eman ta zabal zazu

Universidad del País Vasco | Euskal Herriko Unibertsitatea

FACULTY OF ECONOMICS AND BUSINESS. GIPUZKOA SECTION

*FACULTAD DE ECONOMÍA Y EMPRESA-SECCION GIPUZKOA*

END-OF-DEGREE PROJECT

*TRABAJO FIN DE GRADO*

# EXPECTED EFFECTS OF THE BREXIT ON BASQUE COMPANIES

***EFFECTOS ESPERADOS DEL BREXIT EN LAS EMPRESAS VASCAS***

AUTHOR: ANDREAS ANGERMANN

SUPERVISOR: AMAIA ALTUZARRA

2019

# Contents

## Index of Charts



## Index of Tables

**Appendix**

# Summary

As it looks for now, at the time of writing in summer of 2019, the UK will most probably leave the EU. This Project's main goal is to study existing trade relations between the Autonomous Community of the Basque Country (ACBC) and the United Kingdom (UK) and their origin, and roughly estimate what tariffs Basque companies trading with a UK that left the community must expect. Another important objective is to study economic and political reasons for UK's special role in the European Community since becoming a member, including a theoretical approach to economic integration and the evolution of the EU.

My analysis has shown that the UK is an important trade partner for the ACBC, being found among the top five partner countries in exports and imports during most of the recent years. Different sectors will be affected very differently by tariffs. Further I have found out that any kind of Brexit will economically harm not only the UK but also every single remaining EU member state. Ireland will be most affected, even more than the UK.

# Introduction

The outcome of the Brexit referendum in June 2016 was a shock for the European Union (EU) and for many British too. How did it come so far? What were the political and economic consequences of the referendum and the Brexit threat? And what could be the consequences for the United Kingdom (UK), the European Union, for the European members and especially for the Autonomous Community of the Basque Country (ACBC) if it really comes down to it and the United Kingdom leaves the community?

This Project intends to advance in the understanding of the historical factors that fuelled process of the Brexit and to analyse the potential economic effects that the UK leave could have for the ACBC.

The structure of the Project is as follows: The first part is dedicated to the history of trade relations between the UK, the ACBC and Europe, with a theoretical approach to economic integration linked to the history of the EU. The focus lies on the peculiarities of the UK in the European integration process.

In the second part, I will analyse political reactions and the evolution of currencies, stocks and GDP since  the first Brexit threats came up in early 2013, and find out how or if important news (for example, the agreement in 2018 between London and Brussels on a transition period) affected these important indicators of performance of an economy.

In the third part, the goal is to find out what effects different Brexit scenarios could have on tariffs for trade between the ACBC and the UK. In a first step, total and sectoral trade of recent years is analysed. Then, based on these results, I calculate expected tariffs in a Hard Brexit and a Soft Brexit scenario to see how these tariffs affect differently the Basque and British companies in each sector. Finally, the main conclusions of this Project are drawn in the last section.

# Part I

## Chapter 1: Origin of economic relations between the Basque Country and the United Kingdom

In any period of history, commercial relations between two countries depend to a great scale on the political-diplomatic relations between them. That is why first, I want to look at the political relations between Spain and the United Kingdom[1] in each period. Then I will relate them to the economic situation at the time in order to understand the commercial effects they had between the two countries. Although the history of their political-economic relations is not the central topic of the present Project, I think that it is important to summarize it briefly as a necessary step towards greater understanding of their relation today.

### 1.1 Seventeenth and eighteenth century (1667 – 1796)

During this period, Spain and the British Islands were both friends and enemies, and fought several wars against each other, mostly at sea. The basic source of conflict was the Spanish quasi-monopoly in the Americas, and England constantly seeking foreign markets for the products of its important manufacturing sector (Zabala, 1983). To get a rough overview of this time, it is important to mention three events: The Anglo-Spanish conflict and the Lord Sandwich - Treaty (1654-1667), the War of the Spanish Succession

[1] I use the terminology "The United Kingdom" for the Kingdom of Great Britain (1707 – 1801), consisting of England (including Wales) and Scotland, the United Kingdom of Great Britain and Ireland (1801 – 1922) and the United Kingdom of Great Britain and Northern Ireland (1922 – present). For earlier mentions than 1707 of the area of England, Wales and Scotland, I use the name of the biggest British Island, "Great Britain".

and the Peace of Utrecht (1701-1715) and the development of tension in the second half of the century, culminating in the Anglo-Spanish war (1796 – 1808).

The Treaty of Madrid (1667) between Spain and England, also called the Lord Sandwich-Treaty, was the first step to end the Anglo-Spanish conflict going on since 1654. The British received the status of most favoured nation; they were granted to pay the same tariff rates as the Dutch and French and, gained an immunity to ship inspections off coast and in Spanish ports. These privileges where confirmed and extended within the treaties of the Peace of Utrecht (1712 -1715): British exporters would pay a volume-based tax (called *palmeo*) and in no case would pay more duties than the Spanish. Among other concessions in the Americas, they were very convenient for the British traders and seen as price the Spanish King Phillip V paid for British diplomatic support in Italy. (Kuethe and Andrien, 2014).

The Treaty of 1667 allowed the British to export any kind of goods from England and its colonies to Spain. Except for the periods of war and other short interruptions, these permissions lasted until 1767, when the Spanish government started to prohibit importing British cotton, linen, beer and other goods of high interest for the British exporters (Zabala, 1983). This process of increasing trade restriction continued until the beginning of the Anglo-Spanish war in 1796.

The most important goods exported from Spain to Great Britain were wine, wool and colourants. These three products made up to 70% of all exportations by the end of the century. The most imported goods were manufactured woollen products, which represented 65 % of all imports from Great Britain by the end of the century. Very little can be said about specific importance of the Basque country within this trade. The north of Spain only played a major role in the exportation of wool, and importation of drapery-products (Zabala, 1983).

At this time, the Basque coast had nine commercial ports. Five of them were in Vizcaya: Bilbao, Portugalete, Bermeo, Palencia and Mundaka; and four in Gipuzkoa: Guetaria, San Sebastian, Pasajes and Fuenterrabia (Zabala 1983). The most important, certainly were Bilbao and San Sebastian, although there are some difficulties among historians concerning the denomination and delimitation of San Sebastian and Pasajes (Zabala, 1983). In England, the most important harbours in the trade with Spain at the time were London, Bristol, Liverpool and Exeter. In 1790, approximately 365 ships were bringing 40.000 tons of goods from Spain to Great Britain, and 230 ships 230.000 tons the other way around. (Zabala, 1983). Bear in mind that these figures correspond to a particular year, in which the trade already suffered of political restrictions (see above).

### 1.2 Nineteenth century (1796 – 1914)

In the first half of the 19th century, political relations between Spain and the United Kingdom were very difficult. In this period took place the Anglo-Spanish war (ongoing since 1796), the battle of Trafalgar in 1805 (where the Royal Navy destroyed the Spanish-French Armada, securing its predominance on world`s oceans until the Second World War), the Napoleon Wars and the Congress of Vienna 1814-1815, the British intervention in the Spanish Carlist Wars, and a rupture of diplomatic relations in 1848. The second half of the century was completely different: diplomacy was re-established in 1850, and there were no major political problems anymore between the two countries for the rest of the century (Nadal, 1978).

Economically, the United Kingdom turned into the first industrialized power of the world. Its fast-growing production industries demanded imports of raw material from all over the world, especially raw minerals. Production capacity exceeded the national demand, requiring the United Kingdom to assure that her products could be sold in foreign markets (Nadal, 1978). This economic expansion and the control of the world´s oceans after the battle of Trafalgar allowed her to take over most commercial relations with the former Spanish colonies from Spain.

In the beginning of the century, most important British exports to Spain were still manufactured textiles of cotton, wool and linen, but its relevance was in decline: While they summed up to 52% of all exports in 1815, they represented only 20 % in 1845. This official data can be explained by the developing Catalan textile industry, which made Spain less dependent of British textiles, and by the increasing British smuggling through Gibraltar. On the upward trend were weapons (for the Carlist wars), all kind of ironware, pottery and machinery, especially from 1840, and sometime later steam engines (Nadal 1978). The effects of the industrial revolution in England started to spread all over Europe, including Spain.

Spain was left without significant military and commercial fleet after the battle of Trafalgar and was unable to compete with the United Kingdom (Nadal, 1978). In the first half of the century, the most exported goods to the United Kingdom were wine (up to 31 % of all exports in 1838), wool, raisins, mercury and saltwort. On average, these five goods counted for 73 % of all annual exports to the United Kingdom between 1815 and 1846. Wool and saltwort lost importance until the mid of century, while wine, mercury and lead gained. Other products of relevance to mention were olive oil, oranges and lemons (Nadal, 1978).

In the second half of the century, the British supremacy forced Spain into the position of consumer of its industrial products, and into provider of raw material and agricultural products. According to Nadal (1978), the British interest in maintaining this established semi-dependence slowed down industrial development in Spain, delaying it for years.

In this period, coal, machinery, ironware and textiles were the most important British exports to Spain. The coal was shipped in increasing amounts, gaining especial importance: 37.320 tons were exported in 1841, over one million tons from 1882 on and two million tons by the end of the century. By then, it counted for almost one quarter of all exports. A lot of British coal was shipped to the Basque Country (port of Bilbao) and was fundamental for the developing Basque iron and steel industry (Nadal, 1978).

The second half of the 19$^{th}$ century is also characterized by the spread of the industrial revolution to other European countries. Textile products from Belgium, France and Germany entered the Spanish market causing British exports of these products to drop down, especially in the period from 1877 to 1886 where Spain established a discriminating tax on British products (in consequence of a disagreement on the taxation of Spanish wine).

As noted above, Spanish exports to the United Kingdom in the second half of the 19$^{th}$ century were mainly mineral raw materials and agricultural products. The two categories together represented more than 60% of all exports, with a maximum of 91% in the year of 1886. Of especial importance within the mineral exportation was iron from the Basque country: numbers increase constantly from 350.000 tons in 1876, to over one million in 1878, two million in 1880 and up to 5 million in 1899. From 1878 to 1893, there were more tons of Basque iron shipped to the United Kingdom than from the rest of Spain (Nadal, 1978).

## Chapter 2: Theoretical considerations on economic integration and different approaches to it in post war Europe

The European Union as it is at the time of writing in spring 2019, is the current picture of a democratic peace and economic project in constant transformation and expansion (and since the possible exit of the United Kingdom, of reduction too), starting its integration process shortly after the Second World War. It helped decisively to abolish the last military dictatorships in western Europe (in Spain, Portugal and Greece) and as there were no military confrontation within its area, it has been fully successful regarding to its peace mission. As an economic and political project, there is certainly more discussion. There have always been different approaches on how to organize and integrate the economies of Europe's nations since the Second World War. The goal of any integration process is to raise economic relations between the participating countries, and every successful process of integration manages to let all participating countries win, although it is certain that some countries will beneficiate more than others (Fenández, 2006).

