

Brexit basics

How the EU works

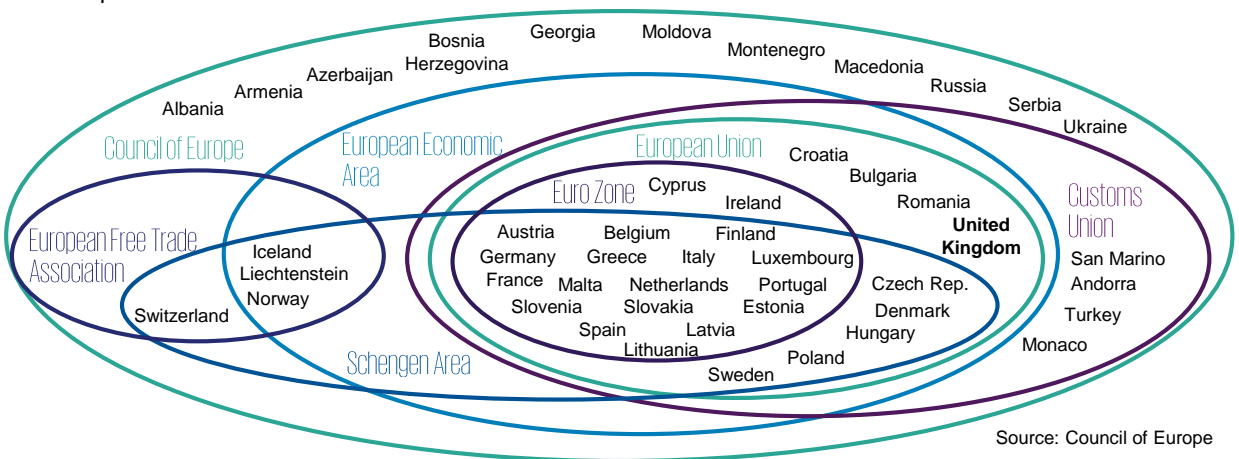
KPMG International

How do the various parts of Europe — both countries and institutions — fit together? Being prepared for Brexit means understanding some of the basics about how the EU works and who will sit around the negotiating table. This document sets out the basic framework of institutions, how they interact and the key individuals likely to be involved in Brexit negotiations.

What is the UK exiting?

The EU is at the center of a series of political and legal agreements that defines different rights and levels of cooperation around movement of people, trade, customs, and security. 'Brexit' means that the UK is leaving the most integrated of the regional alliances, the European Union (EU), with its common external tariff, policies, institutions and budget. With membership of the EU, or indeed the European Economic Area (EEA) and European Free Trade Association (EFTA), comes obligations, including freedom of movement of people and compliance with EU rules.

The UK has indicated that it will rescind its membership of the Single Market and EU Customs Union, and instead is seeking a bespoke deal (FTA) and customs arrangement that, by virtue of its singularity, would move the UK to its own space on the outer rim.



What is the EU?

The EU is an economic and political union between (currently) 28 member states, underpinned by the Treaty of Lisbon, which defines the terms of cooperation to make joint decisions on policy areas of shared interest. The EU holds decision-making power ('exclusive competence') over certain policy areas, but shares competences over others.

Under Article 5 of the Lisbon Treaty, the EU's exercise of its powers is subject to two key principles: the EU may not go beyond what is necessary to achieve its objectives, and where competence is not exclusive, it may only act if the objective is best achieved at an EU level.

Importantly, the type of competence can influence voting rules, and therefore political dynamics in negotiations. The difference between a vote by a qualified majority (a double majority of both members and population: at least 55 percent of members, representing 65 percent of the population) and unanimity by all states can make or break a deal. Canada recently found this out the hard way when long-running trade negotiations agreed by representatives of a population of 544 million were temporarily halted by a regional government of 3.6 million.

