



SPECIAL ANALYSIS

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Brexit and the functioning of European institutions

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Introduction

The result of the decision made by British voters in the referendum on remaining in the EU on June 23, 2016, will impact not only the United Kingdom (UK). The UK's departure will certainly affect what is happening in the institutions of the EU.

Britain's withdrawal may, however, paradoxically cause a strengthening of integration efforts within the EU - the main integration current would lose a great critic. The significant strengthening of the eurozone also contributes to the strengthening of integration, which, after the UK's departure, would have almost 86% of European GDP. Such considerations, however, may reverse the negative attitude to integration on the part of the European population. But this probably wouldn't happen before the elections to the European Parliament (EP) in 2019. After Britain's departure, one can also expect a substantial strengthening of the major states at the expense of the smaller ones. The search for partners for approving legislation would be complicated after the UK leaves, especially thanks to "qualified majority" voting.

Without the approval of large states (especially Germany), it will be much more complicated than before to push through proposals. The blocking of proposals would also be more difficult. Analyses also indicate a significant strategic strengthening of Poland, which definitely ranks among the truly big countries of the EU.

Withdrawal from the EU according to Article 50 of the Treaty on European Union

The possibility of the withdrawal of a Member State of the European Union was specifically introduced with Article 50 of the Lisbon Treaty. It does not mean, however, that the withdrawal of a Member State was not possible until then - a vivid and sole example is Greenland which left the EU (at that time still the European Community, EC) in 1985 - after it had gained autonomy in 1979 from Denmark and three years later held a referendum on withdrawal from the EC.

According to Article 50 of the Treaty on European Union (TEU), the procedure for withdrawal of a Member State from the EU, in this case the United Kingdom, is as follows:

- The UK must declare its intention to the European Council. According to recent information, it should do this at the turn of the year 2016/2017.
- With regard to the guidelines of the European Council, the EU then concludes an agreement with the UK on the conditions of withdrawal. The EU Council concludes this on behalf of the EU, which acts on the basis of a qualified majority after obtaining the consent of the European Parliament. It is important to note that the UK representatives in the EU Council and the European Council will not participate in the discussions and decisions concerning their country's exit from the EU. British MEPs' voting powers in the matter of granting the consent of the European Parliament to an agreement on withdrawal are not restricted and they could therefore influence approval of an agreement.
- After the conclusion of a withdrawal agreement and its entry into force, EU treaties shall cease to be binding for the UK. However, if no agreement is reached within two years of notification of the intention to withdraw from the EU and the European Council does not agree unanimously with the UK on extending this period, the UK automatically loses membership in the EU and EU treaties will automatically cease to apply to it. Two years, however, is a relatively short time to negotiate the conditions. In short - if some of the EU states want to "sweeten" the UK and would agree to extend the deadline, there would be a legal mess in the British Isles.

Institutional round

In order to understand the consequences of Brexit better, let's recall the role of the key EU bodies - the "institutional troika" which is responsible for policy-making and decision-making in the Union.

It consists of the European Parliament, the Council and the European Commission. They are assisted by the Economic and Social Committee and the Committee of the Regions as an advisory body.

A large part of EU legislation is approved by "ordinary legislative procedure", which in a joint process reflects the views of both Member States (the EU Council) and the European Parliament. The procedure in many areas (energy, transport, environment, consumer protection, etc.) carries the same weight in both the European Parliament and the EU Council - the majority of laws are adopted by the two institutions together.

And how does it all work in practice? If during the first reading the EP and EU Council disagree, a second reading takes place - changes can again be proposed and if an agreement is reached, the proposed provision can be adopted.

If the two institutions fail to find common ground even after the second reading, a conciliation committee is convened whose task is to find a solution. During the last (third) reading both the EP and EU Council can block a proposal.

In addition to ordinary legislative procedure, when adopting legislation even more special legislative procedures are distinguished where the EU Council is virtually the sole legislator. The European Parliament is involved in the process, although its role, depending on the case, is limited to consultation or approval.

Special legislative procedures are used for example in adopting new legislation on combating discrimination and setting exemptions from the rules of the internal market and competition law.

Furthermore, the EP's consent or consultation is required as a non-legislative procedure for the adoption of international agreements negotiated by the EU, for serious violations of human rights, the accession of new member states, agreement on the conditions for withdrawal from the EU or the negotiation of international agreements as part of common foreign and security policy.

The European Parliament

The EU's strong role (and hence of nation-states) in European politics balances to some extent the role of the European Parliament, which has direct legitimacy from the European population. Its powers in comparison with the EU Council are indeed weaker, but most enacted legislation cannot be passed without its sanctification.

