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PressDossier

"Brexit" – Problem Areas, Potential Solutions and the Future of Relations Between the EU and UK

Introduction

The Brexit referendum is over. After 43 years of membership in the European Union, the United Kingdom will now go its own way. However, when a partnership has lasted for so long, separation is never easy. After decades of life together, the practical act of splitting up will be no simple task. Britain's departure will pose numerous hurdles, and will likely take years to accomplish, not least because so many issues are at stake. To arrive at acceptable solutions, negotiators on both sides will need to judge the issues with cool heads, and be willing to compromise.

The impending departure of the UK should give us pause to consider what went wrong. And once the causes have been identified, we should take action to avoid similar outcomes in the future. Brexit will have a wide variety of political, economic and societal impacts. For this reason, it has triggered a multi-faceted debate that is sure to continue for many years to come. While Britain has yet to officially announce to Brussels that it will quit the EU, Europe's leaders have been meeting with increasing frequency in order to discuss the difficult road ahead. The topics broached thus far are just the tip of the iceberg, however, for most of the issues in need of resolution have yet to fully emerge.

The aim of this Press Dossier, which has been developed by economists at the Centre for European Economic Research (ZEW), is to provide an initial overview of the many issues and problems posed by Brexit, while also outlining possible solutions. The Press Dossier discusses both prominent and lesser known topics that have come to the forefront in the wake of the Brexit vote – topics that are sure to become even more salient as actual negotiations get underway. In a series of short reports, ZEW economists draw on their expert knowledge to provide an assessment of various issues. You are welcome to use the texts in this Dossier or parts of them in your reporting, provided you identify the source.

Links to topics in this Dossier

This Press Dossier addresses the following topics:

- Decision-Making Processes in the EU
- EU Budget
- Financial Markets
- Intellectual Property Rights
- The Digital Single Market
- Free Movement of Workers and Labour Markets
- Corporate Taxation
- Competition Policy
- Public Procurement
- Energy Markets and Climate Policy
- Equality of Opportunity

You are welcome to contact ZEW's press office or directly communicate with the authoring economists in order to conduct interviews or obtain additional information. Contact information can be found at the end of each report.

Decision-Making Processes in the EU – How a Variable Geometry Could Augment Europe‘s Ability to Take Action

The “blame game” strains the EU

Dissatisfaction with the EU can be observed in many European countries. This dissatisfaction is certainly fuelled in part by the sense that Brussels is a foreign entity imposing decisions from without. Many of Europe‘s citizens don‘t feel adequately heard at the EU level, despite being represented by institutions that are legitimised through democratic process, such as the European Parliament and Council of Europe. Yet even when national ministers are involved in decision-making at the EU level, Member State governments are often all too eager to shift blame to Brussels if this enables them to avoid conflict with domestic interest groups.

Allowing a “multi-speed Europe”

Such scapegoating could be curtailed if important decisions were once again put to a vote in Member State parliaments. The usual and compelling argument against allowing national parliaments to play a role in decision-making is that it enables individual Member States to play an obstructionist role, thus paralysing all of Europe. While minority obstructionism could be prevented if we weakened the unanimity rule and allowed majority decisions, this could fan the flames of resentment against Brussels in Member States on the losing end of key decisions. Thus, another option would be to allow the passage of treaties that are not ratified by all Member States. The result would be to create a Europe that operates at different speeds, or – somewhat more neutrally formulated – a Europe with a „variable geometry“.

This could have a number of pragmatic benefits: Decision-making processes could be accelerated, as treaties would be ratified and implemented in national law with much greater speed. A key strength of the European Union is that it can tackle projects more efficiently and effectively than piecemeal efforts at the national level. The Internal Market, which has been a boon to European prosperity, is one such project. Joint refugee policy and joint foreign policy (e.g. through the establishment of EU embassies abroad) are two additional areas in which action at the EU level would bring distinct advantages. A variable geometry would enable current issues to be addressed in timely manner while also bolstering the ability of the EU to take action.