According to Donato Fernández Navarrete (2006), there are five modalities in any economic integration process:

1. Free-trade area
2. Customs union
3. Common or single market
4. Economic and monetary union
5. Total integration (economic and political union)

In a free-trade area, customs tariffs are abolished between the member states, but each one of them maintains its tariffs on products from non-member states, independently from the rest. The main problem of this type of integration is controlling the origin of products: it can be difficult to determine whether a product was produced in another member state, or this member state was only used by an outside state to introduce the product into the free-trade area (because a lower tariff is applied).

In addition to the free circulation of products, member states of a customs union have agreed on one common system of tariffs for all products from non-member states. This common tariff is a fundamental difference to the free-trade area. Fernandez (2006) sees the customs union as first step in the integration process, pulling hard for the next ones: the common market and then the monetary union.

In the common market, the second step of the integration, free circulation of services, capital and work are added to the free circulation of products. Common regulations and harmonization of law between the member states are established, requiring supra-national institutions.

In the third step, the economic and monetary union, the creation of a common currency finishes the economic integration process. The national currencies of member states are converted completely and irreversibly into the new, common one. A supra-national institution is created to manage monetary affairs.

Without doubts, the most difficult step is the last one, the economic and political union. It implies transferring more and more powers from national governments to common institutions. Therefore, it is a very difficult and complex phase. Fernández (2006) points out that, if the process of the integration stops with the monetary union, it is most likely to collapse at some point, because the political disintegration sets too many obstacles to de development of the economy.

After the Second World War in Europe, there was one big question: How to re-organize economic relation within (western-) Europe and assure that the catastrophe of two world wars would not occur again? When the Europe Congress came together in May 1948, there were probably as many answers to this question as participants (more than 800 delegates were present).

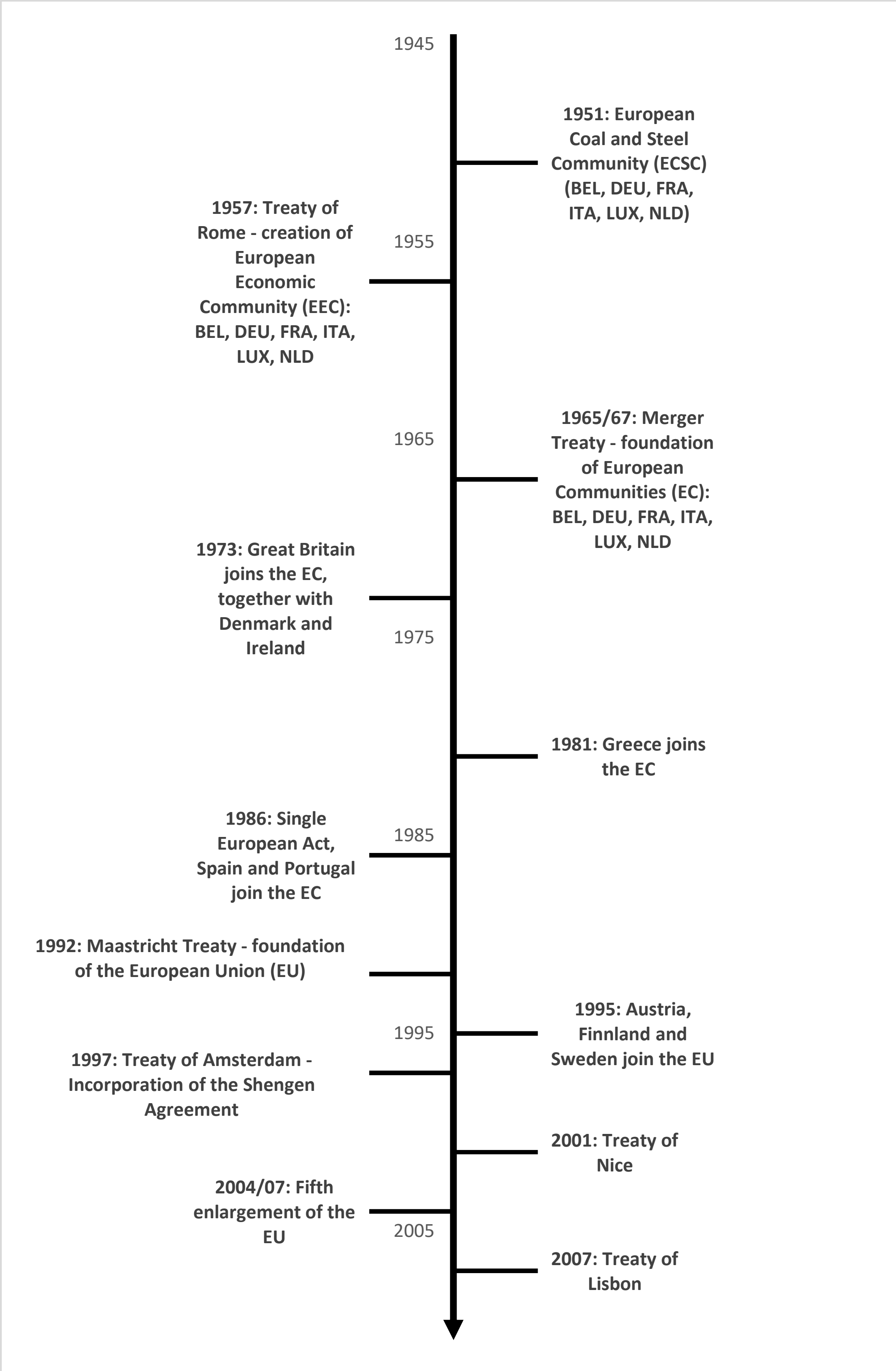
Over the decade to come, two groups of nations evolved: The most ambitious group made up of Belgium, France, Germany, Italy, Luxemburg and the Netherlands was willing to work towards a common market (step 2 of the integration process as described above).

This group was known as the *inner six.* It founded the European Economic Community (EEC) in 1957, the origin of modern-day European Union (see chart 1: milestones of the European Union Integration).

The less ambitious group was formed by Austria, Denmark, the United Kingdom, Norway and Sweden. These countries were sceptic about a single European market or, at least about the step prior to it, the costums union. They founded the European Free Trade Association (EFTA) in 1960 and they were often referred to as the *outer seven* (see chart 2). As the name suggests, their goal did not exceed the free trade area, modality 1 of the integration process as described above. In its beginnings, the EFTA worked well too, but at the end of the 60s, the success of the EEC became visible. In particular, the United Kingdom realized that the higher economic growth among the member states of the EEC was related to their closer agreements and, consequently the United Kingdom became interested in joining it. "EFTA was heavily trade creating, but the EEC promoted intrabloc trade through a combination of trade creation and trade diversion" (Bayoumi and Eichengreen, 1997, p. 162). This performance induced more and more countries to leave the EFTA and join the EEC, or then called European Communities (EC). Today, only Iceland, Liechtenstein, Switzerland and Norway remain members of EFTA, and because of the establishment of the European Economic Area (EEA)[2] in 1992, the EFTA really is of little significance in the modern trade of Europe.

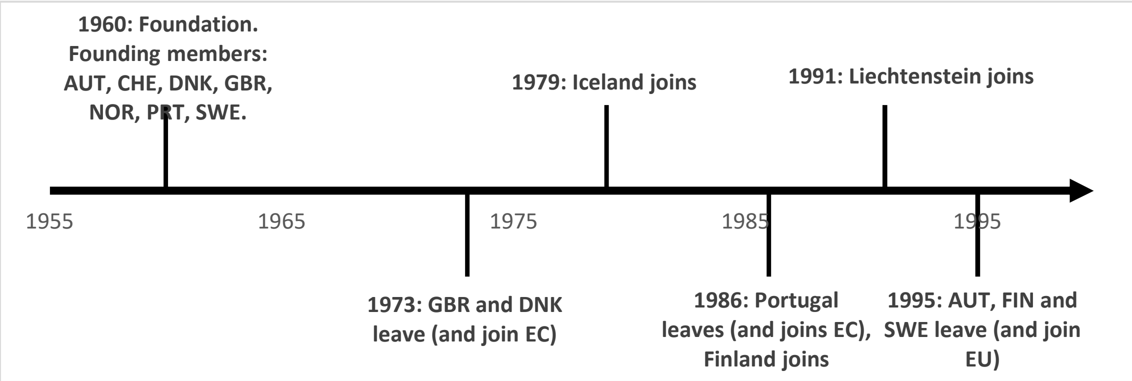
[2] The EEA is an international agreement from 1992, enabling the extension of the EU's single market to non-member states. It linked EU with EFTA, exempting Switzerland which remains outside. See **https://www.efta.int/eea** for more information on the specific features of the EEA agreements.

**Chart 1: Milestones of the European Union integration process**




*Source: Own elaboration from data provided by the official website of the European Union and Wikipedia.org*

**Chart 2: Overview timeline of European Free Trade Association (EFTA)**




*Source: Own elaboration from data provided by the official website of EFTA and Wikipedia.org*

# Chapter 3: The European Union and the United Kingdom

## 3.1 Evolution of the European Union

The process of building the European Union was (and is) extremely complex and is beyond the main aim of this Project. I just want to explain the most important basics of the process, which are, in my opinion, relevant to gain understanding on the role played by the United Kingdom in the integration process that will be explained in the following chapters.

Five major landmarks in the evolutionary process of the European integration are worth highlighting:

- The foundation of the European Economic Community in 1958,
- The achievement to become a Customs Union in 1968,
- The establishment of the European Monetary System (EMS)[3] in 1979,
- The establishment of the single market in 1993 and,
- The economic and monetary union in 1999.

These landmarks match exactly the first, second and third stages of the theoretical approach to the integration process as described above. They were made possible by the following, most important treaties: The treaties of Rome or EEC Treaty of 1957, the Single European Act of 1986 and the Maastricht Treaty of 1992.

The treaties of Amsterdam (effective 1999), Nice (2003) and Lisbon (2009) are leading towards raising the European Union up to the last and most difficult stage, the economic

[3] The EMS was an ensemble of agreements to achieve monetary stability in Europe, including the introduction of the Exchange Rate Mechanism, a semi-pegged system (fixing currency exchange rates of member states, allowing fluctuations within a determined margin).

and political union. Especially the Treaty of Lisbon (in force at the time of writing) is celebrated and criticized heavily for its accomplishment to do so.

1) The Treaty of Rome is signed by the *inner six* in 1957, founding the European Economic Community (EEC) and is often seen as the pre-elementary economic constitution of the modern European Union. It is primarily characterized by aims and principles, such as the will to harmonize development of economic activities, continuous expansion, accelerating the raising of the standard of living, community loyalty and non-discrimination of nations. It also determines two overall objectives: the forming of a single market and the approximation of economic policies, although the two concepts remain undefined (Pelkmans, 1997).