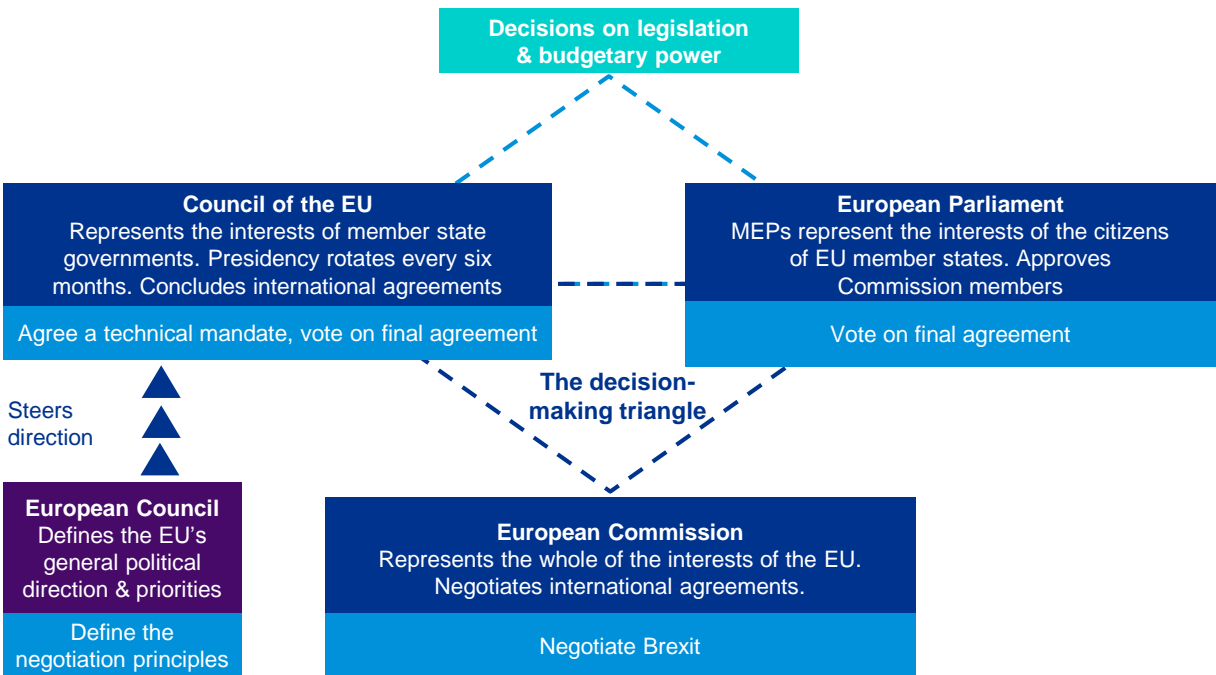
What can the EU negotiate?

The Lisbon Treaty defines the degrees of power that member states have agreed to take at an EU level.

Exclusive	Article 3	Policy areas		
Only the EU can legislate in relation to these areas. The EU may conclude international agreements, but member states cannot sign agreements with non-EU countries that affect common rules.		— Customs Union	— Marine biological resources conservation (common fisheries policy)	— Conclusion of international agreements under certain conditions
		— Competition rules for the internal market		
		— Monetary policy (Eurozone)	— Common commercial policy	
Shared	Article 4	— Internal market	— Consumer protection	— Area of freedom, security and justice
EU member states may adopt national policies where the EU does not exercise its powers. For international agreements covering shared competency, decisions are taken together with Council by common accord (unanimity).		— Defined social policy	— Transport	— Research, technological development, space
		— Regional policy	— Trans-European networks	— Development cooperation and international aid
		— Agriculture and fisheries	— Energy	
		— Environment	— Defined public health	
Supporting	Article 6	— Protection and improvement of human health	— Tourism	— Administrative cooperations
The intervention of the EU is limited to actions that support, coordinate or complement member state activity and the EU cannot require harmonization of member state laws and regulations.		— Industry	— Education, vocational training, youth and sport	
		— Culture	— Civil protection	

How will Brexit play out in the EU?



Never before has there been such interest in understanding the diplomatic world of Brussels! For many areas of activity affecting business, the EU decision-making process involves three key institutions. Much of the detailed technical work takes place at the European Commission, with the European Council and European Parliament negotiating political dimensions that shape the final rules.