But there are additional reasons why a variable geometry is alluring: Under current arrangements, the rejection of an EU project by individual Member States can call the entire undertaking into question, as is currently the case for the CETA treaty. However, if ratification by individual states were instead possible, national leaders would think twice before joining the naysayers, as non-participation could lead to distinct competitive disadvantages. The possibility of individual ratification would thus encourage consensus.

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Corporate Taxation – Great Britain Will Become Less Attractive as a Place to Do Business

Brexit will have numerous consequences for the taxation of business transactions with British companies. In the area of corporate taxation, there will be three key effects:

Changes in cross-border taxation

First, there will be significant changes in the area of cross-border taxation. The United Kingdom will no longer be party to various directives that were implemented to create the Internal Market, including the Parent-Subsidiary Directive, Interest and Royalties Directive, and Merger Directive. In this way, taxation at the source would once again apply to cross-border transactions involving dividends, interest payments and license fees, as EU directives that eliminated such taxation (assuming fulfilment of minimum holding requirements) would no longer provide exemption. Taxation at the source would also be due on payments made internally by companies in EU states to recipients in the UK, and vice versa.

Loss of EU fundamental freedoms

Second, as a non-EU state, the UK would probably no longer enjoy many of the fundamental freedoms guaranteed under EU law. This could mean the loss of the freedom of establishment and of the free movement of capital, two provisions of particular importance for the private sector. As a result, discriminatory tax practices – which have been comprehensively restricted by the European Court of Justice to date – would no longer be generally prohibited with a view to business relations involving the United Kingdom. Companies with affiliates or subsidiaries in the UK would thus have a significant competitive disadvantage in relation to their EU-based counterparts.

UK will become “Third Country”

Third, under German international tax law, the United Kingdom would be considered a „third country“. This would restrict the ability of German companies to record losses suffered by their British subsidiaries. Furthermore, as the United Kingdom is considered a low tax country under German law because of its low corporate tax rates, the harsh provisions of German law on the taxation of foreign sourced income would apply. Britain‘s membership in the EU currently protects German companies from the application of these tax rules.

When leaving the EU, the UK would be strongly advised to sign new bilateral taxation agreements with all EU Member States that contain provisions analogous to current rules. This would allow the damage caused by higher taxation to be reduced, but not eliminated entirely. In sum, Britain‘s departure from the EU will complicate international business ties, creating new hurdles in the area of cross-border corporate taxation. As a result, the attractiveness of the United Kingdom as a place to do business will likely suffer.

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EU Budget – Additional Burden Will Be Small For Remaining Member States, Yet Politically Sensitive

The UK is the largest net contributor to the EU, after France and Germany. The British departure will thus have a negative impact on the EU budget. Furthermore, it is sure to raise questions about fair burden sharing and about the appropriate level of the EU budget in general.

EU budget losses will equal some EUR 7 billion

As Brexit is likely to have a number of secondary knock-on effects in Europe (e.g. in the areas of economic growth, trade flows, and customs revenues), its precise budgetary effects are difficult to quantify. However, a statistical analysis of budget data from 2014 provides a rough indication of the impacts that can be expected: In this reference year, the UK's gross contribution to the EU budget was EUR 17.4 billion, but this was corrected downward to EUR 11.3 billion under the terms of the UK rebate. Britain's departure will thus leave a significant hole in the EU budget. Yet the EU will also lose the customs duties that are collected in the UK and transferred to the EU, which were equal to EUR 2.7 billion in 2014. The departure of Britain thus means a loss to the EU budget of some EUR 14 billion. However, the EU will save EUR 6.9 billion in expenditures that currently flow to the UK (particularly for agricultural subsidies and regional policy). Accordingly, the net loss to the EU budget would be approximately EUR 7.1 billion. This corresponds to 5.4% of the current EU budget of EUR 131.5 billion (when EU expenditures in the UK are omitted).

