom had decided to remain a member of the European Union. After all, even with its ad hoc treatment, the British would have stayed connected with an integrated Europe currently causing troubled waters through a multifaceted crisis.

In deciding to withdraw from the European Union after 43 years, it is evident that the waters are troubled for the United Kingdom, Europe and also for the West and for the moment, the reality is that any possible bridge must not only be built, but also designed.

It is true that this second referendum was the one in which the British public expressed its views on staying in the European Union. The last time this was done was in 1975, driven by then-Labour Prime Minister Harold Wilson. But the result, motivation, leaders of the two main British parties (Thatcher versus Cameron/ Wilson versus Corbyn) and European and international context cannot be likened to the current situation.

It is also true that since it joined in 1973, the United Kingdom has been a kind of fractious member that has always wanted to point to where it was willing to giving up sovereignty in favor of further developing Europe. In this sense, we cannot forget its traditional free-market vision of the economy, facing an integration of countries based on single-market ideals, sustained by an economic and financial union with the ultimate goal of political union.

Initially, the United Kingdom propelled the European Free Trade Association, also known as the EFTA. However, seeing that a few years after the creation of the European Economic Community through the Treaty of Rome in 1957, its six founding countries experienced an economic boost greater than that of the U.S. while the U.K. economy continued to slow, it decided to apply to join it in 1961. It had a conservative government at the time, at whose head was Harold MacMillan, applying again in 1967 with Prime Minister Labour Harold Wilson.

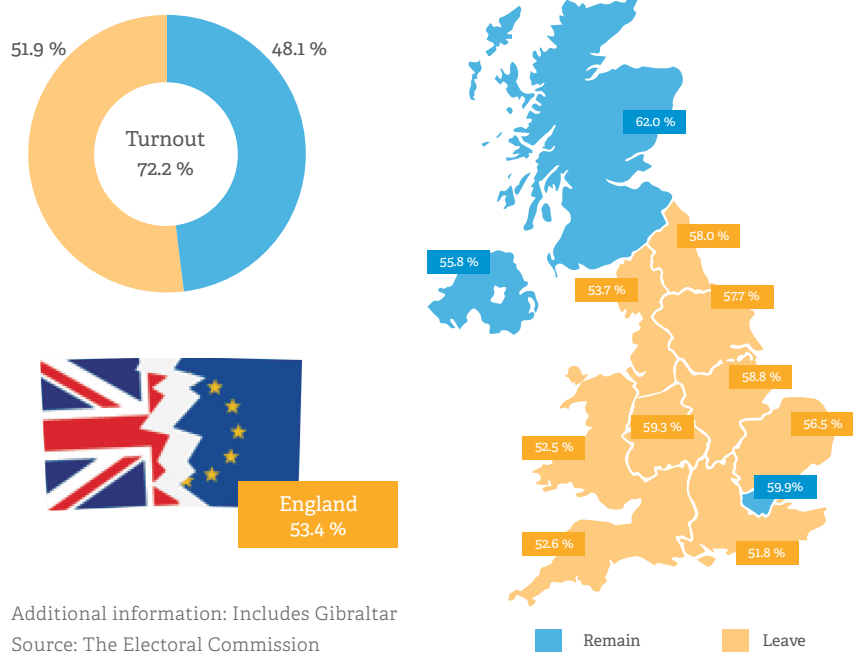
De Gaulle, the then president of France, vetoed the United Kingdom's application twice, viewing the United Kingdom as an appendage of North America and as lacking a clear European vocation. When asked why he did not see the United Kingdom within the process of European integration, he responded that "the British Isles are each an island, and the British are already an

“ It was only after De Gaulle ´s exit from the presidency that the United Kingdom was able to negotiate its inclusion, realized in Jan. 1, 1973”

island in themselves.” De Gaulle opposed the continental vision of Europe’s join with the British Atlantic so much so that it was only after his exit from the presidency in 1969 that the United Kingdom was able to negotiate its inclusion, realized Jan. 1, 1973, thanks to Georges Pompidou, General de Gaulle’s successor as head of the Republic of France, and Edward Heat, the conservative Prime Minister of the United Kingdom at the time.

From the first day of its inclusion, the United Kingdom tried to maintain its peculiar vision of working together in the European Union. With this referendum, which brings both qualitative and quantitative internal consequences for the United Kingdom, it is still difficult to predict the medium and long-term effects, although they will be very visible in the immediate future. A process of diversification and division could still occur, one that would make the EU less united. In not acting with the European Union, the U.K. will have the consequent speed and clarity of ideas to convert this risk into an opportunity for great internal cohesion, but this could still seriously affect the future of the European integration project.