The last elections to the EP were held in 2014 and more are planned for 2019. In the current eighth electoral term of office 751 MEPs were elected, 73 of whom represent the UK. MEPs are organized into "factions", which bring together people advocating similar ideological points of view. Parliament is dominated by two factions in particular - the European People's Party (EPP) and the Alliance of Progressive Socialists (PASD) which together make up more than 50% of MEPs. The third most powerful faction is the Eurosceptic European Conservatives and Reformists (ECR).

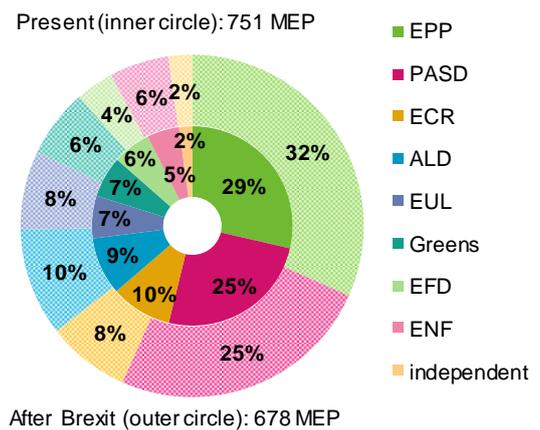
A large majority of British MEPs in the EP is divided into three factions. The strongest represented party is otherwise relatively marginal - the strongly Eurosceptic Europe of Freedom and Direct Democracy (EFD), in which there are 22 British MPs (from the ranks of UKIP). But that skepticism towards integration among British parliamentarians doesn't end there - 21 MPs from the British Conservative Party belong to the European Conservatives and Reformists faction, whose skepticism is not as intense as in the former case, although it is still considerable. Labour MPs in the European Parliament associate with the PASD faction.

The departure of the British in this election period would thus constitute a dramatic reduction of the Eurosceptic voice in the EP. Of the total number of 46 deputies in the EFDD faction, 22 of them come from Britain. In addition, its chairman is Nigel Farage. British withdrawal from the EU would be highly likely to lead to the disbanding of the faction or its significant weakening. According to current rules, the faction would in addition lose the right to funding from the EP. British MEPs are also very important for the ECR faction - 21 of the 74 deputies come from Britain and the deputy chairperson is again from the UK - Syed Kamall. The departure of the British would in the best case scenario mean the marginalization of the ECR, and the worst case, total oblivion.

Debate over various proposals within the European Parliament takes place first in committees, which thus have a fairly significant impact on the final wording of the approved proposals. If a committee approves the wording of

a law, it then goes to a vote in a plenary meeting. A committee's opinion is thus crucial in the final verdict of the EP. British MEPs who also remain members of the British Parliament are currently in a period of uncertainty about when they will make decisions that ultimately will not apply to them at all. This is likely to result in their motivation to make truly informed decisions. The UK as a large state naturally participates in all 25 committees. There are around 10% British MEPs in almost every committee. The most participants are in the Committee on Fisheries, which has over 15% of members elected from the UK. Also they play a significant role in the committees on culture and education and women's rights.

EP fractions before and after Brexit



Source: European parliament

The most influential people in the committees are the chairpersons and vice chairpersons who set the agenda and have a profound impact on who becomes a rapporteur on specific proposals. Some committees over which British MEPs preside cover important topics - including the Committee on Civil Liberties, Justice and Home Affairs (LIBE) and the Committee on Development (DEVE).

Great Britain's role may prove to be very strategic in future in the Committee on Internal Market and Consumer Protection, where Britain has not only the chairperson Vicky Ford of the Conservative Party, but also the deputy chairperson Catherine Stihler of the Labour Party. The internal market agenda is currently crucial for the UK because access to the European internal market is by far the most important topic of mutual relations after the departure of Britain from the EU. In particular, having a committee chairperson from the party of the Prime Minister, Theresa May, may be a boon for Britain. The mandate of British MEPs is likely to disappear upon the date of exit from the EU, so MEPs would therefore have the opportunity until then to participate in decision-making, including issues relating to exit.

On the other hand - the role of the EP in the negotiations is not well appreciated and, moreover, one can expect pressure to be applied for the resignation of the head of the committee because of the obvious conflict of interest.

The whole situation may change with the next European elections in 2019, when eurosceptics in Britain may be replaced by a new generation from the ranks of other Member States (e.g. Marine Le Pen's National Front.).

The European Union Council

The Council of the EU, which together with the European Parliament's main decision-making body, is where ministers of EU member countries meet according to what area is being discussed (if it is about the environment, ministers for the environment will come together).

At present, the majority of decisions are voted on most often by a "qualified majority". The Lisbon Treaty extended the areas which could be voted on in this way. In some areas, however, such as the adoption of the EU budget, tax harmonization or foreign and security policy, unanimity is required.

