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The Brexit Bill: A Useful Political Bargaining Chip Not an Exact Science*

At the start of the Brexit negotiations, EU chief negotiator Michel Barnier presented the British a hefty bill: exiting the EU will cost them 60 billion euros. Prime Minister Theresa May was “not amused” but has promised that her country will meet its obligations. What are these obligations? The European Treaties do not specify how a country’s withdrawal is to be paid for. Two approaches are currently being discussed. One can be called the “divorce” approach. An inventory of common assets and liabilities is determined, and each partner receives its share of net assets. In the case of the EU, net assets are negative. With the Brexit bill the British would assume their share of the net debt. The other is the “club-membership” approach. As long as you are a member you pay your membership fees; when you leave, it is only a matter of how long after having given notice you must make further payments. The assets of the club are not split up but are held by the remaining club members.

Those who argue for the club approach point out that the EU’s assets are not taken into account when a country joins the EU – the new member simply starts paying contributions. Accordingly, the British could stop their payments to the EU when the withdrawal takes effect – there would be no Brexit bill. The EU-27, however, will hardly let the British off so easily, and they can present good arguments. For one thing, the EU is not the same as a golf or tennis club. More importantly, the EU, unlike most sports clubs, has negative assets and is therefore financially dependent on its member states. The case of Scotland is also instructive: London insists that Scotland, in the event of its independence, should assume part of the UK’s sovereign debt.

The Brexit bill presented by Michal Barnier takes the divorce approach, but is 60 billion euros a realistic figure? The EU publishes its own balance sheet, according to which, at the end of 2015, it had a total of 154 billion euros in assets and 226 billion euros in debts. EU assets include land, receivables from loans and bank deposits; debts include money it has borrowed but also obligations to pay pensions to EU officials. Net debts are accordingly 72 billion euros. Britain finances approximately 12 percent of EU expenditures, and this share of net debt would amount to 8.6 billion euros. The difference to the sum of 60 billion euros is mainly because of two items that are not included in the official EU balance sheet. One is that in the past few years, the EU has significantly higher expenditure commitments in its budget than it has made in payments. The difference is expected to grow to just under 250 billion euros by early 2019. In addition, there are member states’ pledges for future payments for EU structural policies amounting to 150 billion euros. The European Commission regards both of these items as liabilities of the member states and would like Britain to assume its share of around 48 billion euros. This brings us close to the above-mentioned total of 60 billion euros.

Legally and politically, these demands are highly controversial. Not only Great Britain but also other net contributors such as Germany, the Netherlands and Sweden argue that the differences between expenditure commitments and payments made to the EU budget are not really liabilities. They want this amount to be reduced by spending cuts.

All this makes it clear that in legal terms the Brexit bill cannot be determined unequivocally. This need not be a disadvantage – the payments demanded are a political bargaining chip that can facilitate agreement in other areas. It would be possible to minimise the economic damage caused by Brexit by means of longer transitional periods and a comprehensive free trade agreement for goods and services. The problem is that Brexit means a loss of face for the EU. That is why many want to limit the economic ties to Great Britain, even if this is also economically damaging for the EU. A possible compromise could be that Britain accepts a high Brexit bill and the EU in turn agrees to the speedy conclusion of a free trade agreement.

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