The size of this funding deficit is thus rather small in relative terms, as it is equal to less than 1 per mille of the EU-27's GDP. The financial loss to the EU budget could be minimised if the UK were compelled to make funding contributions as a non-EU state, as is currently required of external participants in the Internal Market (e.g. Norway, Sweden). However, Britain's departure could also have negative growth effects with a much larger impact on the EU budget than the loss of Britain's net contributions.

Additional burdens for remaining EU countries are politically sensitive

Despite the small magnitude of budgetary loss, the additional burdens that will result for the remaining member states are politically sensitive. While the net payments made by individual Member States are not a reliable indicator of the burden or benefit of EU membership, they are often treated as such in national debates – particularly when such debates take on a populist character. In the coming negotiations concerning how to make up for lost British contributions, it will thus be important to assure that excessive new burdens are not imposed on member states that already carry a heavy load. In this connection, we recommend that the UK rebate, which was tailored to the needs of the British, be replaced with a Generalised Correction Mechanism (GCM).

Proposal for General Correction Mechanism

The Centre for European Economic Research has repeatedly argued for such a mechanism in the past. The basic idea behind the GCM is to cap the net payments made by a member state to an ex ante upper limit (defined in terms of a GNI percentage). Without such a correction mechanism, the wealthy countries that benefit the least from Common Agricultural Policy are required to pay the most. This is not sensible, for it contravenes the principle of fairness. In addition to the introduction of the GCM, EU budget expenditures should be reviewed to determine which programmes actually generate an added value for Europe. Agricultural subsidies in particular would appear to bring no added value. It would be much easier to make up for the loss of British contributions if programmes such as this, which are not justified from a pan-European perspective, were scaled back.

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Competition Policy – Negative Strategic and Operative Effects Can Be Expected

A primary goal of the European Union has been to create a shared internal market. Accordingly, in recent decades European institutions have devoted considerable efforts to developing a common competition policy, as well as to ensuring this policy is implemented by the European Commission and at the national level. The necessary process of creating rules for competition in the internal market has led among other things to the gradual harmonisation of competition law in individual Member States, meaning national rules now hardly diverge from European ones on key issues.

At first glance, the effects to competition policy that will result from Britain's departure seem limited in scope and relatively innocuous. The competition law that applies in Britain is already very similar to EU law. Furthermore, companies that wish to do business in the EU must comply with EU competition regulations – regardless of whether they are incorporated in an EU country or elsewhere. In this way, nothing would change for British companies operating in Europe.

Weakening of pro-market orientation likely

Nevertheless, Brexit is likely to have substantial negative effects on European competition policy, both at the strategic and operative levels. At the strategic level, British representatives have played a key role in designing and refining European competition law. Indeed, Anglo-Saxon tradition in competition policy has exercised a strong influence on the development of EU rules – for example, in the reform of European merger control, and in the adoption of more transparent (and more stringent) rules for granting state aid.

Accordingly, in the future the European Union will no longer be able to draw on the expertise of a country with extensive experience in the area of competition law. And more generally, Europe will lose an important voice in favour of liberal market policies. This could lead protectionist impulses to gain more political traction. Over the mid-term, this could not only damage the European economy, but also undermine European integration.

Cost increases due to additional merger control procedures

Yet beyond these strategic considerations, Brexit could also lead to substantial costs at the operative level. Although the scope of these costs will depend on the outcome of future negotiations between the United Kingdom and the EU, in light of current rules – for example, in relation to Switzerland – we can expect that the United Kingdom will perform its own, independent merger control when international mergers take place, insofar as the British market is impacted. These independent merger control procedures will generate additional costs for companies and regulatory authorities, not only in terms of additional fees and attorney costs, but also in terms of the delays that will result to merger approval, and associated uncertainty.

Negative effects on cartel prosecution

Yet beyond the additional costs that will result from an independent British review of mergers, Brexit is also likely to result in negative effects in the area of cartel prosecution. Within the scope of the European Competition Network (ECN), national regulatory authorities are currently able to cooperate in a variety of ways, from the application of leniency rules to the exchange of documents during an investigation. As a large percentage of cartels are international in nature, it is difficult to overestimate the importance of this cooperation. When the United Kingdom leaves the EU, it will presumably also depart from the ECN. This will weaken the ECN while also harming cartel prosecution.