Figure 1. UK chooses Brexit (EU referendum results by region)



“We are placed in a situation without precedent in the EU, one that has never been experimented with or tested”

THE PROCESS OF SEPARATION AND ARTICLE 50 OF THE TEU

The referendum voting ballot about the United Kingdom's membership in the European Union posed one simple question: Should United Kingdom remain as a member of the European Union, or leave it? Below are two boxes, the first marking the response to stay and the second to leave.

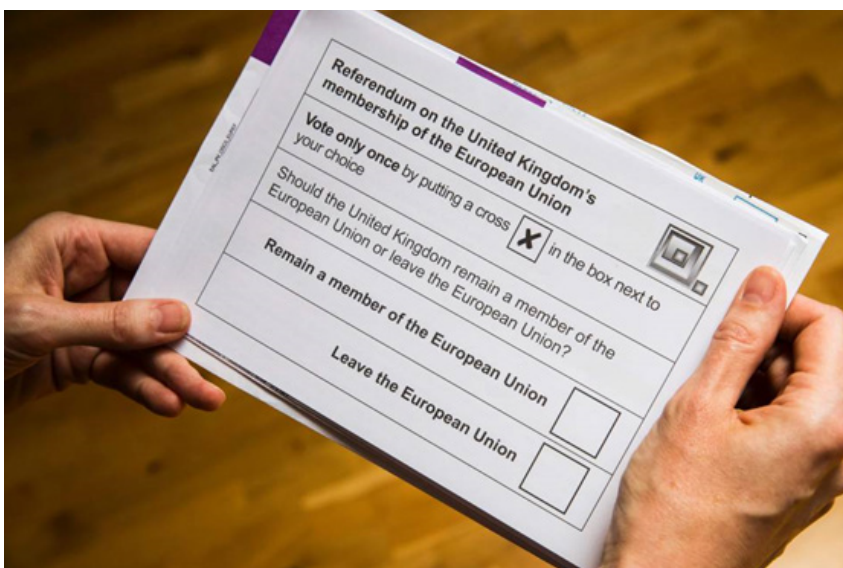
Once the United Kingdom, through a direct vote, clearly came out in favor of withdrawing from the European Union, its government had to act accordingly and immediately, just as David Cameron did in the House of Commons just before the conclusion of the referendum.

Article 50 of the Maastricht Treaty (TEU) incorporated the Union Treaties through the Lisbon Treaty, which took effect Dec. 1, 2009. For the first time, it granted the explicit right for member states to leave the European Union. The same article established the procedure for carrying out the withdrawal.

Like the characteristic fog that makes navigation difficult in certain parts of the English Channel, uncertainty surrounds the situation that has emerged following the June 23 referendum. Until this moment, no Member State had made use of Article 50, so we are placed in a situation without precedent in the EU, one that has never been experimented with or tested. In this sense, the U.K. opened Pandora's Box.

It is important to analyze the extent of the aforementioned Article 50 and its possible consequences in detail, explaining them as clearly and intelligently as possible. Not surprisingly, both the United Kingdom and the European Union are going to face a labyrinthine process of untangling more than four decades of construction of a joint legal architecture.

A whole series of questions arise at this unusual event, including, among others: Is Article 50 of the Maastricht Treaty the only path to breaking away from the EU? What is the roadmap to carrying out said process? What



“The decision to retire from the Union is of an absolutely unilateral character, with the decision corresponding to, exclusively, the Member State”

kind of relationship replaces the current membership in the EU? How long will the exit negotiations take? Is it possible to simultaneously negotiate a new relationship between the parting Member State and the 27 that remain? Who, under what mandate and control, will negotiate in the name of the EU? Can the decision to leave the EU be reversed?

For reference, here is some text from Article 50 of the Maastricht Treaty:

Article 50

1. Each Member State can decide, in accordance with its constitutional requirements, to withdraw from the Union.

The decision to retire from the Union, in accordance with the established by Article 50, paragraph one, is, therefore, of an absolutely unilateral character, with the decision corresponding to, exclusively, the Member State. This does not require the rest of the Member States to agree and requires no justification. The Member State must make this decision in accordance with its constitutional laws and, obviously, such compliance can only be obtained through the legal authorities.

2. The Member State that decides to retire will notify its intention to the European Council. In light of the European Council's guideline, the Union shall negotiate and conclude

an agreement with that State to establish the arrangements for its withdrawal, taking into account the framework of its future relationship with the Union. This agreement shall be negotiated in accordance with paragraph 3 of Article 218 of the Treaty on the Functioning of the European Union. The Council will celebrate on behalf of the Union by a qualified majority, with the approval of the European Parliament

According to the article, once the Member State has decided to leave the EU, it should notify the European Council. Said notification does not need to have an automatic or immediate character; nothing is said with respect to this. Therefore, the Member State can take its time, although it is logical that the more distant the notification of an evident decision is, especially if it is supported by a referendum, the more political, economic and social uncertainty will be generated in both the departing Member State and the rest of the European Union. Undoubtedly, this affects all of the actors that interact or will do so, for both those who will not and those who will stay in the Union.