2) The Single European Act of 1986 is signed by the former *inner six* and Denmark, Ireland and the United Kingdom, which joined the European Communities (EC)[4] in 1973, and Greece, Portugal and Spain (joined in 1981and 1986, respectively). This Act strengthened the economic constitution established in Rome almost 20 years before and enhanced getting under way the single market by adding, among others, five important points to Rome:

> *"All five critical additions to the Treaty (of Rome, N.B.) have a bearing on this effort to 'complete' the internal market. All other additions were either codifications or provisions of marginal importance. Those five additions were:*
>
> - *Far more qualified majority voting (QMV) on internal market matters*
> - *An explicit, unambiguous definition of the internal market*

[4] In 1965, the Merger Treaty joined the three legislative and administrative bodies of the European Economic Community (EEC), the European Atomic Energy Community (EURATOM) and the European Coal and Steel Community (ECSC) to form the European Communities (EC), with a single Commission and Council.

- *Mutual recognition as a regulatory principle*

- *Approximation of health and safety in the workplace*

- *Economic and social cohesion"* (Pelkmans, 1997, p.38).

The internal market was defined in article 13 of the act, as an area without frontiers and free movement of goods, persons, services and capital[5]. The same article also established a deadline of 31st of December 1992 to get this done, which shows the true determination the participating nations had to succeed.

3) The Maastricht Treaty, or Treaty on the European Union, is signed in 1992 and is probably the most known treaty of all mentioned so far. This is because it had a big impact on people's life. It modified the previous treaties by adding a third general objective: The Economic and Monetary Union (EMU), bringing the community from step two of the integration process to step three.[6] A second crucial point was the change of the term "approximating economic policies" into "common policies or activities". These two cruxes of Maastricht (Pelkmanns 1997) resulted in the creation of the Euro, introduced in 1999 as demand deposit and 2002 in cash, the creation of the European Central Bank, the empowerment of the European Parliament, among other changes. It closed or finished the process of the economic integration and opened the way to the political one (Fernández 2006), founding the

[5] The exact words of the definition in article 13 are: The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty. Retrieved from **https://eur-lex.europa.eu**

[6] In fact, the EMU was created in 1990, but its agreements were consolidated and incorporated into European law within the Treaty of Maastricht.

European Union. To protect national interests, the principle of subsidiarity[7] is introduced within this Treaty, too.

The EMU was planned to develop in three stages. The first one started on the 1st of January 1990 by abolishing all restrictions of capital movement within member states. The committee of governors of the national central banks was given more tasks on coordination of monetary policies, with the final goal to increase price stability.

The second stage (1994 – 1999) is characterized by the creation of the European Monetary Institute (EMI) in 1994 and the European Central Bank (ECB) in 1998. The main tasks of the EMI were the strengthening of central bank cooperation, monetary policy coordination and preparations for the third stage, especially the setting up of the European System of Central Banks (ESCB)[8]. With the establishment of the ECB, the EMI was liquidated.

The third stage of the EMU is taking place since 1999. It started with the implementation of the ESCB, the irrevocable fixing of exchange rates from the

---

[7] The principle of subsidiarity is very important in the EU. It regulates the competence division in certain areas between member states and Brussels, assuring member states power and thus helping to fulfil a principle goal of the EU: to exercise powers as close as possible to the citizens. According to the European parliament, the principle "… governs the exercise of the EU's competences. In areas in which the European Union does not have exclusive competence, the principle of subsidiarity seeks to safeguard the ability of the Member States to take decisions and action and authorises intervention by the Union when the objectives of an action cannot be sufficiently achieved by the Member States, but can be better achieved at Union level, 'by reason of the scale and effects of the proposed action'. The purpose of including a reference to the principle in the EU Treaties is also to ensure that powers are exercised as close to the citizen as possible, in accordance with the proximity principle referred to in Article 10(3) of the Treaty of the European Union (TEU)".

[8] The ESCB consists of the ECB and all national central banks of EU member states, regardless of whether they have the Euro or not.

currencies of the 11 participating member states (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland) to the single currency called Euro, its introduction and the conduct of a single monetary policy under the responsibility of the ECB[9]. It is obligatory for the EU member states to participate in stage three, all new members must commit to accomplish the participation. The United Kingdom and Denmark are exempted of this obligation, by having negotiated opt-outs in their correspondent EU-Treaties[10]. Another special case is the member state Sweden. One requirement to join the Eurozone is to be member of the Exchange Rate Mechanism (ERM II)[11] for at least two years. Sweden does not want to enter ERM II, and therefore stays with its national currency. The obligation mentioned above is questionable; it seems that the European Union has accepted that Sweden does not participate in the Eurozone. In a hearing held by the European Parliament on the 12th of January 2010, Olli Rehn, then Commissioner for Economic and Monetary Affairs stated, "it is up to the Swedish people to decide on this issue".[12]

4) The Treaty of Amsterdam (effective in 1999) and the Treaty of Nice (effective in 2003) were more of political character and are in general seen as failures (especially Amsterdam) as not reaching objectives. With the Amsterdam Treaty, the European parliament was again empowered, giving it the right to participate in ordinary legislative procedures by lifting it on the same level as the council of the European Union. In addition, the objective of the "area of freedom, security and

---

9 All information on the three stages is extracted from the official website of the ECB, **www.ecb.europa.eu**

10 For a closer look on the opt-outs, see section *3.2 The United Kingdom and the European integration*.

11 The ERM II replaced the ERM to set currency exchange rates of non-euro member states against the Euro. Like ERM, it´s a semi-pegged system.

12 Source: official website of the European parliament, **www.europarl.europa.eu/hearings**

justice" was defined and the Schengen Agreement was included into the Treaty. With Nice, reforms of the European institutions were accomplished. These reforms were necessary for the coming enlargement of the union to the east and primarily affected the division of power between member states by redistributing number of commissioners, the votes in the council and seats in the parliament corresponding to each one of them. Apart from this, the Treaty of Nice hardly contributes something new, except for extending the Qualified Majority Voting on certain issues (Fernandez 2006).

5) The Treaty of Lisbon, signed in 2007 and in force since 2009, was a complete success. It amended the Treaty of Nice. It reduced the high amount of unanimity requirements, widening the qualified majority voting and introducing the double majority in a lot of decision-making processes. Especially in the area of justice and home affairs, the national veto rights are abolished. Again, the European Parliament is empowered, the common foreign and security policies are strengthened, and the distribution of power within the European Council is reorganized: new numbers of votes are assigned to the governments of the member-states, following more accurately the proportion of their population within the Union. Supporters of the Treaty of Lisbon state that this puts the Union on a broader democratic legitimation, while critics say that interest of the smaller nations could get endangered. It is sure that Lisbon increased the capacity to act of the EU significantly (Weidenfeld, 2013).

By strengthening the positions of the president of the commission, the president of the European Council and the representative of the Common Foreign Security Policy, the Treaty of Lisbon gives faces to the EU, an important political factor for creating image.

### 3.2 The United Kingdom and the European Integration

The United Kingdom did not want to join the European Coal and Steel Community (ECSC) and did only sent middle-state diplomates to the negotiation in Rome in 1957, more as observers than anything else. The British still felt as a world power at this time, despite the new geopolitical situation deriving from the cold war and decolonialization. Their special and privileged relation with the USA allowed them to stay out of the community project at the beginning. And, when the United Kingdom finally joined the EC in 1973, it did so because of realizing that protecting its interests was easier from inside the community than from outside (De Areilza, 1996).

In fact, the British realized this much earlier: just one year after forming the EFTA, they applied for the first time to enter the EEC in 1961, and another time in 1968. The British were observing the strong economic growth on mainland Europe, not to be reached within the EFTA[13]. The economic advantage of EC was undeniable. In addition, a generation of politicians who fought in Second World War was in power in the United Kingdom. They did see the EC as an important peace project too (Bar, 2017).

However, Charles de Gaulle, then president of France at that time, vetoed against the United Kingdom to join the community, both times. He feared too much "Atlantic" or American influence through the United Kingdom on the European project. In addition, he saw the British economic structure hardly compatible with the one of the European participating countries, especially in terms of the agricultural sector (Bar, 2017). Only with the resignation of de Gaulle, the way was clear for the United Kingdom to enter and negotiations started in 1971. After difficult negotiations, the United Kingdom joined the EC together with Denmark and Ireland in 1973.

After the joining of the United Kingdom and a change of government, a referendum was held in 1975 on maintaining in the EC. The question asked was: "Do you think the United Kingdom should stay in the European Community (the Common Market)?" It was clearly accepted by 67,2 %, yes votes. How the question was asked underlines a fundamental thing to understand the United Kingdom's role in the European integration: The United Kingdom was never seeking a political union; it was only interested in the establishment of a European common market. Neither UK entered the EC because of willing to integrate

[13] The EFTA market would consist of about 90 million people, while the one of EC members already had 300 million people.

nor for resolving the problems of nationalism, as did the *inner six.* It entered because of economic necessary (Bar, 2017).

However, along its membership in the EC, and later EU, the United Kingdom made important contributions to the community project. It incorporated and executed new common European laws very fast, serving as a model state to others. It contributed to raise transparency in the common institutions and with the incorporation of the common law (the British law) into the European law, the position of the Court of Justice of the European Union was strengthened (de Areilza, 1996).

But the United Kingdom maintained a special role throughout its entire membership, developing a constant *Euroscepticism.* It always tried to slow down the process of integration (Bar, 2016), always trying to keep as many competences as possible in London. So, where does this *Euroscepticism* come from?

I found out that there are three possible, major reasons for it. The first reason is the historical perception of British people of their nation (nostalgy of the former world power, the most powerful European kingdom still existing, imperial romance etc). The UK is the only country of Europe that had never been invaded, had never suffered of a civil war and never had established a dictatorship. According to Mathieson (2016), these facts have an important impact on the social psychology of many British (and thus on their electoral behaviour).

A second reason is a true different position within the world trade in comparison to the other nations of Europe, because of the Commonwealth of nations[14], London as the most important financial centre of the world and, as mentioned above, the special relation to the USA. The third reason is the different structure of the economy of the UK, especially regarding the little importance of the agricultural sector. The most important

[14] During the second world war, the Commonwealth was an important source of finance for the UK. After the war, it imported most of its raw materials from commonwealth member states. With the approach to EC, the commonwealth lost importance. Nowadays, the Commonwealth is of no relevant economic importance anymore.

consequences of these reasons within the UK-EU relation are the famous *UK-rebate*, the five *opting-outs* and a special position within the Common Fishery Policy.

**1) The UK-rebate**

The most important element in the community budget has always been subventions to the agricultural sector of the member states. In the 1970ies and 80ies, they counted for approximately 70 % of the entire expenses of the community budget. In 2017, they remain the most important expenses, representing approximately 50 % of all. But in the UK, the agricultural sector was and is very small in comparison to the other big community members like France or Italy. Therefore, the British successfully negotiated an economic compensation in 1975. Margaret Thatcher re-negotiated in 1985, and the compensation became known as the UK-rebate[15]. A second argument of Thatcher was that the general wealth on the island at the time was less than on the mainland, and that the UK was a “Member state bearing an excessive budgetary burden in relation to its relative prosperity” (Bar, 2017).

