The financial settlement – it will be a long-term gain

THE FINANCIAL SETTLEMENT

The Prime Minister has stated that the financial settlement and any payment thereof would depend on a satisfactory overall agreement which meets the objectives of the Florence Speech, including a trade arrangement.

THE PRESENT POSITION

When going into negotiations with the EU for a *'single financial settlement'* it is necessary to consider the current established financial relationships between the UK and the EU.

These come in two parts:

The UK's EU budget contribution (after rebate) amounts to around £13.5 billion per annum. That is about 20% of the total net savings of the UK economy. It is also a legal obligation of EU membership and exists in perpetuity. Any sum spent by the EU in the UK is not an obligation but is a matter of EU policy. Since 1973 the total net UK contribution to the EU budget at 2017 prices is about £500 billion and, at present, the perpetual obligation adds to this every year. (The last time it was fully worked out was for the period 1973-2010 when it amounted to £379 billion at 2010 values.)

The second part of the current relationship is that there is UK exposure to the liabilities of the EU and its entities such as the ECB (European Central Bank), EIB (European Investment Bank), etc. There is no corresponding EU exposure to UK liabilities such as those of the Bank of England. The UK also has *'joint and several'* liability for all EU debts.

In comparison with the UK situation, non-EU EEA countries, such as Norway, have no exposure to EU liabilities nor do they contribute to the EU general budget (contrary to what is often asserted).

It should be noted that this study addresses only financial and fiscal matters. There are other costly economic effects of the UK-EU relationship, such as food costs, migration costs, etc. which are not referred to here. There are also some benefits in the internal market relationship.

The present financial situation is described more precisely in a pre-referendum study:

UK Membership of the EU – The Threat to the Balance Sheet.

THE UK’S NECESSARY FINANCIAL ASPIRATION

It is, therefore, prudent and a financial necessity that the UK ceases to hand over 20% of its net savings to the EU in perpetuity with virtually no influence of how these savings are spent (only a tiny fraction is spent on investment in the UK).

It is also urgent for the UK to extract itself from the partly one-sided exposure to the liabilities and contingent liabilities of the EU as soon as possible. Adopting the position of the EFTA/EEA states which have no responsibility for EU liabilities would be prudent finance.

THE ‘FINANCIAL SETTLEMENT’ AS AT DECEMBER 2017

The fundamental two aims of stopping EU budget contributions with the consequent erosion of UK savings/investment and extracting the UK from EU liabilities are on the table and in the Joint Report of 8th December 2017.

These are the two core financial benefits of departure.

It is important to understand that the EU referendum was about the long-term future and not about the details of departure,

not all of which are favourable. Further, if the referendum had been won by Remain, both the half-a-trillion pound hit to UK savings would have increased every year by some 2 or 3%, and the UK would still have been responsible for its share of EU liabilities.

These will cease over the next five years, although in a somewhat unsatisfactory and messy settlement.

THE FINANCIAL SETTLEMENT – THE QUANTUM

Michel Barnier is quoted in The Guardian (19/12/2017): *"He* [Barnier] *would not confirm British estimates that the final Brexit bill – the UK's outstanding obligations to the EU – would be no more than Euro 45 billion (£39 billion)."*

This was hardly unreasonable of Barnier because at least two of the principal subjects of financial discussion, the UK's stake in the EIB and EU pensions seem to have been left as ongoing yearly matters and, therefore, it is difficult to form capitalized totals thereof in any meaningful way. Pensions will be paid when this amount falls due. This means the UK could still be paying pensions up to 2100 although the amounts will be insignificant by then.

It has also been agreed that the UK will continue its normal financial relationship with the EU until the end of 2020, that is, making budget contributions and collecting the rebate.

Some questions arise over the following (the references are to the Joint UK EU Report of 8/12/17):

- It is not stated that the UK will receive its rebate for the year 2020 (it is normally repaid one year in arrear).
- Item 61, *"The UK will contribute its share of the financing of the budgetary commitments outstanding at 31st December 2020 (RAL)."* The 'rebate' is not mentioned but even if the UK agrees to pay its share of RAL then

this should be subject to the rebate (paying a share of the RAL is a political concession by the UK). The whole point of the RAL is that money has been spent or authorized above the EU budget although Item 67(b) appears to negate the rebate in RAL matters.

- Then there is ambiguous phraseology over the balance sheet. *"The UK will contribute (para 62) its share of the financing of the Union's liabilities incurred before December 2020 except for liabilities with corresponding assets and assets and liabilities which are related to the operation of the budget and the Own Resources division."* The English is poor and obscurantist. The clear fair method is for the UK to establish its share of the EU balance sheet (assets and liabilities) and pay its share of the net amount if there is an excess of liabilities over assets. This is the method recommended by the Institute of Chartered Accountants. (some of the net may be subject to the rebate).
- The European Investment Bank (EIB): The UK has agreed (item 74 onwards) that it will not receive any profit from the activities of the EIB but will participate in a share of any losses entailing Extra Capital calls. This is a poor negotiating decision.