The European Council, in accordance with what is established in article 15, paragraph 2 of the Maastricht Treaty, is made up of Member State heads of state or government, in addition to its chairman and the president of the Commission.

“The EU should negotiate and finalize an agreement to define how the withdrawal will occur and the exit process”

Notifying the European Council seemed logical, supporting the required formality and being done in a letter. In this case, the letter was from the future Prime Minister of the United Kingdom to the president of the European Council. This was the format decided upon Nov. 10, 2015 by David Cameron, addressing it to the president of the European Council and requesting a new regime for the U.K. in a reformed European Union.

The European Union will give some guidance that should be adopted by consensus (art. 15, par. 4, Maastricht Treaty), meaning none of the remaining 27 Member States of the EU can oppose it. Depending on the guidance, the EU should negotiate and finalize an agreement to define how the withdrawal will occur and the exit process, while at the same time taking into account future relations between both parties. That is to say, they must maintain a complex and very delicate balance in “phasing out” the current relationship, while “phasing in” the intended stable relationship for the future. From reading this article, it is not clear whether there will be a simultaneous, consecutive or posterior negotiation for the new relationship between the United Kingdom and the EU. This, too, will be part of a complicated negotiation.

To negotiate said agreement, paragraph 2 of article 50 states that it must be respected as indicated in art. 218, par. 3 of the

Treaty on the Functioning of the European Union (TFEU). This article, in conjunction, forms part of the Title 5 (International Agreements) of the Fifth Part (The Exterior Action of the Union) of the TFEU and makes reference to the agreements between the Union and unaffiliated countries. Specifically, in paragraph 3, it states that “the Commission presents recommendations to the Council, which adopts a decision authorizing the opening of negotiations and designating, depending on the subject of the contemplated agreement, the negotiator or the head of the negotiating team of the Union.” The European Commission receives a negotiation mandate by the Council, which is to say, of the representatives of the governments of the 27 Member States, either at the minister level or, at least, Secretary of State. Said mandate is adopted by the qualified majority (20 of the 27 Member states representing 65 percent of the population.) However, par. 8 of this same art. 218 states that when the agreement affects an act for which unanimity is required, like for the conclusions of agreements of association, the Council decides unanimously.

The Council must designate a negotiator or a leader of the negotiating team. Equally, the Council could establish a “special committee” to work jointly with the Commission. Once negotiations are finalized, a vote will be held. A qualified majority of 751 MPs of the European

“In case of an agreement with a mixed character, approval from the Council and the European Parliament, as well as the Member States, is required”

Parliament, with prior approval, therefore with a right of veto, must finalize the process (this includes the vote of the British, because the U.K. is currently still a member state of the EU).

In case of an agreement with a mixed character, which is to say, containing materials pertaining the EU as a whole (for example, commercial policy) and also individual Member States (for example, exterior policy), approval from the Council and the European Parliament, as well as the Member States, is required, in accordance with the established procedures for ratifying this type of agreement (for example, in Belgium the approval of seven parliamentary chambers is needed).

Lastly, a Member State, the European Parliament, the Council or the Commission may address the Court of Justice for an opinion on the compatibility of an agreement with the provisions of the Treaties. If the Court rules negatively, the agreement cannot enter into force unless it is modified or the Treaties are revised.

3. The Treaties stop being applied to the State of which they belongs from the date of the entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with that State, unanimously decides to extend this period.

During the negotiation process, before signing and ratifying the agreement to leave the EU, the United Kingdom continues to be a full member of the Union and will have to respect, equally, its obligations (for example, continuing to support, as a net EU budget contributor of 8 billion pounds. However, from the date the withdrawal goes into force, or in the case that this did not conclude within two years of the date of notification, the Treaties will no longer apply to the United Kingdom. This will occur unless the European Council, in agreement with the relevant state, decides to extend this period by unanimous vote. This unanimity signifies that all members of the European Council must be in complete accordance, without any fissures, in prolonging the term. If it is not, then the state in question is automatically out of the EU. It is true that no limit is established, neither for how long the term may be extended nor for how many times can it be extended.

4. For the purposes of paragraphs 2 and 3, the member of the European Council and the Council that represents the leaving Member State does not participate neither in the deliberations nor in the in the decisions of the European Council or of the Council that affects them.

The qualified majority is defined by conformity with the letter b) paragraph 3 of Article 238 of the Treaty on the Functioning of the European Union.