The UK-rebate is a compensation of complex calculation, which results in an approximately 66 % reduction of the British net-contribution[16] to the community budget and is paid by the rest of the member states. For example, in 2017, the UK-rebate was of 4.94 billion Euros, and the contribution of the UK to the EU budget was of 10.58 billion Euros after the rebate.[17]

While the first argument, the little importance of agricultural subventions in the UK, is still widely accepted within the EU, the second one is not. The UK is now

[15] The UK-rebate is not the only economic compensation within member states. Other rebates exist or existed for Austria, Germany, Sweden and the Netherland, although in smaller scale.

[16] The net-contribution is the amount paid into the community budget minus the amount received from the community budget

[17] See: http://www.europarl.europa.eu/external/html/budgetataglance/default_en.html#united_kingdom

one of the richest member states, and especially France, which is financing the biggest part of the UK-rebate, was calling for its abolition in the negotiations for the EU financial frameworks 2007-2013.

**2) Opt-outs**

In the law of the EU, member states have the possibility to negotiate “opt-outs” from community legislation or treaties. This means that they do not have to participate in the policy areas correspondents to the opt-out. At the time of writing, there are 10 opt-outs existing in the EU: the UK has 4, Denmark 3, Ireland 2 and Poland 1.

The UK’s first opt-out was on the Social Chapter of the Maastricht Treaty. It was negotiated by the Major Ministry before signing the Treaty. When coming into office, Tony Blair immediately abolished it in 1997.

UK’s second opt-out, on the Economic and Monetary Union (EMU), has also been secured in Maastricht. The decision of not participating in the EMU did not only mean to not adopt the Euro, it has other important consequences for the UK too: not participating in the elaboration process of the legislation for the EMU, not participating in the institutions of the Eurozone, in the European Stability Mechanism (ESM) etc (Bar, 2017).

With her third opt-out, on the Schengen agreement, the UK secures her right to execute border control. Ireland joined the UK in adopting this opt-out, to keep the border to Northern Ireland open via the Common Travel Area (CTA) agreement. In the negotiation of the Brexit, this boarder is one of the most difficult problems to solve.

The fourth UK opt-out refers to the Charter of Fundamental Rights of the EU and was secured in the negotiations of Lisbon. It pretends to assure that the Charter is only valid within the UK when the applicable content is also existing in British legislation.

UK's fifth opt-out refers to the Area of Freedom, Security and Justice (AFSJ). With the Treaty of Lisbon, the unanimity vote requirement on matters of policies on border checks, asylum and immigration, and judicial cooperation in civil and criminal matters (of Title V of the Treaty of the Functioning of the European Union) is abandoned. Thus, the UK lost its possibility to veto, and negotiated, again successfully, an opt-out.

**3) Special position within the Common Fishery Policy (The Hague Preferences)**

The Common Fishery Policy (CFP) has its origin in the Treaty of Rome, back then as part of the agricultural policy. It was in the 1970s, with the joining of the UK, Ireland and Denmark to the Community, when the CFP got an own identity. The initial objectives of the CFP were the preservation of population of fish, the protection of marine environment, ensuring of a well-functioning European fishing fleet, and satisfying the market demand with quality products. [18] Nowadays, after various modifications and reformations (the most recent one in 2013), and according to the European Parliament, the CFP "… is meant to ensure that the activities of the fishing and aquaculture sectors are environmentally sustainable in the long term and are managed in a way that is consistent with the objectives of achieving economic, social and employment benefits". The European Maritime and Fishery Fond (EMFF), with a budget of 6.400 million Euros for the period 2014 - 2020, serves as important tool to achieve these goals. [19]

The CFP was an important subject in negotiating the joining of the UK, Denmark and Ireland in 1972, three countries with important fishing industries. Within these

[18] Information retrieved from the factsheet "The Common Fisheries Policy: origins and development" by the European Parliament: **http://www.europarl.europa.eu/factsheets/en/sheet/114/the-common-fisheries-policy-origins-and-development,** retrieved on 22.08.2019.

[19] See Appendix figure A1 and figure A2 for more details on the EMFF

negotiations, the principle of free access was abandoned: the zone where a member state had exclusive right to fish was extended from territorial waters (12 nautical miles off coast) to up to 200 nautical miles off coast, including the exclusive economic zones (EEZ).[20] Significant changes in the CFP also occurred in the 1980: In 1983, the concept of relative stability, total allowable catches (TACs) and quotas were introduced. With the leaving of Greenland (1985), the joining of Spain and Portugal (1986) and the German reunification (1990), the structure, volume and capture capacity of the European fishing fleet changed, and the CFP had to adapt.

With the extension for exclusive fishing to up to 200 nautical miles and the inclusion of the EEZ mentioned above, the UK assured that no other member state could fish under Community law within its traditional fishing grounds (the EEZ of the UK is the fifth largest in the world). Also, one of the key subjects in the UK's access negotiations was how to control the fishing effort. It managed to reduce this community institution to a body of inspectors without legal right, only allowed to observe and collect information.  In 1976, the UK and Ireland achieved a special contract within the CPC, the Hague Preferences, allowing the UK and Ireland higher TAC for certain areas of high dependency of fishing. (Billón 1997, p. 231).

To underline the importance of UK' s fishing industry, I would like to analyse Table 1 (next page). The biggest fishing industry within Europe has Spain with a total catch of 906.6 thousand tons in 2016, for instance, followed by Denmark (670.2 thousand tons) and the UK with 701.7 thousand tons. However, the UK benefits lesser than proportional to the size of its industry from the EMFF (see appendix figure A2). For the period 2014-2020, the UK receives only 243.1 million Euro

[20] The concept of an EEZ is established by the 1982 UN Convention on the Law of the Sea. Article 56 defines: In the exclusive economic zone, the coastal State has: (a) sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters suprajacent to the seabed and of the seabed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds.

from it, after Spain (1,161.6 million), France (588 million), Italy (537.3 million), Poland (531.2 million), Portugal (392.5 million) and Greece (388,8 million).

It should be mentioned that British fishermen are especially Eurosceptics. A 2016 survey of the Scottish University of Aberdeen found out that 92 percent of British fishermen were going to vote for leaving the EU. More than three quarters of the fishermen believed leaving the EU would allow them to catch and land more fish and that not underlying the Common Fishery Policy would "greatly" (58 percent) or "somewhat" (34 percent) benefit them and their industry (McAgnus, 2016).

**Table 1: European fishing industry: catch per country in thousand tons**

| Country | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Spain | 921,6 | 981,5 | 1055,5 | 967,2 | 905,6 |
| Denmark | 502,6 | 668,3 | 745,0 | 868,9 | 670,2 |
| United Kingdom | 629,4 | 630,1 | 755,0 | 704,5 | 701,7 |
| France | 429,5 | 468,8 | 495,1 | 484,2 | 504,3 |
| Netherlands | 345,2 | 325,5 | 369,5 | 382,6 | 368,4 |
| Ireland | 275,8 | 246,3 | 276,8 | 234,8 | 230,3 |
| Germany | 198,5 | 219,0 | 227,0 | 240,4 | 250,5 |
| Portugal | 197,9 | 196,0 | 182,9 | 188,5 | 184,6 |
| Italy | 197,4 | 172,9 | 178,8 | 193,8 | 193,1 |
| Poland | 179,7 | 195,5 | 172,9 | 187,1 | 199,7 |
| Sweden | 150,1 | 176,8 | 171,9 | 202,9 | 198,0 |
| Finland | 138,8 | 144,3 | 153,5 | 153,4 | 162,6 |
| Latvia | 94,2 | 115,8 | 119,3 | 81,3 | 114,6 |
| Lithuania | 65,4 | 89,4 | 148,8 | 83,7 | 105,7 |
| Estonia | 63,3 | 66,6 | 64,7 | 70,5 | 72,5 |
| Greece | 60,1 | 63,2 | 59,2 | 64,5 | 75,4 |
| Belgium | 24,4 | 25,4 | 26,5 | 24,4 | 26,7 |
| Bulgaria | 8,2 | 9,5 | 8,5 | 8,7 | 8,6 |
| Isle of Man | 6,2 | 5,7 | 3,8 | 7,8 | 7,0 |
| Romania | 0,8 | 1,6 | 2,2 | 4,8 | 6,8 |
| Channel Islands | 3,0 | 2,8 | 3,0 | 2,6 | 3,0 |
| Malta | 2,2 | 2,4 | 2,4 | 2,4 | 2,4 |
| Cyprus | 1,3 | 1,2 | 1,3 | 1,5 | 1,5 |
| Slovenia | 0,3 | 0,2 | 0,3 | 0,2 | 0,2 |
| **Total** | **4496,1** | **4808,9** | **5223,9** | **5160,8** | **4993,4** |

*Source: own elaboration from data of the UK National Statistic, retrieved from:* ***https://www.gov.uk/government/statistics/uk-sea-fisheries-annual-statistics-report-2017****.*

# Part II

## Chapter 4: What is the Brexit?

On the 23rd of June 2016, the people of the UK were asked in a referendum to decide whether to stay in or to leave the European Union. They decided to leave.

The outcome of the referendum was a shock for the EU, including for many British people (Morris et al., 2016). The word "Brexit" suddenly became a very serious and frequently used terminology. It is a portmanteau of Britain and exit, and was first used in 2012 by Peter Wilding, founder and director of the think tank *British Influence.*[21]

Brexit's denomination is about the only formally definition that can be found with certainty. It is impossible to find consent on what it really means beyond of leaving the EU, or how to leave the EU. It is not clear what Leave-voters voted for: there was no post-vote plan for Brexit (Oliver, 2017). As of summer, 2019, at the time writing, this is the main problem in the House of Commons and the reason for its stalemate: there is no majority for any possibility of what Brexit should mean and how it should be done. Oliver (2017) puts it in a nutshell: "It is likely that the confused outcome of the referendum and the technicalities of Brexit mean that for both the UK and the EU future relations will resemble fifty shades of grey rather than some black and white division of in or out".

On a legislation level, article 50 of the Treaty on the European Union regulates the withdrawal of a member state. The article[22] states in paragraph one that any member state can exit the union, and in paragraph two that this state has to notify the European Council of its will to leave, which then shall negotiate an agreement with the leaving member

---

[21] Retrieved from the BBC webpage "The rise of the word Brexit" on **https://www.bbc.com/news/uk-politics-37896977,** retrieved on 24.08.2019

[22] For the entire article see appendix figure A3.

state, setting out the exit and future relationship, and approving them by qualified majority. Paragraph three states: “The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, **unanimously** decides to extend this period.” The new prime minister of the UK, Theresa May, did notify the Council on 29 of March 2017, which started the legal procedure and set the withdrawal date in accordance with article 50 on the 29 of March 2019. The problem was that no legally valid agreement could be settled until then: May did reach an agreement with the European Council, but she failed in getting the required majority approval for it in the House of Commons. The legal consequence of this fail would have been a withdrawal without any agreement, on day 29 of March. But the UK and the European Council (unanimously) agreed to postpone the two-years period mentioned in paragraph three of article 50 in a first step to the 22 of May (or earliest on 12 of April), and later to the 31 of October 2019.

