

# Information paper: Brexit explained



June 2016



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## European Union

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The European Union (EU) is an economic and political partnership involving 28 countries that began after World War II to foster economic cooperation, with the idea that countries which trade together are more likely to avoid going to war with each other.

It has since grown to become a “single market” allowing goods and people to move around, basically as if the member states were one country. It has its own currency, the euro, which is used by 19 of the member countries, its own parliament and it now sets rules in a wide range of areas – including on the environment, transport, consumer rights and even things such as mobile phone charges.

It was the view that the EU was not supporting Britain’s interests, particularly with respect to open borders for employment, concerns regarding migration and arguments that the economy was supporting poorer member states that saw the decision taken to hold the referendum.

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## Referendum: remain versus leave

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UK Prime Minister David Cameron had pledged during the last general election to hold a referendum on the United Kingdom’s (UK) continued membership of the EU. On Thursday 23 June 2016 the referendum was held with a turnout of 71.8 per cent, with more than 30 million people voting. It was the highest turnout in a UK-wide vote since the 1992 general election.

Two opposing sides, described as the Leave and Remain groups, argued their case. Leave won by 52 per cent to 48 per cent. England voted strongly for Brexit, by 53.4 per cent to 46.6 per cent, as did Wales, with Leave getting 52.5 per cent of the vote and Remain 47.5 per cent. Scotland and Northern Ireland both backed staying in the EU. Scotland backed Remain by 62 per cent to 38 per cent, while 55.8 per cent in Northern Ireland voted Remain and 44.2 per cent Leave.

For the UK to leave the EU it has to invoke an agreement called Article 50 of the Lisbon Treaty. The article has only been in force since late 2009 and it hasn’t been tested yet, so no-one really knows how the Brexit process will work.

The UK Government needs to decide when to invoke this – that will then set in



motion the formal legal process of withdrawing from the EU, and give the UK two years to negotiate its withdrawal.

EU law still stands in the UK until it ceases being a member – and that process could take some time. The UK will continue to abide by EU treaties and laws, but not take part in any decision-making, as it negotiates a withdrawal agreement and the terms of its relationship with the now 27 nation bloc.

The referendum result was the opposite of what polls had predicted, and has subsequently sparked heated debate and conjecture as to whether it was truly representative of what people wanted after the ramifications of the exit were realised. Calls for another referendum, seeking legal ways to block the exit and suggesting the vote should not be binding on the Parliament have been made in the immediate aftermath.

However, an examination of how the votes for Leave and Remain were cast, indicates that there have been clear class divisions opened, with areas facing economic hardship and concerns regarding immigration and health care provision through the UK's National Health System (NHS) strongly supporting the Leave campaign. Those areas such as South East England, Scotland and Ireland that view the economic benefits of continuing membership voted strongly to Remain.

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## The leave campaign

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The UK Independence Party (UKIP), which won the biggest voter swing in the May 2015 UK general election receiving nearly four million votes – almost 13 per cent of those cast, campaigned for Britain's exit from the EU. About half of Conservative MPs, including five cabinet ministers, several Labour MPs, and Northern Ireland's Democratic Unionist Party (DUP) were also in favour of leaving.

They argued Britain was being held back by the EU, which they said imposed too many rules on business and charged billions of pounds a year in membership fees for little in return. They also wanted Britain to take back full control of its borders and reduce the number of people coming to live and/or work within the UK.

One of the main principles of EU membership is “free movement”, which means you don't need to get a visa to go and live in another EU country. The Leave campaign also objected to the idea of a “ever closer union” and what they see as moves towards the creation of a “United States of Europe”.



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## The remain campaign

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UK Prime Minister David Cameron wanted Britain to stay in the EU. He sought an agreement with other EU leaders to change the terms of Britain's membership. Sixteen members of the PM's cabinet also backed staying in. The Conservative Party pledged to be neutral in the campaign – but the Labour Party, Scottish National Party (SNP), Wales' Plaid Cymru and the Lib Dems were all in favour of staying in.

US President Barack Obama also wanted Britain to remain in the EU, as did other EU nations such as France and Germany.

