Brexit – A Primer for US Clients

What is Brexit?

Brexit refers to a potential British exit from the European Union (EU).

Why is Brexit being considered?

In 2013, British Prime Minister David Cameron promised to hold a referendum on the UK's EU membership if his Conservative party won the 2015 elections, which it did. The referendum will take place on June 23, 2016. In the referendum, UK voters will be asked whether the UK should remain a member of the EU or leave the EU.

What are the arguments in favor of "Leave" versus "Remain"?

Brexit advocates tend to focus on national sovereignty – by reclaiming its independence, the UK can better manage immigration, free itself from onerous regulation and spark more dynamic growth.

The pro-Remain camp tends to focus on economic stability – given that the UK is highly integrated with the rest of the EU, especially in terms of trade, investment, migration and financial services, there could be adverse economic consequences to a decision to leave.

What is the likelihood of Brexit occurring?

Polls have been mixed but currently suggest the Brexit campaign is gaining ground with some showing it in the lead. Bookmakers' odds, which the Financial Times indicates might be a more reliable measure than polls, give Brexit a 30% chance. Either way it is a real possibility.

What happens if the UK votes to Remain in the EU?

In February 2016, the UK government and the EU renegotiated the terms of the UK's membership in the EU. These renegotiated terms, which will take effect if the result of the referendum is in favor of Remain, include changes in the following key areas:

- **Eurozone:** reassurances to EU member states (like the UK) who do not use the Euro that they will not be required to fund Euro bailouts and will be reimbursed for central EU funds used to prop up the Euro
- **Competitiveness:** the EU and its member states will "make all efforts to fully implement and strengthen the internal market" and to take "concrete steps towards better regulation", including by cutting red tape
- **Sovereignty:** a mechanism for a group of national parliaments to wield a "red card" requiring the European Council to reconsider EU legislation if they can gather support equivalent to 55% of the 28 EU member states
- **Migrant welfare benefits:** a potential "emergency brake" on the payment of state benefits in certain circumstances to people moving between EU member states (with the emergency brake being carefully designed to respect the core EU principles of free movement and non-discrimination).

What happens if the UK votes to Leave the EU?

The precise impact of a vote to Leave is less certain than the impact of a vote to Remain, as the terms of Brexit have not been pre-negotiated.

Brexit would not occur immediately; Article 50 of the Treaty on the European Union envisages a negotiation period leading to exit on a mutually agreed date – the default is two years. The only real precedent is Greenland which left the EU in 1985, almost exactly three years after their exit referendum.

The UK would lose the automatic benefit of access to the EU single market and free trade agreements concluded by the EU. It is expected that the UK would seek to secure access to the EU single market in its exit negotiations, and the UK would also seek to negotiate new bilateral trading arrangements with the rest of the world. Unless and until those came into force, WTO rules will govern the UK's trading relationships. Sectors, such as financial services, which have a significant imbalance of trade with the EU, are thought particularly vulnerable to this process.

Brexit would also bring into question the large amounts of UK law based on EU rules. In each area, the UK would need to decide whether to continue to follow the EU lead or go its own way and risk damaging trade with the EU which is currently based on the adoption of consistent EU wide standards.

How would Brexit impact business?

The impact would vary by sector and would depend on the arrangements which replace the UK's membership. Likely impacts include:

- **Contracts:** the change in scope of territorial definitions and the loss of the benefit of certain enabling regulations such as the "passporting" regime (i.e., the freedom of establishment and freedom to provide services from one state to another within the EU) used by financial institutions and insurance companies
- **Trade:** loss of existing free trade agreements and the possibility of facing tariffs and non-tariff barriers
- **Standards:** the need to deal with the divergence between EU and UK rules where these start to differ

Industries likely to be most impacted are those where EU regulation is particularly significant, such as financial services and life sciences, those that rely heavily on trade across UK borders (such as the automotive sector and other sectors with international supply chains) as well as industries which are heavily dependent on data, such as insurance companies, or intellectual property, such as media companies.

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