Until 31 March 2017, it is possible to achieve a qualified majority in two ways. Until that date, Member States may request a vote according to the "old" wording of the rule where each Member State has a certain number of votes (weighted according to the number of inhabitants in a given state).

In the case of the UK, this is a total of 29 votes (after withdrawal they would probably have to be redistributed among the remaining Member States). The withdrawal of the UK from the EU, however, probably wouldn't occur by 31 March 2017 - the call for change in this area is therefore not entirely appropriate.

From 1 November 2014, however, the "double majority" procedure will be used (unless the "old" method is requested), according to which two conditions must be fulfilled:

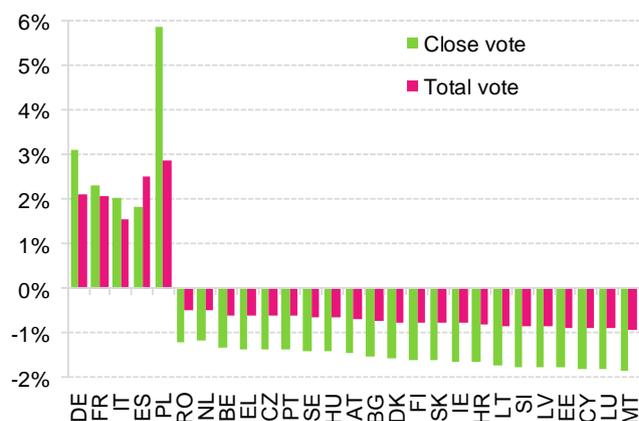
- 55% of Member States (currently 16 out of 28) must vote for the proposal;
- a proposal must be supported by many Member States which together represent at least 65% of the total population.

Given the size (percentage representation of the population) the UK's departure from the EU could significantly affect the vote - especially with regard to the position of small member states.

Using simple simulations, all combinations of the vote have been calculated in which both conditions for a qualified majority are fulfilled. The analysis looked for the answer to a simple question: How often do individual states show up in 'winning coalitions'? It monitors two levels - a close voting situation where 16 Member States vote for a proposal prior to the departure of the British, or as the case may be, 15 member states after it. Analysing the situation of the total vote, the former situation is reflected in all situations where the proposal passes.

The results cannot be interpreted absolutely because they don't reflect institutional and other differences

Change of strategic position in double majority



Source: own calculation; the share of winning coalitions after Brexit - share of winning coalitions before; states ranked by population

between states. If we look at the results, however, in relative comparison of before and after the UK's departure, we get an idea of how it facilitates or complicates the position of individual states in the search for potential partners.

Thanks to the UK's high population its departure will trigger a strengthening of the other big players. It is not overly surprising - one large state will be missing that may help meet the 65% requirement. This will increase the relative price of the other large players in negotiations. The surprise is the significant increase in Poland's position.

It has almost twice as many people than the country following it (in terms of population) - Romania. After the UK leaves the EU and the consequent reduction of the population limit required for approval of a proposal, the need for Poland's consent to proposed measures will greatly increase. This effect is much stronger in a close majority situation - Poland benefits from Brexit.

The strengthening of the big states logically comes at the expense of the weakening of the small states. But these didn't have a particularly strategic position even prior to the UK's departure. If necessary, they had a partner in the UK which talked loudly for them with a protest vote. They have lost this partner with Brexit.

This would be the case for achieving the votes needed to obtain a blocking minority. If any member disagrees with the results, at least four Member States representing 35% of the population are needed to block a measure.

In addition, if we take into account that Eurozone members already meet the criteria for a majority (19 states, 66.6% of the EU population), and they can in practice adopt legislation that suits them, it will be necessary to mitigate the criteria necessary for achieving a blocking minority.

The UK's withdrawal will significantly strengthen the role of Germany. This is confirmed by the results of simulations – thanks to Germany's population dominance, the proportion of four-member coalitions would be enough to block a proposal, with German participation increased from the previous 72% to over 86%. In other words, blocking a vote without the participation of Germany will be much more difficult in future than it has been until now.

We can therefore expect pressure will be applied to change the voting system. Pressure to change the decision-making process would have a rational core to it.