“The representative for the Member State that has decided to leave the EU will not be able to participate in the deliberations or the decisions of either institution pertaining to these negotiations”

The representatives in both the European Council and the Council (the Prime Minister of the United Kingdom, in the case of the European Council and the Minister/ State Secretary of the British government, for the Council, as well as the Committee of Permanent-COREPER Representatives, Ambassadors and accredited in other Committees and Working Groups of the Council) for the Member State that has decided to leave the EU will not be able to participate in the deliberations or, of course, in the decisions of either institution pertaining to these negotiations. The first example of this was seen during the informal European Council meeting June 29, in which the 27 representatives of the Member States of the European Union participated, without the presence of David Cameron as Prime Minister of the United Kingdom. In it, they agreed on a joint statement highlighting their respect for the majority decision of the U.K. to leave the EU; the need to notify the European Council of the decision and, finally, that without notice, there would be no negotiations, even informally, a clause insisted upon by the president of the European Commission.

Nevertheless, this article, as it is written, offers subtle interpretations. What should be understood by “the leaving Member State”? Since, under the provisions of Par. 2 Art. 50—as well as the interpretations of the

president of the Commission, the European Council and the leaders of Germany, France and Italy—even after the British referendum, it is only once the formal notification occurs that the exit process will start. Why, then, has the European Council met, albeit informally, if still that formal notification has not yet arrived? Why is the U.K.’s decision accepted “de facto”? Has it wanted to make it very clear there is no way the U.K. will remain a part of the EU from the beginning? Perhaps it wanted to send a clear and strong message to prevent any possibility of contagion in other Member States of the EU? Clearly, logic and common sense have been used in the interpretation of this provision. In any case, this is an element of reflection preceding the complexity that a first-time jump of this nature will surely generate.

Regarding the definition of the qualified majority, Art. 238, letter b), Par. 3 of the TFEU, establishes that it should be of at least 72 percent of the Council members that represent the Member States participants and, at the same time, represent at least 65 percent of the population of those States.

5. If the Member State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure laid down in Article 49.

When a Member State leaves the EU, whatever the relationship established with it, it becomes a



“When a Member State leaves the EU, whatever the relationship established with it, it becomes a third country”

third country—that is to say, out of the EU. Therefore, if it decides to return, it would have to begin the necessary provisions in order to become a full member. Art. 49 of the TFEU clearly establishes the procedure.

Article 49

Any European State that respects the values mentioned in article 2 and is committed to promoting them can apply to become a member of the Union. European Parliament and national parliaments will be notified of the request. The requesting State shall direct its application to the council, which will be unanimously pronounced after consulting the Commission and previous to the approval of the European Parliament, which shall act by a majority of its composing

members. They will keep in mind the criteria of eligibility agreed by the European Council.

The conditions of admission and the adjustments that such admission entails with respect to the Treaties on which the Union is founded shall be subject to agreement between the Member States and the applicant State. Said agreement is subjected to the ratification of all of the contracting states, in accordance with their respective constitutional requirements.

Ever since, hypothetically, the United Kingdom applied for membership in the EU until the Act of Accession was signed, the best case would be for several years to have elapsed, a period of time that would obviously be subject to incidents and events in the context in which it would

Figure 2. Phases of the process



“The conclusion of the European Council of February 2016 left very clear that if the United Kingdom decided to leave the EU, the special status negotiated to ensure their continued membership would have no validity”

be carried out. For example, Spain requested to join in July 1977, but the signing of the Act of Accession was in June 1985 and its entry was made effective in January 1986. The exception is Finland, which applied to join in March 1992 and became a full member in January 1995.

Also, it is highly unlikely that the United Kingdom will seek a particular status of permanence similar to the existing one because, among other things, its contribution to the EU budget has an ad hoc treatment, it is not part of the Schengen agreement, it does not use the euro and it chooses agreements in terms of the justice and internal affairs most convenient for them. The conclusion of the European Council of February 2016 left very clear that if the United Kingdom decided to leave the EU, the special status negotiated to ensure their continued membership would have no validity.

3. THE IMPACT

LEGISLATIVE

The more than 40 years the United Kingdom has been a member of the European Union have led to overlap, such that its exit obviously affects multiple aspects of its economy and without a doubt the daily lives of its citizens both inside and outside the EU.

The moment the U.K.'s withdrawal from the EU

goes into effect, its obligation to implement EU law will disappear. A law that, in relation to classic international law, specifies: the primary direct effect, interpretive uniformity, the absence of reciprocity, control of its application by a supranational institution (European Commission is the guardian of the Treaties) and an independent Court of Justice. Nor shall the policies developed by the European Union take effect. The U.K. will be forced to undertake a deep disentanglement operation, through which it will have to decide what will be preserved, repealed or amended. It is very difficult to set any time limit for an action of such magnitude.