On the following pages I will analyse how it came to the referendum, have a closer look on the referendum day and its data (who voted for what) and study its immediate economic consequences for the UK and the EU.

### 4.1 How did it come to the referendum?

With the global financial crisis of 2007, and the following turbulences between 2008 and 2015 in Europe and with the Euro, the British *Euroscepticism* with its various specifies described above peaked.

Prime Minister Cameron, weakened by an instable inner political situation (Bar, 2017) and under pressure of the rising anti-EU mood in his country, already announced in a speech that would become known as his EU speech at Bloomberg, on 23 January of 2013, to start a debate on a referendum. In this speech he said:

> *“It is time for the British people to have their say. It is time to settle this European question in British politics. I say to the British people: this*

> *will be your decision. And when that choice comes, you will have an important choice to make about our country's destiny".*

However, Cameron never wanted to leave the EU, his objective has always been a broad reformation of the EU. Earlier in this speech, he said:

> *"The European Union that emerges from the Eurozone crisis is going to be a very different body. It will be transformed perhaps beyond recognition by the measures needed to save the Eurozone. We need to allow some time for that to happen - and help to shape the future of the European Union, so that when the choice comes it will be a real one. [...] **I believe the best way to do this will be in a new Treaty, so I add my voice to those who are already calling for this. My strong preference is to enact these changes for the entire EU, not just for Britain."***

The growing *Euroscepticism* was manifested within the European election of 2014 in the UK, where the populist and *Europhobic* UK Independent Party (UKIP) reached 27.5 percent, winning the election. It was the first time in 108 years in a nation-wide election that a party different to Labour or Conservatives got into first place, a very clear statement of the UK's people.

After being re-elected as UK's prime minister in 2015, Cameron kept his promise, and sent a reformation proposal to Brussels and initiated the process necessary so that the referendum could take place. In a letter to Donald Tusk, president of the European Council, he set out four areas the UK was seeking reforms in: economic governance; competitiveness; sovereignty and immigration.[23]

It is true that these vague claims were known before and both sides, Brussels and Cameron's government, were playing negotiation games for years already. Disagreement

[23] The entire letter is available on **https://www.gov.uk/government/publications/eu-reform-pms-letter-to-president-of-the-european-council-donald-tusk**

among the other member states and the hesitation of the British to elaborate a clear wish list did not help to bring the matter any further, even though it had been on agenda of the European Council in June, October and December of 2015 (Kroll & Leuffen, 2016). Furthermore, Kroll and Leuffen (2016) point out: “The nebulosity of the British demands can thus be considered a negotiation tactic” and that the “difficulties of achieving significant concessions were well-known to the UK government” (p. 1315).

During the renegotiation process, the European Referendum Act (the legal basis that enabled the referendum) was accepted by the House of Commons in June 2015 and became royal assent in December 2015.

What Cameron needed from the renegotiations was something that he could sell as a win in the UK, to assure that the British people would vote to stay in the EU in the upcoming referendum. He failed. The outcome of the renegotiation was presented in February 2016 and did not contain fundamental changes: Kroll and Leuffen (2016) stated that “most achievements, like, for example the exemption of the UK from further political integration, are mainly symbolic. Pleas for better regulation or increased competitiveness reflect commonly shared goals. Where substantive issues were on the negotiation table, typical compromise solutions emerged” (p. 1316).

In late February of 2016, Cameron announced that the referendum was being held on 23rd of June that same year, and that he would campaign to remain in a reformed EU.

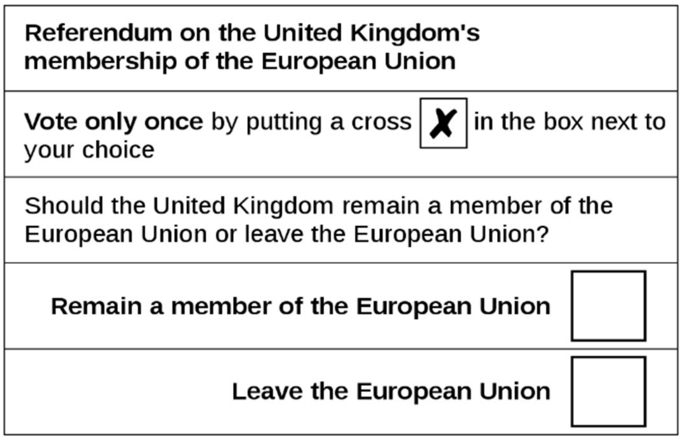
### 4.2 The Referendum on June 23, 2016

The Referendum was held in the UK, including Gibraltar. Its legal basis, the European Union Referendum Act, did not obligate the government to implement the outcome.

British, Irish and Commonwealth citizen aged 18 or older and who were resident in the UK could register to vote. UK citizens who were resident abroad could also register, given that they have been registered to vote in a UK election at least once in the past 15 years. In total, 33,577,342 persons did vote, representing a turnout of 72.2 % of the electoral body. On the ballot paper, in the polls, they were asked: “Should the United Kingdom remain a member of the European Union or leave the European Union", and could mark either the answers: "Remain a member of the European Union" or "Leave the European Union". Nationwide, 48.11 percent (16,141,241 people) voted for remain, while 51.98 percent (17,410,742 people) voted for leave.[24] It should be mentioned that three regions and Gibraltar voted different to the nationwide result: London (59.9 % for remain), Scotland (62.0 percent for remain), Northern Ireland (55.8 percent for remain) and Gibraltar with 95.9 percent for remain (although Gibraltar's result was incorporated into the South-West regional count).

All analysis on the result that have been made come to a similar conclusion: they primarily show a strong division of the British society by social class, age and geography. The *Leave* campaign had its strongest support in economically disadvantaged areas with lower average education (Goodwin & Heath, 2016). The *Remain* voters were more likely higher educated, younger and from cities. "In fact, fifteen of the twenty 'least educated' areas voted to leave the EU, while every single one of the twenty 'most educated' areas voted to remain" (Goodwin & Heath, 2016, p. 326).

**Chart 3: Ballot paper of the 2016 EU referendum in the UK**



**Referendum on the United Kingdom's membership of the European Union**

**Vote only once** by putting a cross ✗ in the box next to your choice

Should the United Kingdom remain a member of the European Union or leave the European Union?

**Remain a member of the European Union** ☐

**Leave the European Union** ☐

*Source: Wikipedia.org*

[24] All data is retrieved from the official website of the electoral commission of the UK.

### 4.3 Political and economic consequences of the referendum

The outcome of the referendum had no legal consequences (it was not binding to the UK's administrations). However, the most obvious consequence was prime minister May presenting formally the UK's will to leave the EU, initiating the article 50 procedure. Apart from that, what other consequences did it have?

In order to answer this question, in this section, I am going to have a brief look at the reactions of European leaders and possible impacts on the evolution of currency rates, GDPs and stock markets.

#### 1) Political consequences

Shortly after the referendum, Cameron stated that he could have won it if the EU leaders would have allowed him to control migration. Jean-Claude Juncker, president of the European Commission, contested:

> *"My impression is that if you over years, if not decades, tell citizens that something is wrong with the EU, that the EU is too technocratic, too bureaucratic, you cannot be taken by surprise if voters believe you"*[25]

and Angela Merkel, Chancellor of Germany, said:

[25] Retrieved on 25.08.2019 from the Financial Times article "Cameron pins Brexit on EU failure to grant UK brake on migration", accessible on **https://www.ft.com/content/3901dd48-3cee-11e6-9f2c-36b487ebd80a**

*"If you wish to have free access to the single market then you have to accept the fundamental European rights as well as obligations that come from it. This is as true for Great Britain as for anybody else."*[26]

These phrases show how **deep political trenches** are between Brussels and London ever since the referendum.

### 2) Economic consequences

Since the referendum, the **GDP growth rate in the UK has slowed down** (see table 2). At the same time, the GDP kept growing, on average, quiet constantly within the EU (excluded the UK). This could be an indicator that the British slowdown is related to the referendum and the Brexit threat. Other economic factors related closely to the GDP have also suffered, for instance the productivity: **the output per worker has stagnated since the referendum** (De Lyon & Dhingra, 2019). For further analyses of the expected GDP development, see section 4.4 *Estimated GDP development for different Brexit scenarios.*

**Table 2: Annual GDP growth rate, in %**

| Year | EU without UK | UK |
|---|---|---|
| 2014 | 2,32 | 2,95 |
| 2015 | 3,65 | 2,35 |
| 2016 | 2,73 | 1,79 |
| 2017 | 3,61 | 1,82 |
| 2018 | 3,25 | 1,40 |

*Source: own elaboration based on data from the world bank*

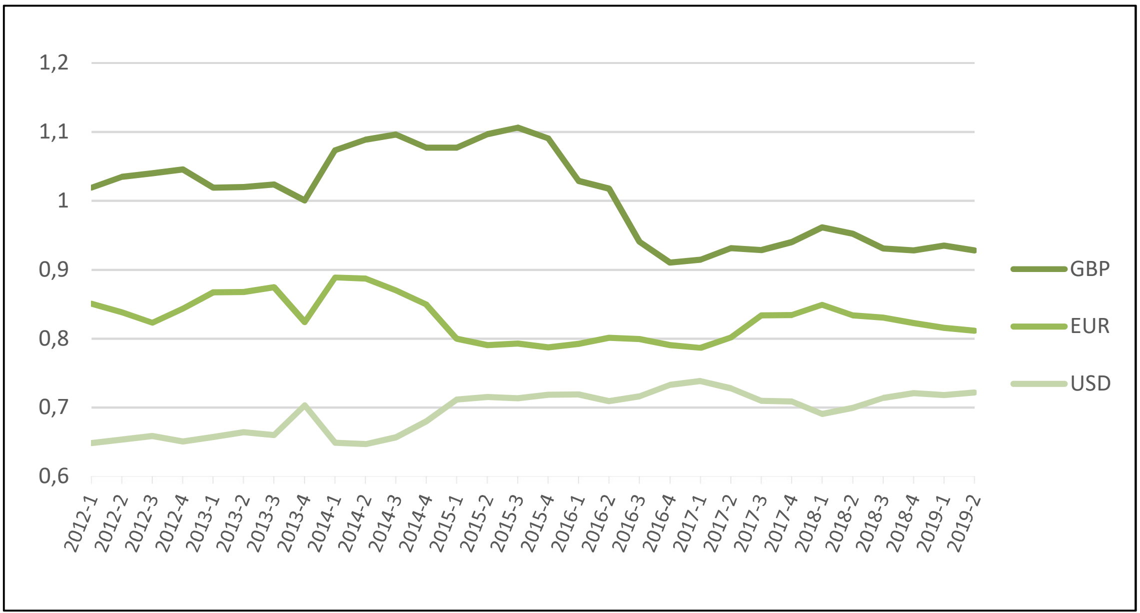
[26] Retrieved on 25.08.2019 from the Independent article "Cameron warns EU immigration rules could threaten UK trade deal", accessible on **https://www.independent.co.uk/news/uk/politics/immigration-fears-caused-brexit-vote-david-cameron-tells-brussels-a7108516.html**.