Overall, it appears from a present-day perspective that Brexit will have clear negative effects on European competition policy and on the EU as a whole. Certainly, the effects will be more far-reaching than a mere shifting of responsibility for conducting cartel investigations from London to Paris or Brussels. The scope of the costs triggered by Brexit will depend crucially on the new re-

lationships that are established between the UK and EU. Yet even if the influence exerted by the United Kingdom on the previously mentioned strategic level declines following its departure from the EU, close cooperation at the operative level seems not only possible for both sides, but also extremely desirable.

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Financial Markets – Brexit Has Weakened Resolve to Create a Banking and Capital Market Union in Europe

The Brexit vote has stoked uncertainty on capital markets. Markets fell dramatically in the immediate aftermath of the referendum. While the FTSE 100 largely recovered its losses within just a few days, other European indexes suffered more persistent price declines. The market reaction is a dramatic illustration of the importance of Brexit for all of Europe. Three developments reveal the scope of the uncertainty: Investors are increasingly holding cash; purchases of German and US government bonds have increased (in a „flight to quality“); and the banking sector in Europe has been more heavily impacted than other sectors.

Brexit has put the brakes on growth

According to many economic forecasts, the British economy will soon suffer the consequences of its decision to leave Europe, and is headed for recession. Current forecasts also predict negative economic growth (at least temporarily) for other European countries. Since the outbreak of the global financial crisis in 2008, Europe has yet to return to a stable growth path, and Brexit will only worsen an already fragile situation. Accordingly, the ECB is unlikely to raise interest rates over the near term. Instead, we can expect additional actions to prop up markets, such as the expansion of quantitative easing. An interest rate increase is also unlikely this year in the US.

For Europe‘s banks, which are already suffering from weak profits, this means an even longer period in which earnings from maturity transformation will remain weak. As the business models of many German banks (particularly its credit unions and savings banks) depend on earnings from maturity transformation, the current market environment is putting them under significant pressure. An additional shakeout of the banking sector, e.g. through mergers and takeover, would thus be a welcomed development. As the problems being suffered by Germany‘s credit unions and savings banks are highly correlated, Brexit represents an additional risk for the financial stability of Europe. It has raised questions concerning the mechanisms in place to ensure the stability of these two pillars of Germany‘s banking sector. Both of these topics – i.e. banking sector business models, and institutional stability – are at the top of the agenda for the Single Supervisory Mechanisms (SSM) this year.

Deposit insurance system and fiscal union now appear unlikely

In Great Britain, less-diversified banks that are focused on financing the domestic economy are suffering in particular. However, in Europe the risk of default on loans granted to the British economy is low. In Europe, banks with minimal capital and bad loans on their books have been hit particularly hard. Many of these banks (particularly in Italy) were dependent on liquidity from the ECB even before the referendum, but the Brexit shock has raised the risk of bankruptcy considerably. Thus, we see that a political crisis (if one wishes to describe the result of the referendum as such) can quickly lead to a banking and financial crisis if the banking system is weak. The func-

tional integrity of the two existing pillars of the banking union (especially the Single Resolution Mechanism) may soon be put to the test. The risk of banking sector insolvency, particularly in Italy, has risen due to market uncertainty, meaning the SRM could potentially be used, depending on the circumstances. However, it is uncertain whether there is sufficient political resolve to activate the SRM.

Brexit will have consequences for the integration of markets in Europe, for it has fanned the flames of Euroscepticism. As a result, the political resolve to complete the banking and capital market union – two important European projects – may decline even further. The adoption of a European fiscal union or deposit guarantee scheme (as a third pillar to the banking union) now appears extremely unlikely.