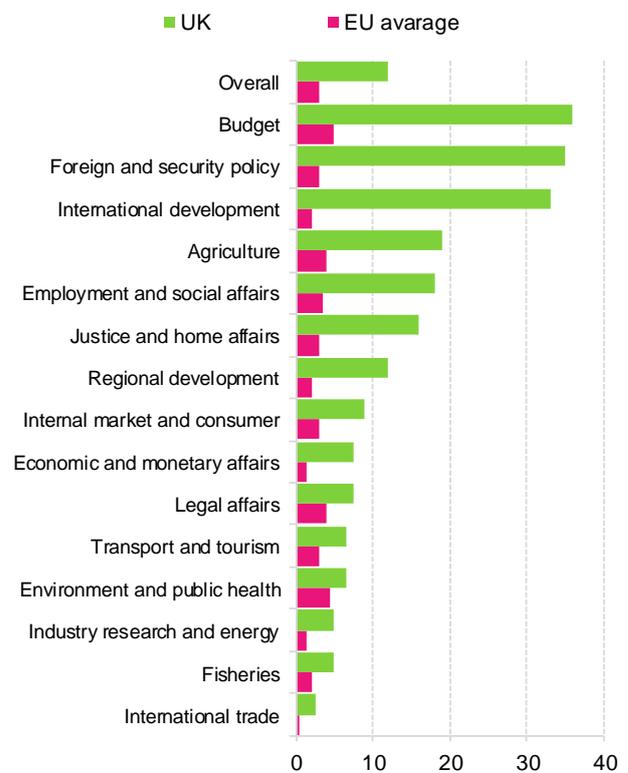
Data on voting in the EU Council show that it is the UK that most often votes against the enacted legislation. This therefore invites the question of whether voting will become ineffective after the UK leaves the EU.

However, countries such as Sweden, the Netherlands and Denmark evince a similar trend, and we can therefore expect that if a proposal (because of its non-membership in the EU) could not be blocked by the UK, then it would be these very countries that would do so.

Although the UK has voted in opposition to the majority most frequently, in the years 2009-2015 it stood on the "winning" side of proposals on which it voted in "only" in 86.7% of cases.

And in which areas has the UK been in opposition with the others the most? Most often it is the EU budget, foreign and security policy and international development aid.

UK votes against majority (%)



Source: London School of Economics and Political Science

The UK's withdrawal from the EU will have the least impact on the last member of the troika - the European Commission. British Commissioner Jonathan Hill, who was in charge of financial stability, services and capital union, retired with the words "What has happened cannot be undone, and now we need to work on a new relationship with Europe".

His agenda will be taken over by the Commission deputy chairperson for the Euro, Valdis Dombrovskis. This will also likely lead to the departure of some high-ranking officials within the Commission whose function is political and has something in common with the UK's membership of the EU.

The British in European institutions

The European Union is actively trying to make the distribution of roles in European institutions correspond to the share of the population, although in some cases, exceptions can be found. Working within the Commission alone are 1,126 British citizens and there are estimated to be nearly 2,000 Britons overall in European institutions. The number of people in leadership positions may also reflect to some extent the ability of states to promote their interests in European institutions. The higher proportion of Belgians is not surprising, but the low proportion of French is quite striking.

An analysis by the Brussels think-tank Bruegel shows that almost 12% of decision-making positions in European institutions in 2015 were occupied by representatives of the UK. The British have over 10% of positions in the European Commission (11%) in the European Parliament (12%), and in the secretariats of parliamentary factions (13%) or, for example, the European Investment Bank (14%). Conversely, given that the UK is not in the Eurozone, Britain has only one manager in the European Central Bank. The current state of uncertainty where the British working in European institutions do not know how they will be able to contribute to the European agenda in the future, and how and whether their work is reflected in their homeland, can significantly affect their work motivation.

The UK's departure from the EU does not necessarily mean the sacking of all British citizens from among the ranks of European institutions. After all, several Norwegians even today work at the Commission who, despite Norway's rejection of entry into the EU, were able to continue to work at the Commission. But it is clear that there are political appointees at least in leadership positions, and strong pressure is being exerted for the many British people in these positions to be fired. British people in lower positions may not lose their jobs immediately, but their prospects for career advancement will be severely hit by Brexit.

The strengthening of the Eurozone

Many fundamental decisions relating to economic issues (whether they be an issue of solving the debt crisis in southern Europe, regulation of financial markets or the Banking Union) play out largely within the Eurozone. The departure of the largest Member outside the Eurozone has already dramatically increased the relatively strong position of the Eurozone. While the current Eurozone countries generate more than 70% of EU GDP, after the expected departure of the UK this proportion will increase significantly to 86% of GDP. Those remaining outside the Eurozone at this point will be only Poland, Romania, the Czech Republic, Sweden, Hungary, Bulgaria, Denmark and Croatia.

Today, the Eurozone already meets the conditions for a qualified majority. Therefore, in order to promote what it needs, the 19 countries can vote together with 67% of the European population. However, if Austria or any major country withdraws its support the Eurozone loses its qualified majority. After leaving the EU, however, this fragile majority turns into an overwhelming majority, especially if the Eurozone adds the last big Member State, Poland, which in the words of the Polish foreign minister, "should urgently join the Eurozone." After all, according to the Frankfurter Allgemeine Zeitung, the European Commission president imagines that after Brexit the euro will soon apply across the entire EU.

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