A reasonable divorce bill?

Mrs May, so we were told last Sunday, has decided to agree a £50 billion divorce bill with the EU, although the UK's Chief negotiator, David David has denied this, saying that it was "complete nonsense".

Accounts appeared in several papers suggesting that the government would be paying between £7 billion and £17 billion for three years after Brexit, but that payments would cease by 2022 – the year of the next General Election.

There is a sizeable group of Brexit supporters who believe that we should pay absolutely nothing to the EU after we become independent. "Not a a penny to the blackmailers!" says one comment to the article cited above. Others would not take such a hard-line position, maintaining that we should honour our obligations to the end of the current seven-year budget cycle, which ends in 2020.

Whatever, it is hard to justify the figure of £100 billion which the EU is demanding. Our current net budget contribution amounts to somewhere in the order of £10 billion and was not predicted to rise that much up to the end of the EU's budget cycle or beyond.

Of course, the EU is not only losing a member state but losing a net contributor to the EU budget. In only one year since joining in 1973 has the UK received more money from the EU than in paid in. Günther Oettinger, the EU Commissioner responsible for the budget, reckons that Brexit could make a hole as big as €20 billion in the EU's finances.

During the last round of Brexit talks, Michel Barnier, the EU's negotiator, was distinctly unhappy with the UK negotiating team's three-hour line-by-line rebuttal of the EU's expensive divorce bill. There does seem, however, little justification for the figure demanded by the EU.

Perhaps the most sober estimate of a reasonable divorce settlement comes from the Institute of Chartered Accountants of England and Wales. It has produced a report suggesting that the likely cost should end up somewhere between £5 billion and £30 billion. The most likely figure, £15 billion, would equate to be £225 for every person living in the UK in 2019. This is roughly on a par with our net annual contribution to the EU budget – in other words, how much we pay after the rebate and agricultural subsidies are deducted.

The full report can be downloaded here. It includes spending which has been authorised but not yet incurred, which will be hard to avoid. ICAEW's study puts this figure at £28 billion.

On the other hand, there are assets which we can cash in. We have a 16% stake in the European Investment Bank, estimated to amount to some £10 billion by 2019. With ownership restricted to EU members, our shareholding will need to be sold.

The authors also indicate that some additional expenditure will be needed to complete the Brexit process. After all, for one thing, extra staff will need to be employed for what will be complex but one-off negotiations.

The report considers that the most contentious issue may be any ongoing commitment to infrastructure projects in the former Soviet bloc countries. After all, the state of infrastructure in the UK leaves much to be desired and given the claims that some UK workers, including teachers and nurses, are worse off now in real terms than they were five years ago, it would not be unwise for Mr Davis and his team to argue that charity must begin at home.

We have been somewhat critical of certain aspects of the government's approach to the Brexit negotiations recently, but when it comes to the divorce settlement, there is no question that it is the EU which is being most unreasonable in the sum it is demanding.

Photo by aronbaker2