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Public Procurement – Watering Down Anti-Discrimination Regulations Could Lead to Lower Efficiency and Higher Costs

Declining procurement efficiency could cost billions

Public procurement accounts for about 16 per cent of GDP in the EU. Therefore, even small losses in efficiency can translate into billions in additional expenditures. For this reason, there are extensive regulations within the EU for public procurement. These regulations have been reformed quite recently. These reforms intend to prevent discrimination against suppliers in the procurement process. Discrimination-free procurement guarantees suppliers free access to markets in Member States and prevents inefficient protectionism. Of even greater importance, such regulation ensures transparency and thereby significantly reduces corruption and cronyism in public procurement organisations.

Risk for the efficiency of European regulation

If the United Kingdom leaves the EU, it will either become a member of the European Free Trade Association (EFTA) or remain outside this organisation. In the first case, it is quite probable that the United Kingdom, similar to Norway, will continue to be subject to European regulations. At first glance, one might not have to fear any loss of efficiency. However, it is important to recall that in this scenario, the United Kingdom will no longer take part in the drafting of regulations. As the UK has been a driving force in favour of efficient procurement regulations, there is a danger that such regulations will become less efficient in the future. For example, in 2012 the United Kingdom took the lead in successfully blocking a proposal to introduce protectionist measures against states that were themselves engaging in protectionism toward the EU. Overall, watering down the European directives would have far-reaching consequences and could lead to increased protectionism, corruption and cronyism in Europe.

Anti-discrimination rules could be watered down

Meanwhile, there is a further threat. If the United Kingdom decides not to remain in the European Economic Zone, and is no longer subject to European regulations, there would be a strong temptation to soften antidiscrimination rules as a way of providing advantages for domestic suppliers. This would hamper access to the British market for suppliers from the EU. Moreover, one can anticipate that the EU will also adopt protectionist measures, which would be a burden for British firms. Such a scenario is made likelier by the fact that after its exit from the EU, the United Kingdom would no longer have any influence on the regulation of public procurement and, as menti-

oned, it was previously the strongest opponent of protectionist measures. Overall, under these circumstances, the efficiency of purchasing could fall dramatically in both the EU and in the United Kingdom.

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Intellectual Property Rights – The Validity of Trademarks and Registered Designs Could Be Jeopardised, and the Community Patent Convention Could Recede into the Distant Future

Protection of earnings from innovation

The introduction of Europe-wide trademarks – called European Union trademarks (since 2016) or Community trademarks (since 1993) – has led to the substantial simplification of commercial trademark rights in the European internal market. Similar to national trademarks, Community trademarks serve to distinguish a firm’s goods and services from those of other firms. The Community trademarks are valid throughout the European Union. Firms regularly register new trademarks for newly developed products and services or expand the scope of protection to include product variations or new applications. Thus, trademarks serve quite substantially to protect earnings from innovation. The introduction of the EU trademark was a central step in the realisation of the internal market. National trademarks maintain their validity under this regime and national trademark systems remain largely in force. One obtains an EU trademark by application to the European Union Intellectual Property Office (EUIPO) in Alicante. It can either be conveyed to the full range of EU Member States or be declared null and void. The validity of an EU trademark extends for ten years, but can be prolonged without limitation. The cost of an online application is currently around EUR 850 per registration in one of the 45 classes of the NICE classification. In recent years, about 100,000 trademark registrations have been filed per year.

Brexit narrows the scope of the EU trademark

The scope of the EU trademark will be significantly narrowed as a consequence of Brexit, because it will result in the loss of validity of the rights guaranteed by the EU trademark in the United Kingdom. Thus, owners of a European trademark (similarly also for a European design) will have no choice but to anticipate having to file an equivalent application for a national trademark in the United Kingdom. Depending on the size of a brand portfolio and the scope of its area of validity (for example, medications vs. surgical instruments), this can entail additional costs for the registration and maintenance of a trademark. This applies both to firms in the United Kingdom and to those from other European nations or non-member countries. Such increases in costs reduce the profitability of innovations in Europe and thereby diminish the overall incentive for carrying out product and service innovations.