To see whether the referendum had an influence on the currency exchange rates, I have analysed data from the International Monetary Fund (IMF) on Special Drawing Right (SDR) conversion rates. SDRs rates are very helpful in this case, as I want to see the possible impact on the currencies in a global context. Charts 4 to 7 show the SDRs per currency unit for the Sterling Pound, the Euro and the US Dollar.

On quarterly average (Chart 4), we can observe a **clear fall of the Sterling Pound** starting in third quarter of 2015. It falls from 1.106 SDRs to 0.9104 SDRs in the fourth quarter of 2016, losing a lot of ground in relation to the Euro and the US Dollar. There is a lot more to be considered in the long-term evolution of a currency, but it is very likely that this clear fall is directly related to the Brexit threat and the referendum. From referendum day itself, June 23$^{rd}$ of 2016, to the next day (Chart 5), the Sterling Pound fell from 1.0474 to 0.9492 SDRs; the Euro fell too, although less, from 0.8010 to 0.7915 SDRs and the Dollar rose slightly from 0.7033 to 0.7153. With certainty, these events are exclusively caused by the referendum.

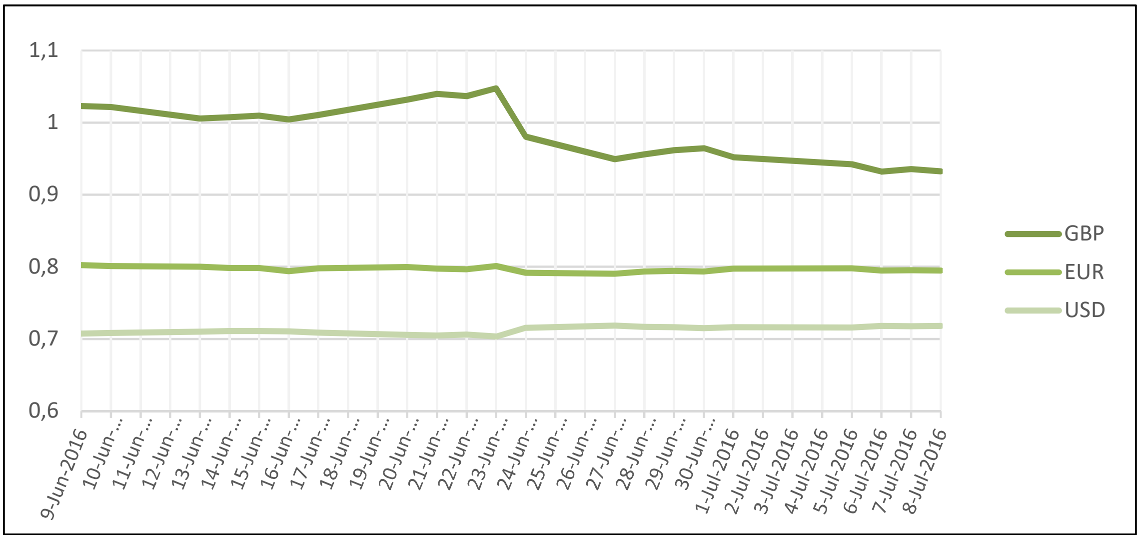
**It should be mentioned that no significant impact on SDRs rates, other than maybe keeping constancy, can be observed by positive political signals since after the referendum**. I have looked at the days around the agreement on the transition period (March 19$^{th}$, 2018) and the days around the agreement on the (second) delay (April 10$^{th}$, 2019) but could not find any significant changes (see Chart 6 and 7).

**Chart 4: SDRs per currency unit – quarterly average**



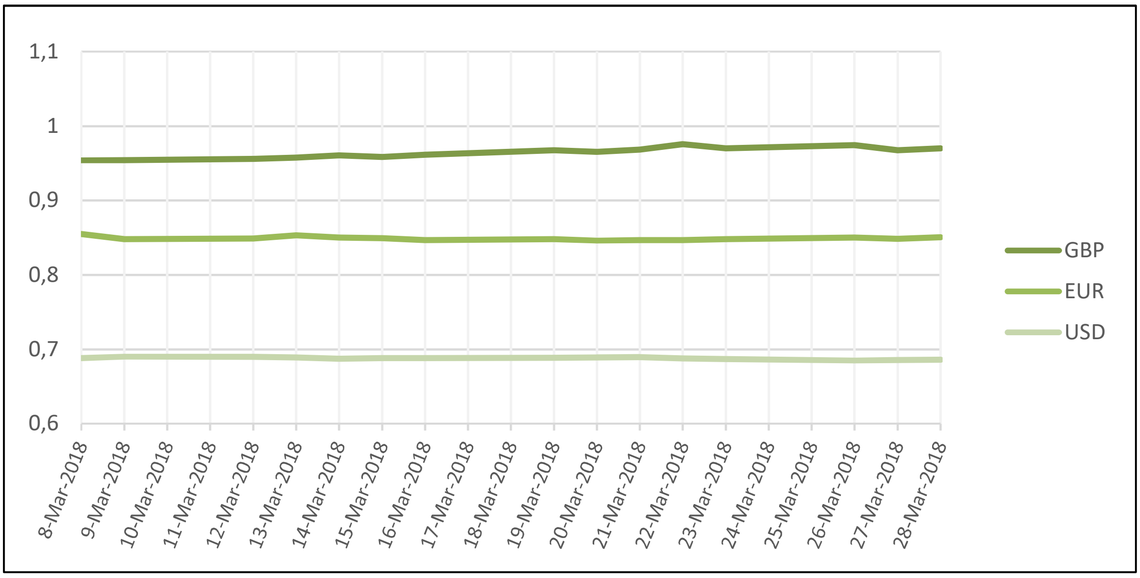

*Source: own elaboration based on data from the International Monetary Fund.*

**Chart 5: SDRs per currency unit – daily around referendum**



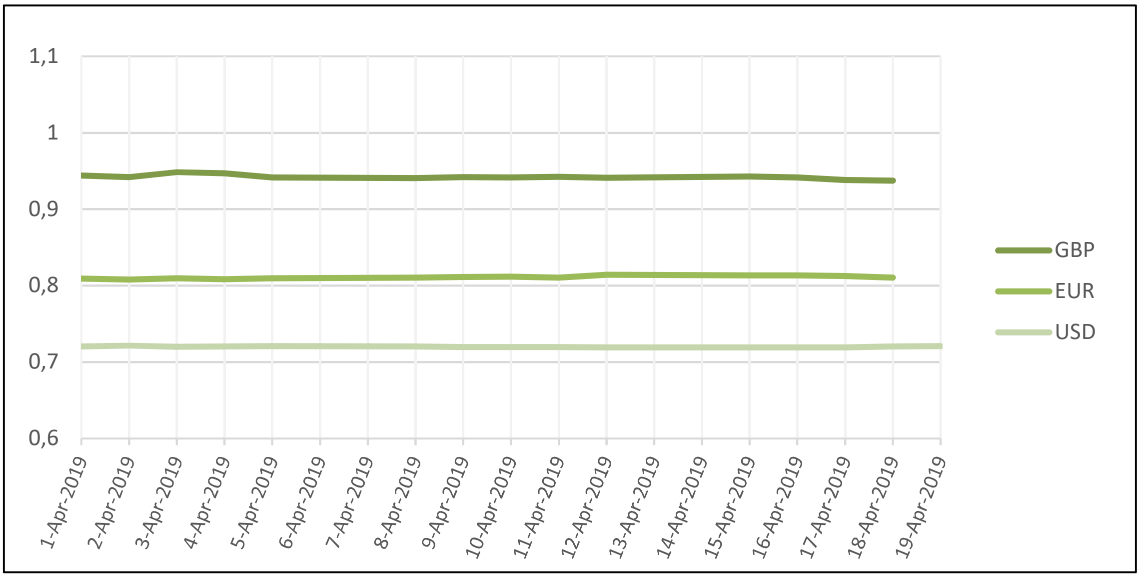

*Source: own elaboration based on data from the International Monetary Fund.*

**Chart 6: SDRs per currency unit – daily around agreement on transition period (19.03.2018)**




*Source: own elaboration based on data from the International Monetary Fund.*

**Chart 7: SDRs per currency unit – daily around agreement on delay (10.04.2019)**




*Source: own elaboration based on data from the International Monetary Fund.*

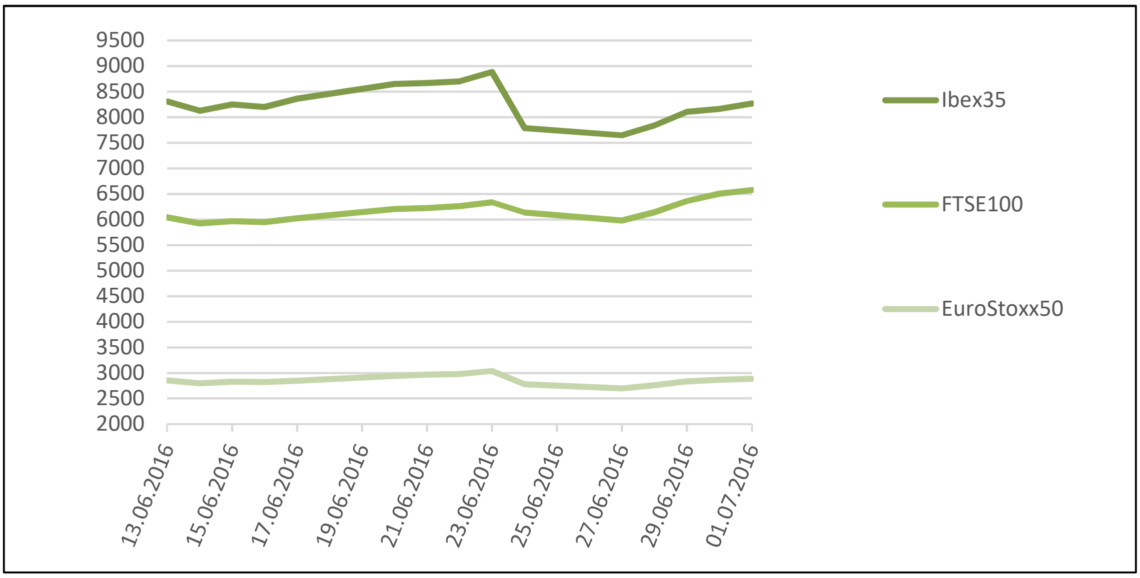
To examine whether the referendum had an influence on the stock markets, I have analysed the evolution of the FTSE100, the Ibex35 and the EuroStoxx50. On monthly average data (see chart 8), no significant fluctuation can be related to the referendum and its outcome. Surprisingly, at the first glance, it even seems that the referendum and possible Brexit had a positive effect on the long-term evolution of the British FTSE100. However, it is questionable if this rise from January 2016 to January 2018 can be in any way related to the Brexit. Certainly, the chart shows that **the referendum and its outcome did not influence the European Stock markets negatively in the long term.** Only when looking on the referendum day itself and the day after (chart 9), we can observe a clear, but short-term fall of all three stock indexes. The Ibex35 fell 12.4 percent, the EuroStoxx50 fell 8.6 percent and the FTSE100 fell 3.1 percent. All of them started to recover again three days after the referendum.

