

Kreab Special Report

The EU Referendum: The result and short-term political and policy consequences from an EU perspective

Additional Key Reactions



The vote of the British people is a painful choice, but one that I respect. Europe must, show its solidity and strength, and provide the answers needed to control the economic and financial risks of stemming from a UK exit.

[Francois Hollande – French Prime Minister](#)



The consequences of the referendum will depend on whether 27 Member States can refrain from hasty decisions. The implications should be carefully analysed so that the remaining members can work towards a common position.

[Angela Merkel – German Chancellor](#)



We urge authorities in the UK and Europe to work collaboratively to ensure a smooth transition to a new economic relationship. We strongly the Bank of England and the ECB in efforts to curtail excess financial volatility.

[Christine Lagarde – IMF Managing Director](#)



The unity of the EU should be pursued by keeping the things that bring us together rather than those that tear us apart. Europe ended continuous war on the continent and ensured peace. This is our responsibility.

[Matteo Renzi – Italian Prime Minister](#)



The project of European integration has suffered a major blow. The decision of the British people should be respected, but it confirms a deep political crisis, an identity crisis, and a crisis in the European strategy.

[Alexis Tsipras – Greek Prime Minister](#)



The challenges we are facing are too pressing for us to afford any institutional uncertainty. This is why we will move forward on the basis of our shared values and interests, and keep working for the well-being of our citizens.

[Federica Mogherini – Commission High Representative](#)

Key Highlights (by EU Institution)

European Commission: President Juncker had already planned a meeting with the leaders of the other EU institutions. In a brief press conference this morning, he stuck to the scripted line, primarily reading a joint written statement ([here](#)). The Commission has also published a Q&A document ([here](#)). We understand that the Commission college will meet on Monday at 3pm. Interestingly, it seems initial rumours of emergency college meetings over the weekend have not materialized, perhaps underscoring the Commission's desire to reassure and reflect.

European Council: President Tusk made a statement ([here](#)) to the press this morning, ahead of the meeting and joint statement with the other EU institutional leaders. Like Juncker, he sought to reassure, outlining he had spoken personally to all EU leaders in preparation of this eventuality. Emphasis on the treaty process for withdrawal aligns with other EU institutions' position but jars with Cameron's stance. Echoing Juncker's stance, an informal meeting (of EU27 – so already minus UK) will take place in margins of next week's summit.

European Parliament: Obviously political views vary across the political groups, with the smaller EFDD and ENF welcoming the outcome whilst the larger centre/traditional parties of the EPP, S&D and ALDE all regretting the outcome. During their various press conferences ([here](#)) a common theme was the need for clarity and an urgency for the UK to respect the will of the people by triggering article 50. The ECR group (British conservatives' party) leader UK MEP Kamall defended Cameron's decision to delay.

France: French President François Hollande held a crisis meeting this morning with Commissioner Pierre Moscovici, Finance Minister Michel Sapin, Foreign Affairs Minister Jean-Marc Ayrault, and French Ambassador to the EU Pierre Sellal (among others) to discuss the UK situation. There was an extraordinary council of minister convened this afternoon in order to reach a common French position to present to EU partners ahead of further meetings in the coming days.

Germany: Chancellor Merkel has convened a meeting on Monday of a selection of EU leaders (European Council President Tusk plus her counterparts from France and Italy). This is designed to exchange views in order to seek a joint common position ahead of the summit later next week.

Short term implications

Political (UK perspective):

- Offering **clarity on domestic fallout** (political and economic) will be the top British political priority. But focus will need to quickly shift to EU level.
- **Articulating a clear and smooth short term transition plan** to reassure markets and EU partners alike is also a priority.
- **Mitigating political risk** (retaliations) against UK representatives in the EU institutions.