ECONOMIC

Oct. 25, 2010, David Cameron, in his position as Prime Minister, spoke at the annual conference of the Confederation of British Industry, delivering an important speech in which he noted that "the U.K. exports more to Ireland than to Brazil, Russia, China and India together," adding that "these are shocking figures."

The EU is the U.K.'s most important business partner. 44 percent of its exports go to it, even though that figure is only one way. 12.6 percent of the U.K.'s gross domestic product (GDP) depends on its exports to the Union, whereas for the remaining 27 Member States this figure is 3.1 percent.

“For those who live off agriculture in the U.K., the nonimplementation of the CAP will not only reflect the loss of important aid, but also of preferential access to the EU”

The European Single Market represents an important economic and commercial space for business in the U.K. Therefore, an exit from the European Union that substantially modifies its ability to access to that market would significantly affect said businesses.

This is the case for the automobile manufacturing sector, which directs approximately half of its exports to said market, importing 40 percent of its component parts from the same. The United Kingdom's exit could have serious consequences for this sector, which will see difficulties in its trade relations and probably investments.

Traditionally, the financial sector has a significant weight in the British economy, with some regulatory fundamentals coming from the European Union. Separating said legislation in order to make it genuinely British will be a complicated job of unpredictable duration, overlooking optimal adaptation and therefore having a clear impact on the results of the sector. Meanwhile, some states have discussed this as an opportunity to move their headquarters out of London "City."

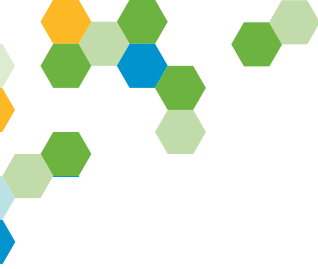
The European Union has developed many agreements with countries and groups of countries to regulate its business and investment relations, among others. Given the EU's exclusive

competition in trade policy, the pledged countries of said agreements will stop applying them to the United Kingdom once it is no longer a member of the EU. It is evident that this will affect its productive and commercial capacity.

Among the EU politics, one that has undoubtedly had the greatest development is the Common Agricultural Policy, known by its acronym PAC or, in the U.K., CAP. For those who live off agriculture in the U.K., the nonimplementation of the CAP will not only reflect the loss of important aid, but also of preferential access to the EU, similar to the markets of countries with which it has negotiated trade agreements. This also applies to fishing; British fisheries will lose access to non-British fishing grounds, including those of the rest of the EU and third countries with which the EU has negotiated fisheries agreements. Similarly, aid from its structural funds will cease to be directed toward their beneficiaries in the U.K.

SECURITY

The United Kingdom's security strategy, and in particular its actions against terrorism and organized crime, will be affected by its exit from the EU. It will now lose all measures adopted concerning Justice and Home Affairs, including having to leave Europol, Interpol Europe, which is the European agency coordinating the fight against organized crime.



COHESION

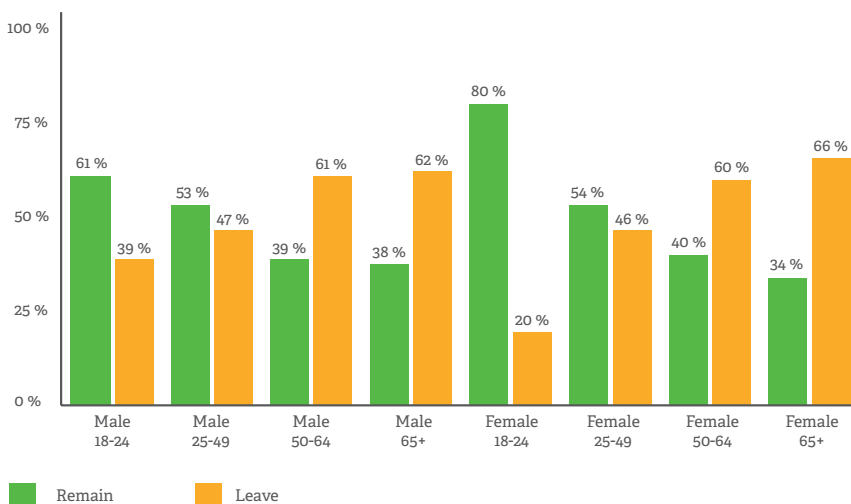
Territorially, the withdrawal of the EU poses a delicate question of internal cohesion. First of all, Scotland held a referendum on independence less than two years ago, the result of which decisively influenced the status of EU Member State the U.K. On the other hand, Northern Ireland will be in a delicate situation with regard to Ireland, which will remain a member of the EU and will therefore have to impose controls on the border with the northern part of the island territory. Similarly, Gibraltar will suffer a clear change as a result of the U.K.'s withdrawal from the EU, as it will have a similar situation with Spain being a Member State of the EU. Its residents will lose the privilege to move and settle in Spain.