Again, it should be noted that news of **the agreement on transmission period and the agreement on delay had absolutely no influence on the three stock market indexes** considered (see chart 10 and 11).

**Chart 8: Selected stock market indexes – monthly averages (closing)**

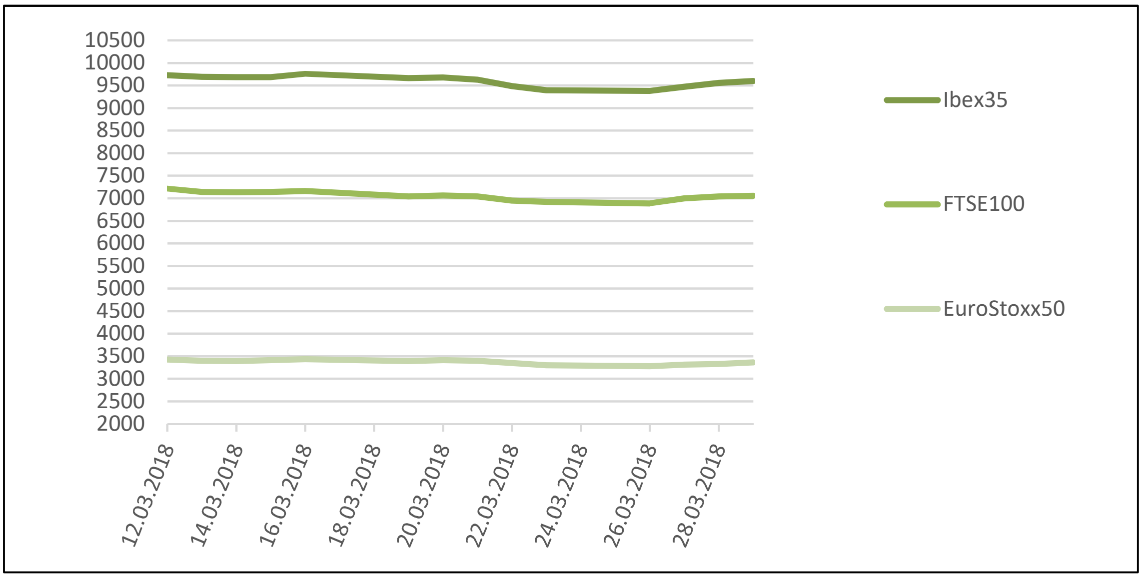

*Source: own elaboration based on data from Bolsas y Mercados Españoles for IBEX35, London Stock Exchange for FTSE100 and investing.com for EuroStoxx50.*

**Chart 9: Selected stock market indexes – daily (closing) around referendum**



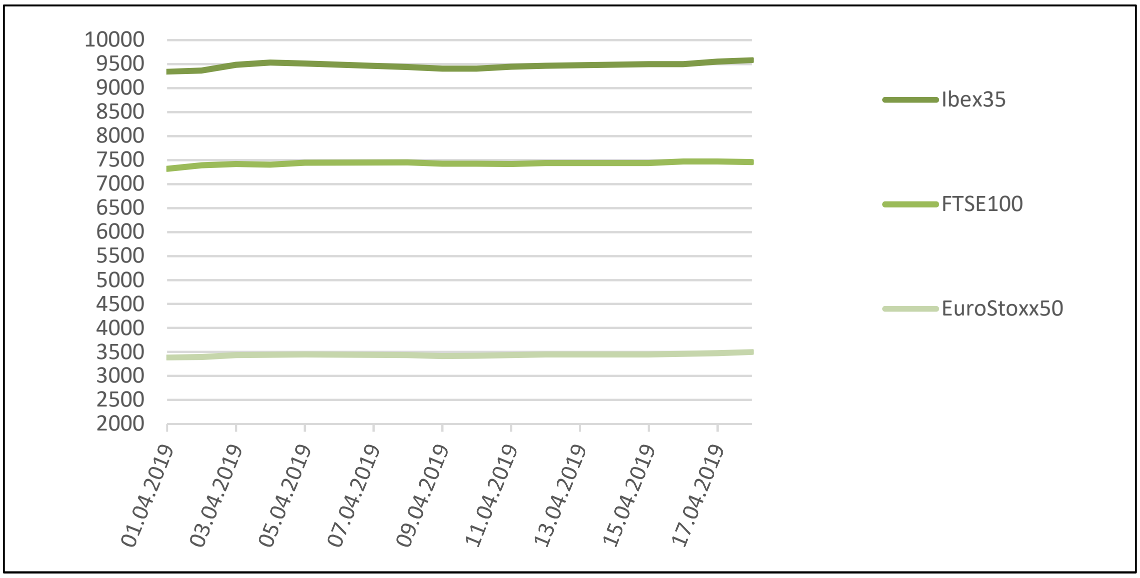

*Source: own elaboration based on data from Bolsas y Mercados Españoles for IBEX35, London Stock Exchange for FTSE100 and investing.com for EuroStoxx50.*

**Chart 10: Selected stock market indexes – daily (closing) around agreement on transition period (19.03.2018)**




*Source: own elaboration based on data from Bolsas y Mercados Españoles for IBEX35, London Stock Exchange for FTSE100 and investing.com for EuroStoxx50.*

**Chart 11: Selected stock market indexes – daily (closing) around agreement on delay (10.04.2019)**




*Source: own elaboration based on data from Bolsas y Mercados Españoles for IBEX35, London Stock Exchange for FTSE100 and investing.com for EuroStoxx50.*

### 4.4 Estimated GDP development for different Brexit scenarios

In this section, I would like to refer to a 2017 study done by Professor Gabriel Felbermayr et. al. of the German *ifo* institute. They have applied the standard gravitation model of Head and Mayer (2014) to determine trade advantages the EU (and other trade agreements between the EU and third countries). They have generated and combined them with an own "statistical common gravity" simulation model on data of an inter-country input-output table of the World Input Output Database to estimate the economic effects of different Brexit scenarios for the UK and for Europe.

To outline the macroeconomic possible effects, I would like to show their prediction of the impact on the real GDP of four selected scenarios (see Table 3). I have chosen to show two scenarios (S1 and S2) that would count as a Hard Brexit and two (S3 and S4) of a Soft Brexit. They are described as the following:[27]

[27] Free translation from German to English by the author.

**Scenario S1**: The UK leaves the European single market and the custom union, and no other free-trade agreement is settled. The common WTO's most favoured nation (MFN) tariff rules are applied between the EU and the UK. The UK also loses all other non-tariff advantages of the EU with third countries (for example the one with Korea). Further, non-tariff trade barriers are re-introduced. This scenario is called 1a in the *ifo* study.

**Scenario S2**: Like S1, but the UK sets ambitious trade agreements with the USA, Canada and Japan. These agreements eliminate tariffs and reduce non-tariff trade costs in the same way as the EU-Korea trade agreement is currently reducing them. This scenario is called 1c in the *ifo* study.

**Scenario S3**: The UK leaves the European single market and custom union, but a modern free-trade agreement has been negotiated (and approved) with the EU, which not only eliminates tariffs but also includes non-tariff questions (like services, investment etc). Therefore, estimated trade-cost reducing effect of the EU-Korea agreement are used in the calculation. This scenario is called 2a in the *ifo* study.

**Scenario S4:** This scenario pictures an approximation to a British-EEA membership (like Norway or Iceland), which means a higher economic integration than within a free-trade agreement. The calculations are based on scenario S3, but the difference in trade-cost reducing effects between an ambitious free-trade agreement and an EU membership is reduced by another 50 percent. This scenario is called 2b in the *ifo* study.

Table 3 on next page shows that **any kind of Brexit scenario subject to the analysis will have negative effect on British real GDP growth as well as on the one of every single EU member state**.

A Soft Brexit, however, will affect the remaining EU members only little. The British GDP will decrease between 1.73 % (Hard Brexit) and 0.4 % (Soft Brexit), while the EU-27 GDP will reduce between 0.26 % and 0.07%. Some remaining member states are more effected than others: especially Ireland and Luxemburg suffer the most, with minus 2.03 % and minus 1.4 % in the hardest Brexit scenario S1, respectively, while Austria and Croatia are least affected with minus 0.11 %, both, in the same scenario.

Interestingly, in 7 out of 8 scenarios of the referred study, **the country with the most affected GDP would be Ireland, not the UK**. The difference between S1 and S2 is surprising too. **It seems to be better for the EU-27 when the UK manages to negotiate free-trade agreements with other leading economies in the world rather than turn into an isolated WTO member.**

**Table 3: Change of real GDP (in %)**

| | Hard Brexit | | Soft Brexit | |
|---|---|---|---|---|
| | **S1** | **S2** | **S3** | **S4** |
| UK | -1,73 | -1,47 | -0,57 | -0,4 |
| EU27 | -0,26 | -0,24 | -0,11 | -0,07 |
| Austria | -0,11 | -0,12 | -0,05 | -0,03 |
| Belgium | -0,46 | -0,46 | -0,2 | -0,13 |
| Bulgaria | -0,2 | -0,2 | -0,11 | -0,08 |
| Croatia | -0,11 | -0,1 | -0,06 | -0,04 |
| Cyprus | -0,51 | -0,5 | -0,23 | -0,15 |
| Czech Republic | -0,23 | -0,23 | -0,09 | -0,06 |
| Denmark | -0,31 | -0,31 | -0,16 | -0,1 |
| Estonia | -0,23 | -0,23 | -0,11 | -0,07 |
| Finland | -0,17 | -0,17 | -0,07 | -0,05 |
| France | -0,19 | -0,19 | -0,09 | -0,06 |
| Germany | -0,23 | -0,24 | -0,1 | -0,06 |
| Greece | -0,13 | -0,12 | -0,07 | -0,05 |
| Hungary | -0,24 | -0,24 | -0,09 | -0,06 |
| Ireland | -2,03 | -2,03 | -0,88 | -0,52 |
| Italy | -0,15 | -0,15 | -0,07 | -0,04 |
| Latvia | -0,22 | -0,22 | -0,1 | -0,06 |
| Lithuania | -0,21 | -0,21 | -0,11 | -0,06 |
| Luxemburg | -1,4 | -1,44 | -0,46 | -0,37 |
| Malta | -1,65 | -1,6 | -0,71 | -0,46 |
| Netherlands | -0,44 | -0,43 | -0,21 | -0,14 |
| Poland | -0,27 | -0,27 | -0,14 | -0,08 |
| Portugal | -0,17 | -0,17 | -0,08 | -0,05 |
| Romania | -0,13 | -0,13 | -0,07 | -0,04 |
| Slovakia | -0,35 | -0,34 | -0,23 | -0,15 |
| Slovenia | -0,13 | -0,14 | -0,07 | -0,04 |
| Spain | -0,15 | -0,15 | -0,07 | -0,04 |
| Sweden | -0,26 | -0,26 | -0,12 | -0,08 |

*Source: own elaboration based on data from the ifo study "Ökonomische Effekte eines Brexit auf die deutsche und europäische Wirtschaft" of 2017.*

# Part III

## Chapter 5: Methodology and sources of data

The data used in the empirical analysis presented in this Project came from different information sources. First, the Integrated Tariff of the European Communities (TARIC) dataset retrieved from **www.datacomex.comercio.es**, the official website of the Secretary of State on trade of the Ministry of Industry, Trade and Tourism of the Spanish Government. The TARIC-code shows the different rules that apply when importing a product to the EU. It includes the harmonised system (short HS system, which the WTO is using) and the combined nomenclature of the EU custom union, both designed to categorize all products in the marked and assigning tariffs and rules to them.