Those campaigning for Britain to stay in the EU argued it gets a big boost from membership – it makes selling things to other EU countries easier and, they argued, the flow of immigrants, most of whom are young and keen to work, fuels economic growth and helps pay for public services.

They also said Britain's status in the world would be damaged by leaving and that the UK is more secure as part of the 28 nation club, rather than going it alone.

Leaders of the rival sides of the campaign

- **Britain Stronger in Europe** – the main cross-party group campaigning for Britain to remain in the EU was headed by former Marks and Spencer Chief Executive, Lord Rose. It was backed by key figures from the Conservative Party, including UK Prime Minister David Cameron and Chancellor George Osborne, most Labour MPs, including party leader Jeremy Corbyn and Alan Johnson, who ran the Labour In for Britain campaign, the Lib Dems, Plaid Cymru, the Alliance Party and the SDLP in Northern Ireland, and the Green Party. Britain Stronger in Europe raised £6.88m, boosted by two donations totalling £2.3m from the supermarket magnate and Labour peer Lord Sainsbury. Other prominent Remain donors included hedge fund manager David Harding (£750,000), businessman and Travelex founder Lloyd Dorfman (£500,000) and the Tower Limited Partnership (£500,000). The SNP ran its own remain campaign in Scotland as it did not want to share a platform with the Conservatives. Several smaller groups also registered to campaign.
- **Vote Leave** – A cross-party campaign that has the backing of senior Conservatives such as Michael Gove and Boris Johnson plus a handful of Labour MPs, including Gisela Stuart and Graham Stringer, and UKIP's Douglas Carswell and Suzanne Evans, and the DUP in Northern Ireland. Former Tory chancellor Lord Lawson and Social Democratic Party (SDP) founder Lord Owen were also involved. It had a string of affiliated groups



such as Farmers for Britain, Muslims for Britain and Out and Proud, a gay anti-EU group, aimed at building support in different communities. Vote Leave raised £2.78m. Its largest supporter was businessman Patrick Barbour, who gave £500,000. Former Conservative Party treasurer Peter Cruddas gave a £350,000 donation and construction mogul Terence Adams handed over £300,000. UKIP leader Nigel Farage is not part of Vote Leave. His party ran its own campaign. The Trade Union and Socialist Coalition also ran its own out campaign. Several smaller groups also registered to campaign.

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### Implications for business and the economy

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Big business, with a few exceptions, tended to be in favour of Britain staying in the EU because it makes it easier for them to move money, people and products around the world.

BT Chairman, Sir Mike Rake, a recent Confederation of British Industry (CBI) president, said there were “no credible alternatives” to staying in the EU. But others disagreed, such as JCB Chairman, Lord Bamford who said an EU exit would allow the UK to negotiate trade deals as our country “rather than being one of 28 nations”.

Morgan Stanley sources told BBC business reporter Joe Lynam that it had started the process of moving about 2,000 staff based in London to either Dublin or Frankfurt. Ahead of the vote, the president of the investment bank, Colm Kelleher, told Bloomberg that Brexit would be “the most consequential thing that we’ve ever seen since the war”.

Brexit saw stock market turmoil internationally and a substantial fall in the pound to levels not seen since 1984. Uncertainty regarding how new trade deals will be negotiated, defence arrangements, additional costs associated with border control, changes required to some 40 parliamentary Acts and concerns about particular sectors of the economy such as financial services are dominating post-referendum discussions.

Brexit’s effects on the international economy, warnings of other potential EU members who may also exit (the Netherlands is a particular candidate) and the stance the EU takes in negotiations (predicted to be tough) have the potential to create economic uncertainty not seen since 2007.



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## Political fallout

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The implications for the UK and for the various political players in the referendum campaign have been swift:

UK Prime Minister David Cameron indicated he will resign, probably in September or October, so that someone who believed in the exit and who could presumably unite the Conservative Party could be elected leader and hence Prime Minister.