Trademarks may lose their validity across the EU

Under some circumstances, a trademark may lose its validity as a result of Brexit, not only in the United Kingdom but also in the rest of the EU. The reason for this is that in order for a trademark to be valid, it is not sufficient for it to be registered, but it can only be maintained by using the trademark in each respective area of validity and in each respective geographic area. Thus, a brand will ultimately lose its protective effect in the rest of Europe if its market penetration (“name recognition among the relevant public”) is currently limited to the United Kingdom, and it is (as yet) still largely unknown in other EU nations. If a trademark is not used, it can be invalidated at the

request of a third party. If this takes place, additional investments in name recognition in those "publics" outside the United Kingdom will be required in order to maintain the validity of a trademark in the remaining EU nations. For example, if a service in the financial sector protected by an EU trademark was well known in London but not in other European banking centres, this trademark can lose its validity and may need to be newly registered for use in other banking centres in the rest of Europe. Thus, without an appropriate transitional regulation, firms will have to obtain a British trademark as quickly as possible or have to invest in the name recognition of a brand. One can also anticipate an increase in legal disputes for adjudicating the validity of trademarks.

Problems with the validity of registered designs

Similar problems will arise with respect to registered designs. Registered designs are a method for protecting a company's new products, services and distinguishing features including the company logo, acoustic signals or even mudguards and to forbid their use by third parties. As a result of Brexit, European designs will lose their validity in the United Kingdom and need to be replaced by national designs – possibly entailing a modified scope of protection.

Changes in licensing agreements

The changes in the validity of trademarks and registered designs will also require changes in associated licensing agreements by which third parties have been or will be granted use of such rights. Thus, the owners and users of such licenses will be directly affected by Brexit.

The extent to which efforts will succeed in drafting timely transitional regulations is impossible to predict at this time. Even a brief interval without appropriate protection could mean significant costs for the manufacture or sales of previously protected products and services, especially if respective trademark or registered design rights are claimed by third parties or if equivalent "no-name" products or services are brought to market. Thus, at least in the short run, there is good reason to fear significant costs, which will interfere with the international exchange of goods and services and significantly shrink income from innovations.

The European patent is not affected by Brexit

Not affected by Brexit is the widely known European patent, which is issued by the European Patent Office in Munich, because the traditional European patent is not an institution of the European Union, but instead, is based on an agreement that now includes around 40 nations in Europe. When a European patent is issued, it devolves into a large number of national patent rights, each of them maintained and, if necessary, defended in individual Member States before national courts. Given this system, there will be no need for adjustments resulting from Brexit in this domain.

For decades, the European patent system has been repeatedly criticised with respect to the costs for obtaining and maintain patent protection, since these costs are multiple times higher in Europe than in the United States. After many years of tough negotiations, an agreement has been reached for what is known as the European Community Patent, an integrated judicial procedure, and the establishment of a European Patent Court. National ratification procedures are currently in progress, and it was planned that in 2017, the Community patent would finally become a reality. The United Kingdom was one of the first EU nations to ratify the Community patent in 2014 – despite significant reservations about some regulations regarding litigation procedures, which were patterned on the German model that divides nullification from patient violation procedures, something that is foreign to English patent law.[1]

The Community patent will be blocked

As a consequence of Brexit, the ratification process for the Community patent may well be delayed in a number of countries. It is also possible that the entire procedure will have to be completely restarted, since with the exit of the United Kingdom, the validity of the Community patent shrinks significantly and London no longer can be considered for one of the two legal sites for the patent court. This may well require new negotiations at the EU level, all the more so since Italy and Spain

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1 In this regard, see Cremers, Katrin, Fabian Gaessler, Dietmar Harhoff and Christian Helmers (2014), Invalid but Infringed? An Analysis of Germany's Bifurcated Patent Litigation System, ZEW Discussion Paper No. 14-072, Mannheim.

have already exempted themselves from the system, because the Community patents can only be registered in English, French and German. Thus, prospects for the Community patent are receding into the distant future, and for years to come, obtaining patent protection in Europe will remain very expensive. Many observers regard this situation as a genuine obstacle to innovation and a critical disadvantage in international technology competition.