Brexit will follow a similar pattern with the European Commission doing the heavy lifting of the Article 50 'divorce papers' of the Lisbon Treaty. However as is often the case in EU negotiations, it is the member states through the European Council who ultimately decide on a deal, with the European Parliament often shaping key elements.

Who is at the table?

Brexit bargaining will likely be directed (or at least influenced) by a veritable host of players — and the below is just the start. Knowing the key individuals who will be at the table during Article 50 discussions will be key to decoding what news comes out of discussions. Keep in mind that the posts and names attached to it can change.

Jean-Claude Juncker <i>(EU Commission)</i>  <p>The Luxembourgish President of the European Commission, the body responsible for Brexit negotiations.</p>	Donald Tusk <i>(European Council)</i>  <p>The Polish President of the European Council who may tussle with Jean-Claude Juncker for ultimate control of Brexit negotiations.</p>	Antonio Tajani <i>(EU Parliament)</i>  <p>The recent election of the Italian center-right MEP could mark the end of the coalition between the two largest political groupings — which may make the vote on the final UK/EU deal more challenging.</p>
Michel Barnier <i>(appointed by the EU Commission)</i>  <p>Former EU Commissioner for the Internal Market and Financial Services, the Frenchman has been appointed Chief Brexit Negotiator for the EU.</p>	Didier Seeuws <i>(appointed by the European Council)</i>  <p>The Fleming is leading the Council's 'Brexit Taskforce'. Hint — the 'e's and 'w' are silent.</p>	Guy Verhofstadt <i>(appointed by the European Parliament)</i>  <p>Federalist, former Belgian Prime Minister, and leader of the EU Parliament's center-left coalition. Appointed by Parliament to coordinate negotiations on its behalf.</p>
France  <p>France will be distracted by its own presidential and parliamentary elections (in April/May/June 2017). François Fillon or Emmanuel Macron will likely face off against the far-right National Front party, with the future of the EU potentially in the balance.</p>	Angela Merkel  <p>Chancellor of Germany and the longest-serving incumbent head of government in the EU. Merkel is facing re-election (in September 2017) and it may be difficult for her to concede anything to the UK in the middle of an election campaign.</p>	Theresa May  <p>The Prime Minister that will lead the UK to Brexit. Following a Supreme Court decision, both houses of UK Parliament voted to trigger Article 50 (by passing the 'Brexit Bill') and will have a vote over the deal struck.</p>
David Davis  <p>Also a prominent 'Brexiteer', the Secretary of State for Exiting the European Union will be linking in with Boris Johnson and Liam Fox to negotiate the UK's 'Brexit' from the EU.</p>	Boris Johnson  <p>The former London Mayor has been appointed UK Secretary of State for Foreign and Commonwealth Affairs. A vocal 'Brexiteer', he will be a key player in defining future relationships between the UK, the EU, and the rest of the world.</p>	Liam Fox  <p>The Secretary of State for International Trade and the third of the UK 'Three Brexiteers' that will influence the future trading model of the UK with the EU, but also the rest of the world.</p>

Also keep an eye on French, Dutch, Italian and German candidates — with pending elections in some of the major EU players, the tone of negotiations may change depending on different political outcomes.

Why is the debate worth following?

There is every indication that Brexit will be complex and led at the institutional/political level. The positions of the UK government, EU institutions, and EU member states may change and react to day-to-day events, but the overall tone of Brexit (black, white, grey or May's 'Red, White and Blue, a Brexit for Britain') will influence sectoral discussions that could impact your business more concretely.

With the exact outcomes unknown, businesses can be part of the debate, sharing their concerns and assessment of the practical implications on their business with industry associations and governments. It is essential for any business exposed to Brexit through trading links from or to the UK to understand what the implications of various possible outcomes are. Many businesses are already well advanced in planning for Brexit-looking at what the impacts on customers, suppliers and employees might be and developing contingency plans to deal with changes to their business.

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