Generationally, the referendum has yielded very different results. Paradoxically, those who would experience the least impact of an exit from the EU due to their advanced age voted overwhelmingly to leave, while the youngest, i.e., those who will suffer these consequences long-term, voted to stay.

FREEDOM OF CITIZEN'S MOVEMENT

Two million U.K. citizens live, work, study or are pensioners in other Member States of the EU and therefore, being nationals of a Member State, benefiting from European citizenship. Conversely, an almost identical number of citizens of the other 27 member states of the EU do the same in the U.K. With the withdrawal of the United Kingdom, British citizens will no longer be citizens of the Union, and those from the other 27 Member States will cease to be so in the U.K., as it will now be a third country. Therefore, they will lose the benefits associated with European citizenship, such as the right to live, work and own property in other Member States of the EU; the right to retire in a location other than their own Member State of origin; receive health benefits; use the EHIC under the European Regulation for the Coordination of Social Security Systems; vote in local elections in other Member States; etc.

Figure 3. Distribution of EU Referendum votes in the United Kingdom (UK) in 2016, by age group and gender



Additional information: United Kingdom; YouGov; June 23 to June 24, 2016; 5455 Respondents; Source: YouGov

“ While the withdrawal agreement is negotiated, the United Kingdom’s position will be greatly weakened ”

INFLUENCE

While the withdrawal agreement is negotiated, the United Kingdom’s position will be greatly weakened in coming meetings of the European Union while it participates as a full member, and of course, its credibility will be greatly reduced, given its status as outgoing member. As a matter of fact, the EU Agencies based in the U.K. should move to other Member States. For example, this is the case for the European Banking Authority and the European Medicines Agency, for which the government of Spain has offered to host its headquarters.

After leaving the European Union, it is clear that the U.K. cannot influence its future configuration. This will have a clear impact if it ever becomes a member again, as is likely to meet a very different Union than the one it left, and of course, face much greater difficulties in negotiating ad hoc treatments.

The different impacts reflected above will worsen depending on the time it takes to clear the uncertainty generated by the onset of an unprecedented situation in the European Union and the United Kingdom, without knowing exactly what will happen, or under what conditions, or the new relationship being established or, above all, how long the entire process will last. It is a journey into the unknown.

4. PATHS TO A POSSIBLE RELATIONSHIP WITH THE EU

The negotiation U.K.’s withdrawal accord should be done according to Art. 50 Par. 2, keeping in mind a framework for the U.K.’s future relationship with the Union.

In these moments, considering the reactions produced by the result of the U.K. referendum, both among politicians and citizens in general and not forgetting territorial programs, it is difficult to have a balanced perspective on how the events can evolve. It is necessary for the dust to settle before it is possible to make an analysis more adjusted to a less emotional reality.

The first concern for the U.K. and even the EU will be to limit damage, given that both face an unknown and can therefore expect many difficulties in the negotiation process to establish a new relationship.

Before the referendum took place, perhaps in the belief that life was better outside the EU, various options were discussed. The British government, both in its documents and throughout the campaign, made it clear it was better to stay in the EU, especially after the agreement reached at the European Council last February, as the United Kingdom would have the best of both worlds. However, it also made it clear that if the vote was to leave the

“The first concern for the U.K. and even the EU will be to limit damage”

EU, it would open constructive negotiations to agree on terms for a positive future relationship with the EU.

Will the United Kingdom join the European Economic Area (EEA)?

To join the EEA, the United Kingdom would first have to join to the EFTA, an association it helped found in 1960, alongside Austria, Denmark, Britain, Norway, Portugal, Sweden and Switzerland. In 1961 Finland joined, with Iceland joining in 1970 and finally Liechtenstein joining in 1991. Initially, these were countries that chose a free-market approach rather than integrating with the European Union. In addition to the EU Member States, there EEA is currently made up of Iceland, Liechtenstein and Norway. At first, it would seem like an easy option—the EEA allows these three countries broad access to the European internal market and the enjoyment of the four freedoms it is based upon without having to assume the commitments arising from EU membership.

