

Brexit basics

Brexit vocabulary

KPMG International

‘Brexit’ is the buzzword used to describe the United Kingdom’s exit from the European Union (EU). Since being coined in 2012 (although ‘Grexit’ may have come first), the verbal bandwagon spread across the world, into nouns (‘Brexiters’), verbs (‘Brexit’), and adjectives (with Colombia ‘pulling a Brexit’). Here we outline essential Brexit vocabulary to help you follow the debate.

Article 50 of the Treaty on European Union

The ‘right to withdraw’ or exit clause. The UK is expected to ‘trigger’ it in March 2017 (pending passage of a Bill), and will theoretically have until March 2019 (up to 2 years) to negotiate the terms of its exit and post-withdrawal relationship. Many believe that the process will take far longer than 2 years.

Association agreement

Or a ‘Deep and Comprehensive Free Trade Agreement’ (DCFTA), this agreement can cover trade arrangements (tariffs, customs procedures, technical standards and regulations etc.), as well as broader issues such as IP, environment and social policy, scientific research and education. In the case of the Ukraine, it requires alignment to regulation to provide partial access.

Bespoke deal

A ‘made to order’ trade arrangement with the EU sought by the UK, that will seek to sever ties between free trade and the free movement of people. Best encapsulated by Theresa May’s comment that the UK is seeking “a bold and ambitious Free Trade Agreement... [that] allow[s] for the freest possible trade in goods and services between Britain and the EU’s member states... [But] what I am proposing cannot mean membership of the Single Market.” Important to note that any comprehensive ‘mixed arrangement’ will likely require national ratification by every EU member, effectively giving each state the power of veto.

Brexit means Brexit

The catch-cry of the new UK Government administration to convey that the UK will indeed trigger Article 50 and exit the EU. It is meant to allay the fears of some (desires of others) that the government will backtrack on its intent to act on outcome of the referendum.

Brexpert

Someone only slightly less dazed and confused than everyone else about Brexit.

Cliff edge

Refers to the transition from current arrangements to a future model. The harder the Brexit (or more different the change), the more abrupt the ‘fall’, causing business to call for a ‘long runway’ of transitional arrangements. Theresa May has indicated that the UK will seek a ‘phased process of implementation’.

CET

A Common External Tariff to both the EU and UK for goods covered by a trade arrangement, for example industrial goods within the customs union.

Council of the EU

Also known as the Council of Ministers, the Council as the ‘voice of the member states’ will jointly conclude, with the European Parliament, any UK-EU deal negotiated by the European Commission.

Customs union (‘Turkey model’)

An ‘off-the-shelf’ trade arrangement covering industrial goods, this potential future model would limit the free movement of people, but remove access to the Single Market for services. It would also require the UK to provide free access to goods from third countries covered by EU FTAs, with reciprocal free access for the UK separately negotiated. The UK has indicated that a ‘customs agreement’ will be sought — but it will not be bound by the CET.

Directive

A law that binds EU members that specifies a result to be achieved. It is up to the member to determine how it will be achieved, and it must often be transposed into national law to be effective (whereas EU regulation is immediately binding).

Exclusive competence

The decision making powers of the EU over certain policy areas, including trade, customs, competition rules, monetary policy for the Eurozone, and the conservation of fish. Exclusive or shared competence over topics can impact voting rules — and therefore power plays in negotiations.

EEA

Previously thought to be a possible home for the UK post-Brexit, the European Economic Area agreement provides full access to the Single Market for EFTA member states, excluding Switzerland. This model would see the UK contribute to the EU budget and be subject to regulation without decision-making capacity, but leave it free to nationalize some policies (e.g. agriculture and judicial affairs) and negotiate FTAs with non-EU nations.

EFTA

The European Free Trade Arrangement promotes the free trade and economic integration of (the comparatively homogenous countries of) Iceland, Liechtenstein, Norway and Switzerland. The UK would likely need to re-join EFTA by unanimous consent of existing members in order to become a party to the EEA.

EU

The **European Union** is an economic and political union between (currently) **28 member states**, which have pooled their sovereignty to make joint decisions on policy areas of shared interest, such as environment, **justice and migration**, and external relations and security.

national authorities around cross-border serious crimes.

European Parliament

Sharing budgetary and decision-making power with the Council of the EU, the European Parliament is directly elected by and is representative of EU citizens. It oversees the work of the Commission and will play a supervisory role in the preparation of a Brexit deal.