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Energy Markets and Climate Policy – Avoiding a Loss of Focus on Costs and Targets

Britain's exit from the energy union would increase energy costs

Energy markets in the United Kingdom and the continental EU nations are closely interconnected. For example, the UK is Germany's third-largest trading partner for petroleum: twelve per cent of German petroleum imports in 2014 came from Great Britain. EU-wide trade in electrical power inside the "energy union" also offers firms and consumers significant benefits. Excluding Great Britain from cross-border trade would tend to result in increasing energy costs. What is critical, therefore, is the future configuration of economic relations between the EU and the United Kingdom. If the United Kingdom remains part of the European Economic Area, then major components of the common energy market would also endure. However, in this case, Great Britain would have to be oriented, as before, to the regulatory standards of the EU.

Ambitious climate policy

As the second-largest emitter of greenhouse gases in the EU, the United Kingdom plays an important role in EU climate policy. The United Kingdom is pursuing a relative ambitious climate policy and in all likelihood, Brexit will not change anything in this regard. However, within the EU, a major proponent of a cost and target oriented climate policy will be lost. Still, Great Britain will continue to have a major interest in further cooperation with the EU, for example, in relation to the EU Emissions Trading System. Exiting the emissions trade would result in an increase in the costs of climate protection, particularly in the United Kingdom.

Thus, for the EU as well as the United Kingdom, there are significant incentives to continue closely cooperating in the area of energy and climate policy. The details of how this cooperation will be structured need to be the subject of exit negotiations. The negotiating parties should come to a rapid agreement about which areas will continue to be dealt with cooperatively in order to remove regulatory uncertainty from the market. To hold costs for firms and consumers as low as possible, preservation of the major elements of the energy union and continuing cooperation in emissions trade are advisable.

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The Digital Single Market – Online Sales of Goods and Services Could Suffer

As a location for ICT, Great Britain ranks third in the ten-nation ranking developed by ZEW and TNS on behalf of the Federal Ministry of Economic Affairs and Energy (http://www.zew.de/forschung/monitoring-digitale-wirtschaft-2015-2017/). Great Britain only trails the US and South Korea, and is closely followed by Japan, China and Germany. Great Britain is particularly ahead in the private use of digital technologies and the scope of Internet-based economic activities. Great Britain spends nearly 2,200 euros per inhabitant on Internet-based goods and services. In proportion to GDP, Great Britain is thus in second place in the ten-nation ranking, only behind South Korea. In addition, it has a leading role in B2C e-commerce in Europe, as well as around the world.

Increased costs in online trade

The digital single market is one of the core goals of the European Digital Agenda. This programme, the implementation of which is to be enforced over the next several years, offers particularly strong opportunities for Great Britain. Brexit could lead to competitive disadvantages for British firms with respect to their continental competitors if access to the digital single market is made difficult (for example, by increased international shipping costs). Such disadvantages are a particular risk for small firms, as large firms may have the option of shifting their business activities to the European mainland. Moreover, Brexit will mean the loss of a strong voice within the EU in favour of a liberal trade policy. Finally, customers throughout Europe benefit from British online sales. From the perspective of the EU, it thus makes sense, even in the event of Brexit, to find ways to continue breaking down barriers to the digital trade of goods and services with Great Britain.

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Equality of Opportunity – Counteracting Societal Inequality and Tackling Central Problems, Such as Youth Unemployment, Integration and Poverty Among the Elderly

Since the mid-1980s, inequality in the United Kingdom has been growing. Particularly with regard to the highest income groups, the gulf between the “poor” and the “rich” has become ever greater. Moreover, compared to other nations, there have been relatively poor opportunities for advancement and a lack of equal opportunity in Great Britain. Especially in the wake of the financial and economic crisis, this trend has received additional public attention, as the austerity policy for combating the crisis further aggravated inequality and the gains in growth achieved after the crisis have primarily benefited higher income groups. Socially vulnerable groups are looking to Brexit to improve their situation. This might happen by freeing up funds that would benefit them, such as improved care in the national health care system (NHS), or by keeping away new immigrants as unwelcome competitors for jobs. However, there is good reason to question whether Brexit will truly bring about the improvements hoped for by its proponents. It is conceivable that there will be a slight decrease in inequality as a result of the exodus of banks and many highly paid bankers from the United Kingdom. However, this development would not result in any improvement in the status of low-income individuals.