In the EEA there is a system of ongoing consultation of the European Commission and third countries, but it is the EU institutions that make the final decisions. Something similar happens at the judicial level, since decisions from the EU Court of Justice prevail in a dispute. In the EEA, the United Kingdom would no longer be

in command of the decision-making process after losing its membership of the EU, and would instead be situated at the level of consultation. On the other hand, it is highly unlikely the EU would accept negotiating a special status with the United Kingdom to allow them to not implement the free movement of workers in the context of the Single European Market (Juncker has been very clear about this). Therefore, it seems very complex to seek membership in the EEA and accept provisions concerning the European internal market without any ability to influence their content. In addition, an agreement to add a new Member State to the EEA would need the approval of the 27 EU Member States and the 3 of the EEA.

At this point, could the United Kingdom consider rejoining the EFTA, but not joining the EEA? It would be inconceivable due to the history of the EFTA. It is the result of a very different evolution from the EU, dating back to its foundation and its current status as an organization that lacks content and members.

Set to enter the very uncertain environment of speculation, some have considered a "Swiss" solution for the future of the relationship between the U.K. and the EU. This is very convoluted in practice, because it was a negotiation under the EU *acquis*, involving over a hundred years of

“Commercial negotiations the EU has held with third countries and regions demonstrate the complexity of achieving tangible results”

bilateral agreements, only some of them having any sort of relevance. On the other hand, negotiations initiated in May 2014 are currently held between Switzerland and the EU for a number of bilateral issues, which will be affected by the departure of U.K. from the EU as Switzerland seeks to establish limits on migration flows and the EU has warned that the free movement of people is above any other consideration. In fact, negotiations between Switzerland and the EU have been slowed due to the pending outcome of the British referendum.

Commercial negotiations the EU has held with third countries and regions demonstrate the complexity of achieving tangible results. They usually last several years. Perhaps the most significant case of long running negotiations is that of the EU-Mercosur negotiations, which have already lasted more than 16 years. The U.K. and EU could explore this route, either within the framework of a free trade agreement or the association. However, if the U.K. specifically wants to preserve its access to the European internal market (as David Cameron requested in his letter Nov. 10, 2015, to the president of the European Council), there is no free trade agreement or association that would satisfy the ambitions of the United Kingdom.

Lastly, it raises the issue that, if not for not its extravagant character, it would not have plausibility under the cited Art. 50 of the TEU. Is the decision to leave the EU reversible? In other words, could the U.K. reverse its withdrawal? Under it, the Member State that decides to leave the EU will no longer be a member only when the withdrawal agreement goes into effect. That is to say, in the course of its negotiations to leave the EU, the U.K. could communicate its intention not to complete the process and therefore continue being a member. It is evident that the internal political consequences would be substantial, and at present we cannot extrapolate them as we are still under the influence of upheaval after an unexpected event. We cannot say the exit check box would have been agreed to at the European Council last February to grant the United Kingdom certain specificities, added to those it already enjoys in its membership to the EU. Once the fog dissipates, it will be easier to analyze the surrounding reality.

5. AN UNCERTAIN FUTURE

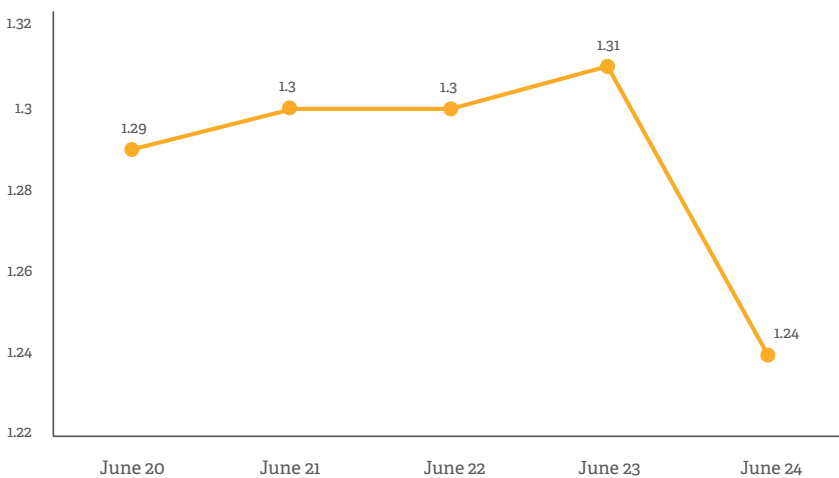
The events that occurred in the days following the British referendum proved the most pessimistic scenarios predicted in the case of a withdrawal were conservative, with greater than expected outcomes.

British society is divided. Young people voted in favor of remaining and the older generation voted for withdrawal. The Prime Minister resigned, and his conservative party is looking for a new leader in a very unfavorable situation. The Labour opposition leader refuses to resign despite being asked by prominent members of his party and also Parliament, and Cameron is an exercise in prestidigitation. The immediate reactions of Scotland and Northern Ireland, which voted to remain members, pose a serious risk of territorial fracture. The loss of value in sterling and volatility in the markets have been two significant economic indicators of the uncertainty into which the United Kingdom has entered.