Former Mayor of London, Boris Johnson, who led the leave campaign, is considered the favourite for the job. But he has not declared his intentions, and there are already indications he could face a more serious challenge than was previously thought. A poll released by the Times of London newspaper has suggested that Mr Johnson could actually lose among the Tory rank and file in a match-up with Theresa May, who handles the country's domestic security as the Home Secretary of the UK. May has not declared her intentions, and endorsed the Remain campaign, saying that she believed Britain was safer within the EU. Some within the party have suggested she could be a compromise candidate who would bridge the warring factions.

A number of candidates are expected to nominate, including Jeremy Hunt, the Secretary of State for Health who favoured Remain; Liam Fox, a former Secretary of State for Defence who enthusiastically campaigned for Leave; and Secretary of State for Work and Pensions, Stephen Crabb, considered a rising star in the party, though his advocacy for remain will likely hurt him among pro-Brexit members.

Opposition Leader Jeremy Corbyn has faced a revolt in the Labour Party, with some 12 shadow ministers resigning, and a vote of no confidence in his leadership being carried 172 to 40. He has so far refused to resign, and it has been suggested even if there is a leadership vote he may well survive with the support of rank and file Labour members and unions who supported the Leave campaign.

Scotland's First Minister Nicola Sturgeon said in the wake of the Leave result that it is "democratically unacceptable" that Scotland faces being taken out of the EU when it voted to Remain. She has indicated that a second independence referendum for the country (the first in 2016 narrowly failed) is "highly likely".

Deputy First Minister of Northern Ireland, Martin McGuinness has stated the impact in Northern Ireland would be "very profound" and that the whole island of Ireland should now be able to vote on reunification. Secretary of State for



Northern Ireland, Theresa Villiers has ruled out the call from Sinn Féin for a border poll, saying the circumstances in which one would be called did not exist.

It is most likely that a snap general election will be held before the end of the year, although laws that had been enacted to have fixed term parliaments will need to be amended.

Many of the promises and claims that had been made during the referendum by the Leave campaign have seen their proponents now distancing themselves from such claims. This is particularly so with respect to the quantum of money given to the EU that will be redirected to the NHS; control of the UK borders; and the strength and sustainability of the economy.

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## Brexit and Australia

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The implications for Australia of the UK referendum are important in terms of our relationship with both the UK and EU, particularly with respect to trade and sources of foreign investment.

In November 2015 an agreement to begin negotiations in 2017 with the EU on a free trade agreement (FTA) was announced at the G20 summit in Turkey. Where these negotiations now go, and whether a separate FTA with the UK might be on the table, are considerations for the future.

The EU consistently shows up as one of Australia's main trading partners:

- In 2014 the EU was Australia's largest source of foreign direct investment valued at \$169.6 billion and Australian foreign direct investment in the EU was valued at \$83.5 billion;
- In 2015, the EU is Australia's third-largest trading partner after China and Japan;
- The EU is Australia's largest services export market, valued at nearly \$10 billion in 2014. Services account for 19.7 per cent of Australia's total trade in goods and services, and will be an important component of any FTA.
- That said, 48 per cent of Australia's exports in services to the EU were via the UK; of the \$169 billion in EU foreign direct investment, 51 per cent came from the UK; and of Australia's foreign direct investment into the EU, 66 per cent went to the UK.

However, given that only 2.7 per cent of Australian exports go to the UK and the Leave victory is unlikely to plunge Europe into an immediate recession



## INFORMATION PAPER: BREXIT EXPLAINED

(although the medium-term outlook may not be so positive), the main impact on Australia will be on financial markets and affect short-term confidence.

But the Australia-EU-UK relationship cannot be reduced to numbers alone. It also rests on values shared between like-minded powers. Brexit represents the further fracturing of the West at a moment when that already weakening political identity is in relative decline compared to other regions of the world, notably Asia (or more specifically China).

EU-Australia relations rest on shared concerns, such as the fight against terrorism advanced through police collaboration and the sharing of passenger name records. The EU and Australia also collaborated to mitigate climate change at the Paris climate summit. And they work for further trade liberalisation in the World Trade Organization.

### **About this publication**

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