Political (EU perspective):

- **Reassuring EU27 that the EU can survive a Brexit** – i.e. Tusk's quote this morning: what doesn't kill you makes you stronger

- **Pressuring UK into clarity on next steps** – as soon as possible but no later than the EU summit next week.
- Using the opportunity Brexit offers to **reform and advance with the EU project** (with some emphasizing reform and others emphasizing advance)

Process:

- EU institutional leaders are united in their desire to **push the UK for a formal and rapid start to the negotiation** (this seems unlikely to be successful given Cameron already announced that he will leave it for his successor to formally trigger article 50).
- Whilst we believe **Cameron will resist pressure from EU partners**, it doesn't bode well for the start of the divorce settlement negotiations and risks retaliatory measures/reactions from the EU27 side
- The European Parliament will hold an extraordinary plenary on 28 June and all committee meetings on 27 June have been cancelled. The **EP will draft and adopt a resolution (non-binding) at its July plenary** (4-7 July) in Strasbourg designed to offer their views on how events should unfold

Policy:

- We understand there is **speculation that the UK's Commissioner, Lord Hill, could also be affected politically by the Brexit result** (removal of portfolio responsibilities sending a strong signal from EU side that there will be actions and consequences).
- At a working level perspective, President Juncker has **reassured Commission officials of British nationality that their jobs are not at risk** – according to EU staff regulations Commission officials are “Union officials” (though we suspect **British nationals' influence within the Commission will quickly diminish in practice**)
- UK ECR MEP Ian Duncan has chosen to formally resign as EP rapporteur on EU ETS ([here](#)). This could lead to **a wider imposed/self-imposed curtailing of UK influence on EU policy**

Macro-economic:

- Financial markets were hit by the surprising news of the Brexit vote, with **eurozone markets hit harder than the UK**. In the UK, the FTSE 100 opened at -7%, but somewhat rebounded to a figure around -3% on Friday afternoon. As such, they perform slightly worse than US exchanges at their opening, but 3 to 8 percentage points better than eurozone markets. **Bank shares performed worst**, with dips up to -30% in the morning and up to almost -20% later in the day.
- The pound briefly went down 10% against the dollar, hitting its lowest point in 30 years, but eventually stood at -7.5% in the afternoon. Also the Euro lost almost 3% against the dollar.
- **The Bank of England and the European Central Bank, with the support of the International Monetary Fund, announced they would make extra liquidity available if necessary**. The Bank of England confirmed a figure of £250 bn was available. It warned that the market and economic volatility could continue during the exit negotiations.

Business impact:

- **Strategy:** businesses will have to **articulate and execute a strategic plan to weather the short term uncertainties and volatility**. Location (HQ and other operations) for businesses/counterparties/customers/supply chain could all be impacted to varying degrees by the consequences of today's decision.
- **Operations:** Companies will need to assess the potential impact on its people policies (HR, labour pool/mobility/legal and compliance/communication). Given the very divisive outcome, it's likely that **many employers in the UK will have a workforce and customer-base approximately 50% of whom agree or disagree with either/both the employers position and/or the outcome**.
- **Investments:** Businesses will have to having plans in place to handle impacts on pricing of goods/services; risk mitigation regarding volatility and funding as well as currency/hedging implications.

Assessment and Analysis

Whether or not the peoples of Europe agree with Nigel Farage and Boris Johnson's assessment that today will be remembered as the 'UK's independence day,' 24 June will be remembered as a seminal moment in the EU's history. Cameron and the Remain camp will be looking back on where it all went wrong. But looking forward, the lessons to be learned from today need to be understood and acted upon across the EU. From a British perspective, the ball is now firmly in their court – with the Brexit leaders now on the verge of taking up the responsibility of office and delivering on the promises they made to the British people. From a UK perspective, an internal constitutional crisis could well also be brewing with a lack of clarity over the ability of the British PM to constitutionally pull the UK's composite members out of the EU, a particularly thorny issue in Scotland and Northern Ireland whose populations voted to remain. 23 June could go down in history as being the end of the British Union as well as a schism for the EU.

From an EU perspective, limiting political contagion from other populist parties combined with stabilising the EU's economy will be of paramount importance. The EU is the embodiment of compromise – both sides will have to remember this if a positive outcome in the long run can be achieved. Today's constitutional crisis could allow the EU to fundamentally reform its institutions and structures to create a two-speed EU, enabling the harmonious co-existence of those who desire full political and fiscal union, with those who prefer a looser union centred on the Single Market. Ultimately the political challenge to the UK and the EU 27 is whether there the necessary political will and courage on both sides to bring about such a change. If so, President Tusk's assessment that what doesn't kill you, makes you stronger may well become a reality. If not, the bitterness and acrimony which characterised the campaign could settle in, making what is already a difficult situation politically and economically for the UK and EU even worse.