The complexity of the European Union, both from an internal perspective and its role in globalization, and therefore the implications for one of its member states decision to leave, should not be reduced to a simple question whose answer is yes or no. In addition to the fallacious arguments shown following the referendum, extravagant messages emotionally affect voters, giving strength to unsettling populism for a model of peaceful coexistence that is precisely the foundation of European integration. In questioning the popular inquiries, it was translated into an anti-democratic message. However, the essence of parliamentary democracies is that the government, emerging from a parliament representing the resident sovereignty in the people, has been chosen to make difficult decisions, especially those that by their difficulty and significance require a high level of knowledge.

The marathon of meetings and avalanche of reactions in the U.K., the European Union and beyond showed the importance of the outcome of the British referendum. It is as if they had suddenly released a number of elements that were contained, waiting for, at the end of the day and despite very evenly matched data, the decision to remain in the EU.

Figure 3. Exchange rates of the pound sterling against the Euro after the Brexit Referendum results in June 2016.



Additional information: Eurozone; United Kingdom; June 2016; data at day's close
Source: EZB

The European Union has to manage these events and their consequences with prudence and firmness. Europe needs a context of certainty and predictability. For that, it is essential to clear the way so that one of its Member states can initiate a process of withdrawal. It is unprecedented, and thus without any mistakes or successes from which to draw lessons.

Once the desire of the British people to leave the European Union is known, it will be necessary for the United Kingdom to notify the EU for the withdrawal process to begin. As European leaders at the highest level have stated, if there is no notification, there will be no negotiation. Even the president of the European Commission said it has

instructed all services from this institution for it to be carried out, although informally. Cameron told the British Parliament June 27, before a formal notice of withdrawal, that the United Kingdom has to decide what kind of future relationship it wants to establish with the European Union, adding, "It will be the most complex and important task British officials have been faced with in decades." It seems, in principle, that the notification will be a short-term issue.

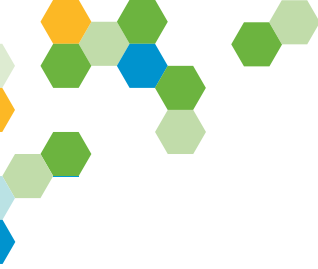
This table reflects the difficult political context in which is placed, in principle, the negotiation for the U.K.'s withdrawal. At the same time, it is worth noting the previous elections in France and Germany, two of the EU's founding countries, whose winners must, for the future of the European integration process, assume more significant leadership than they have so far.

The possibility of an EU crisis if this situation persists, and with very different deep and serious components in itself, has been added to this leap into the unknown regarding the U.K.'s departure. It is time to reaffirm the values defended by the integration of Europe that have given Europeans decades of progress and welfare.

Figure 5. Drop of the exchange rates of the main European stock indices after the Brexit Referendum results in June 2016.



Additional information: Europe; 24th June 2016; data at day's close
 Source: Bloomberg



“Clearly the outcome of the June 23 vote will mark an important turning point in the European integration process”

For this reason, Europe has to remove any hint of populist contagion from its Member States’ horizons, sending a clear message responding to the concerns and needs of its citizens, helping them see the importance of working together to address challenges that being separate might make seem easier. The U.K.’s withdrawal should serve to strengthen the Union for those who remain, not weaken their bonds. The Union must transform the probable departure of one of its Member States into an opportunity to strengthen itself and boost the integration process, while of course making it clear that it was and is colder outside than in—or, better together alone.

Keep in mind that this referendum offers many lessons to learn from, something that always has a positive side. In that, its contribution to the talk and debate about Europe and the U.K. both in the European Union and around the world should be recognized.

Clearly the outcome of the June 23 vote will mark an important turning point in the European integration process. It is the task of leaders, Member States governments and citizens to seize this turbulent moment to strengthen Europe, stemming the stream of misinformation to make decisions with concrete facts and reverse the current trend of disaffection with the Union and its institutions, presenting it as an attractive project with a human face. Should this come to pass, we will have learned how to positively transform the negative outcome of the British referendum to generate opportunities currently seen as risks.

	Period for cessation of application of treaties of the EU in UK						Possible application extending of EU Treaties	
Referendum UK	Withdrawal notification EU (activation of art. 50 TEU)	USA Presidential Election	French Presidential Election	German Federal Election	Presidency UK EU council	Expiration term 2 years (art. 50 TEU)	European Parliament Election	New European Commission
June 2016	Predictably Autumn 2016	November 2016	Spring 2016	Summer/Autumn 2017	2 nd Semester 2017	Predictably Autumn 2018	Spring 2019	Autumn 2019

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