Counteracting societal inequality

In the wake of Brexit, the EU should concentrate on key problems that contribute to inequality. Worthy of mention in this regard are combating youth unemployment, measures to reduce poverty among the elderly, and an overall increase in equality of opportunity. Further, the refugee crisis and its consequences must be addressed in concert and with much greater care than has occurred to date. The creation of EU-wide unemployment insurance is one measure that could boost confidence in EU institutions. However, this would require a commitment to EU-wide solidarity, since economically stronger nations fear the risk of permanent redistribution to economically weaker nations.

Combating elderly poverty

In both Germany and the EU, income inequality, rising rents and housing prices, and the need to deal with the consequences of the refugee crisis are important issues. Political leaders need to take seriously the concerns of individuals who feel left behind by ever more rapid economic and technological changes or who see their life situation threatened in the face of small pensions. This is all the more important in Germany, because the number of retirees is expected to increase, and after a long and often insecure working life, many new retirees will find themselves with a pension barely above the subsistence level. The threat of poverty among the elderly must be counteracted, particularly by enabling individuals who will only receive a small pension to obtain adequate supplemental pension insurance.

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Free Movement of Workers and Labour Markets – Inner-EU Migration to Germany, the Benelux Countries, and Scandinavia Likely to Increase

Greater requirements for work visas

The consequences of Brexit for British and European labour markets will, among others, depend upon how access to the British labour market is configured for EU foreigners. In all likelihood, the requirements for a work visa in terms of qualifications and income will rise. If one takes as a basis the currently existing visa barriers for non-EU foreigners, around 70 per cent of EU-foreigners in the United Kingdom would fail to meet the requirements for such a visa.[2] Thus, if equivalent barriers for work visas are introduced, the stream of workers into the United Kingdom would decrease significantly.

However, contrary to the claims of Brexit proponents, decreased immigration is hardly good news for the United Kingdom. Lower immigration would actually be a burden on government budgets, since in recent years, EU foreigners, including those from Eastern Europe, have made a positive fiscal contribution, whereas on average, the population born in the United Kingdom has placed a net burden on government budgets during the same time period.[3] Furthermore, immigration from Eas-

2 See Vargas-Silva, Carlos, Potential Implications of Admission Criteria for EU Nationals Coming to the UK, Migration Observatory Report, COMPAS, University of Oxford, UK, May 2016.
3 Dustmann, C. and T. Frattini (2014), The fiscal effects of immigration to the UK, The economic journal, 124(580), p. 593-643.

tern Europe as a result of the EU's eastward expansion has had a positive impact on per-capita incomes in the United Kingdom.[4] Reduced immigration resulting from Brexit would mean losing these benefits, and have the consequence of reducing economic growth. Such losses might occur, for example, if those sectors that have relied heavily on foreign workers, such as the hotel and restaurant industry, find themselves faced with mounting recruitment problems.

Diversion of migration flows

Reduced access to the British labour market for low-qualified workers would also have implications for other EU labour markets. One possible consequence would be a diversion of migration flows in Europe, which could mean that other EU nations would benefit from the positive effects of migration observed in the United Kingdom. Because of their strong national economies, the most probable destinations for increased migration are Germany, the Benelux countries and Scandinavia.

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4 Bass, Timo; Brücker, Herbert (2012): The macroeconomic consequences of migration diversion – evidence for Germany and the UK. In: Structural Change and Economic Dynamics, Vol. 23(2): 180-194.

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