Europol

Similar to Eurojust, the UK had opted into the EU's law enforcement agency (or the European Police Office), which assists national authorities in the prevention of serious international crime and terrorism.

Four Freedoms

The (potentially indivisible) pillars of the EU: free movement of goods, workers (or 'people'), and capital, as well as the freedom of establishment and to provide services within the EU. Like most things Brexit, the impact of any future deal on these is uncertain, dependent on the negotiating might of the UK and the EU. But one thing is clear — there will be an impact, and it won't be as 'free'.

Equivalence

Recognition by the European Commission of a third country's legal, regulatory and/or supervisory regime(s).

European Commission

Taking direction from The Council, the European Commission proposes legislation for approval by Council of the EU and European Parliament. Made up of technocrats from various countries and where the heavy lifting of the EU's work on a Brexit deal will be done.

European Council

Not to be mistaken with the Council of Europe or the Council of Ministers, the European Council consists of the heads of government and defines the political direction and priorities of the EU. The tone for Brexit negotiations will be set here.

Eurojust

The UK has opted into the European Union's Judicial Cooperation Unit, which supports cooperation of

FTA

A free trade arrangement governs a range of activities between two (bilateral) or more (plurilateral or multilateral) countries. Brexit will both allow and require (by necessity) the UK to negotiate FTAs with major trading partners to maintain or improve the UK's trading position.

GATT

International trade in goods between WTO members is subject to the General Agreement on Tariffs and Trade, a system of rules operating under the principle of non-discrimination and progressive liberalization — although to a lesser degree than other trading models (for example, customs union, FTAs etc.).

GATS

International trade in most services between WTO members is governed by the General Agreement on Trade in Services. There are four modes of supply which may be subject to different trading terms (restrictions): cross-border, consumption abroad, commercial presence, and presence of natural persons.

MEPS

Quite simply but perhaps not intuitively, 'members of European Parliament'.

Non-tariff barriers to trade

With a less quantifiable impact than the imposition of tariffs, non-tariff barriers to trade in goods or services generally center around differences in regulation (for example, rules around the origin of goods, product standards, or qualifications and licensing). Without an arrangement that limits these barriers, the UK and the EU (and other trading partners) are bound by each other's regulation in practice to some extent.

Qualified majority

A vote which must obtain a double majority of both members and population. For the EU, this means at least 55 percent of members, representing 65 percent of the population — but the 'divorce' is a special case, requiring at least 72 percent of members. Voting blocs will come into play if it is concluded that the future trade deal can also be passed through a qualified majority (as opposed to a requirement for unanimity).

Passporting

One of the potential bargaining chips of Brexit (and certainly the one receiving most airtime), a 'passport' allows EEA-authorized firms to provide certain cross-border services or set up a branch ('establishment' or 'branch' passport). Most intuitive to think of this in the ability of banks to provide financial services to clients located across the EU.

Rules of origin

The criteria to determine the national source of a product, which in turn determines duties and restrictions.

Schengen Agreement

An agreement which facilitates the free movement of people by establishing a single external border and

abolished all internal borders within a territory. Not all EU countries are members, but may cooperate with some aspects (such as police and justice).

Shared competence

The EU shares decision making competences with member states over some policy areas (including the internal market, agriculture, environment, consumer protection and transport), whereby EU laws have priority over national laws. It is likely that a trade arrangement covering policy areas with shared competence would require national ratification, thereby providing each member state with veto power.

Single Market

A territory without internal borders or regulatory obstacles to the free movement of goods and services (also known as a regulatory union). One of the cornerstones of the EU, a Single Market may still be subject to domestic policy, and it is generally agreed that there is less 'freedom' for trade in services than for goods.

Hard(er) Brexit

Media slang for a 'complete Brexit' trading deal between the EU-UK that does not allow for the free movement of goods, services, capital and/or people (for example, governed simply by WTO rules).

Soft(er) Brexit

Media slang for a 'less-than-a-complete Brexit' trading deal between the EU-UK that preserves the free movement of goods, services, capital and/or people (e.g. EEA) — a model looking increasingly less likely in the long-term.

WTO

Said to be the 'default' scenario, there is a surprising amount of uncertainty for trading under World Trade Organization rules. The UK will need to submit schedules as a member in its own right, which will outline a list of individual commitments on market access that will need to be accepted and certified by all other WTO members. This has been a struggle for the EU in the past — WTO agreement on schedules has not been formally reached since the EU-15.

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