In a first step and in order to analyse the importance of the UK in the Basque trade I have simply compared the TARIC data on the CAPV – UK trade relation to the TARIC data on the total CAPV trade (with the world) for the years 2007–2017. Data for 2018 and 2019 is only provisionally available, that is why I have not included these years into the study.

In a second step, I have downloaded the TARIC data on the CAPV – UK trade relation on TARIC-chapter level (chapter 01, 02 … 99) for the years 2013–2017. Then, I have aggregated the chapters to 21 sectors and analysed all sectors in 2017. Further, I have analysed the evolution of the five most important ones from 2013 to 2017. The sectors do not exactly match the 21 TARIC-sections. The denominations of sectors that I used are similar to the ones the World Input Output Table Database is using (in Appendix figure A4 I present the TARIC-sections assigned to each sector).

A second source for data was the World Trade Organisation's data on tariffs, which I have used to estimate tariffs that will be applied in the case of a no-deal or Hard Brexit scenario (I have called this the "WTO scenario") and a Soft Brexit scenario called "Atlantic island scenario". In the WTO scenario, tariffs between the EU and the UK are applied under the most favoured nation rule, normally applied to all WTO member states if there are no other agreements established between the trade partners, for example as it is currently the case for the US – EU trade. I have used tariffs the USA has reported in 2018, assuming the UK will establish the same ones, and the tariffs the EU has reported in 2018 to charge on normal WTO members.

For the Soft Brexit scenario, I have decided to use the tariffs applied in 2018 between Iceland and the EU. Despite the different economic structure and size compared to the UK, I have chosen Iceland for two reasons: first, it is like Britain an island in the north Atlantic Ocean with important fishery, important ties to the US and of strategic importance to the NATO. Second, Iceland is member of the EEA, with important exclusion on tariffs in the agricultural sector and fishing industry, which are regulated in the EU-Iceland agreement. Certainly, it would be a very Soft Brexit, but a quite possible one.

For both scenarios, I took the average tariffs of the HS-code levels two and assigned them to the TARIC data from the section above on trade between the Basque Country and the UK. Based on the sectoral trade data of 2017, I then calculated the weighted average of the tariffs for the 21 sectors. As can be seen in Table 4, one HS subcategory (of 6 digits, or level 6) can have various types of tariff lines (TL, min. 8 digits). More to the point, there are three types of TL that come along with the WTO data: Ad valorem (AV), non-AV and Duty-free TL. For example, the subcategory *0104 Live sheep and goats* (level 4) has five TL: one Duty-free, one AV and three non-AV, charging 80,5 € per 100 kg. In total, the HS has over 11.600 tariff lines, theoretically covering all existing products on the planet. They are too many to be analysed and presented in a reasonable way. But considering the demonstrated different types of tariff lines, does it make any sense to calculate an average AV tariff per HS level two, or even per level four? I think it does, when giving two relative indicators along with the average: the WTO gives a percentage of Duty-free TL per HS level four and two, and I have calculated the AV% validity, representing in relative numbers the AV TL per category. For our example of the sheep and goats, this means:

- Average AV Duty (%) = (3,2 + 0) / 2 = 1,6 %
- Indicator of AV% validity = 2/5 = 0,4
- Indicator of duty-free TL = 1/5 = 0,2

**Table 4: Tariff lines applied by the EU on products from the USA in the HS level 4 category: 0104 Live sheep and goats**

| HS level | HS-code | Description | Tariff |
|---|---|---|---|
| 2 | 01 | Live animals | |
| | ⋮ | ⋮ | |
| 4 | 0104 | Live sheep and goats | |
| 6 | 010410 | Sheep | |
| **TL** | **01041010** | **Pure Breed** | **0 %** |
| **TL** | **01041030** | **Lambs** | **80,5 € / 100 kg** |
| **TL** | **01041030** | **Other** | **80,5 € / 100 kg** |
| 6 | 010420 | Goats | |
| **TL** | **01042010** | **Pure Breed** | **3,2 %** |
| **TL** | **01042090** | **Other** | **80,5 € / 100 kg** |

*Source: own elaboration based on data from the European commission, retrieved from* ***https://madb.europa.eu/madb/euTariffs.htm?productCode=01042090&country=US*** *on 01.10.2019*

## Chapter 6: Analysis of commercial relations between the ACBC and the UK

### 6.1 Analysis of total trade between ACBC and the UK

The UK is an important trade partner for the Basque Country, in exports and in imports. It was among the top five most important trade partners for the Basque Country in almost all years of the period under study (2012 – 2017) (see Table 4 in previous section).

In exports, the UK is most years on the fourth position, after France, Germany and the USA. In imports, in turn, UK is on the third position in 2017 and 2015, on the fourth in 2014. In three of the years (2012, 2013, 2016), the UK is not presented in the top five import partners. Other important import partners for the Basque Country are Germany, France, Russia and especially in the most recent years, China.

**Table 5: The 5 most important trade partners of the CAPV from 2012 to 2017, with the weight of trade with them relative to total trade inside parenthesis, in %**

| Trade Partner: | | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **EXPORT** | 2017 | DEU (15,7) | FRA (15,6) | USA (7,5) | **GBR (6,3)** | ITA (4,6) |
| | 2016 | FRA (16,7) | DEU (15,5) | USA (7,1) | **GBR (6,1)** | ITA (4,9) |
| | 2015 | FRA (16,6) | DEU (14,7) | USA (7,9) | **GBR (6,5)** | ITA (5,3) |
| | 2014 | FRA (15,6) | DEU (13,8) | USA (7,6) | **GBR (6,2)** | NLD (5,4) |
| | 2013 | FRA (16,8) | DEU (14,4) | USA (7,2) | **GBR (5,9)** | ITA (4,5) |
| | 2012 | FRA (17,8) | DEU (14,2) | **GBR (6,7)** | USA (6,3) | ITA (4,6) |
| | | | | | | |
| **IMPORT** | 2017 | DEU (15,0) | FRA (9,8) | **GBR (7,1)** | CHN (5,6) | ITA (5,0) |
| | 2016 | DEU (16,8) | FRA (10,4) | RUS (7,2) | CHN (6,7) | ITA (5,6) |
| | 2015 | DEU (14,2) | FRA (10,6) | **GBR (10,4)** | CHN (7,0) | RUS (5,0) |
| | 2014 | DEU (11,7) | FRA (9,4) | RUS (9,3) | **GBR (8,9)** | CHN (5,5) |
| | 2013 | RUS (15,3) | DEU (11,9) | FRA (10,3) | MEX (6,2) | CHN (5,1) |
| | 2012 | RUS (13,3) | DEU (12,8) | FRA (10,5) | MEX (6,7) | ITA (6,0) |

*Source: own elaboration based on data from* ***www.datacomex.comercio.es***

Note: DEU (Germany), FRA (France), USA (United States of America), GBR (Great Britain), ITA (Italy), CHN (China), RUS (Russia)

More precisely, the Basque exports were superior to 1.2 billion Euro (current prices) in eight out of 10 years between 2007 and 2017, representing between 5.4 and 6.5 % of all exports (Table 5). Excluding the years 2014 and 2015, the Basque Country has a positive trade Balance with the UK in this period subject to analysis. The imports from the UK oscillate between 0.5 and 1.7 billion euros, or 3.3 and 10.4 % of all trade. It should be mentioned that the extraordinary increase of 2014 and 2015 are due to the energy sector, where imports rose from 10 million Euros in 2013 to over a billion in 2014.

**Table 6: Basque Country's trade with the UK in million €, and its relative importance to the total Basque Country's trade (in %)**

| Year | Export | % of tot. Ex. | Import | % of tot. Im. |
|---|---|---|---|---|
| 2007 | 1.239,3 | 6,5 | 1.149,4 | 6,1 |
| 2008 | 1.259,7 | 6,2 | 934,7 | 4,6 |
| 2009 | 804,4 | 5,4 | 547,6 | 4,5 |
| 2010 | 981,4 | 5,5 | 785,9 | 5,1 |
| 2011 | 1.226,2 | 6,0 | 802,5 | 4,6 |
| 2012 | 1.407,6 | 6,7 | 556,8 | 3,5 |
| 2013 | 1.214,0 | 5,9 | 527,6 | 3,3 |
| 2014 | 1.384,5 | 6,2 | 1.518,1 | 8,9 |
| 2015 | 1.416,9 | 6,5 | 1.743,3 | 10,4 |
| 2016 | 1.308,4 | 6,1 | 827,3 | 5,3 |
| 2017 | 1.519,6 | 6,3 | 1.328,4 | 7,1 |

*Source: own elaboration based on data from* ***www.datacomex.comercio.es***

### 6.2 Analysis of sectoral trade

1) Exports to the UK

The Autonomous Community of the Basque Country is a highly industrialized region, with a strong focus on metal fabricates, machinery and vehicles and parts therefor. This is reflected very well in the amounts of exports to the UK too. Table 7 shows exports to the UK for each sector for 2017, the most recent year of available final data. Most important sectors[28] were Manufacture of motor vehicles and trailers (including parts therefor), with over 527 million euros, followed by manufacture of basic metals (240 million), machinery and equipment (215 million), fabricated metal products (122 million) and rubber and plastic products (121 million). These five sectors counted in 2017 for 80.6 percentage of all Basque exports to the UK.

**Table 7: Sectoral Basque exports to the UK in 2017 (million €), and their weight in all exports of the sector (%)**

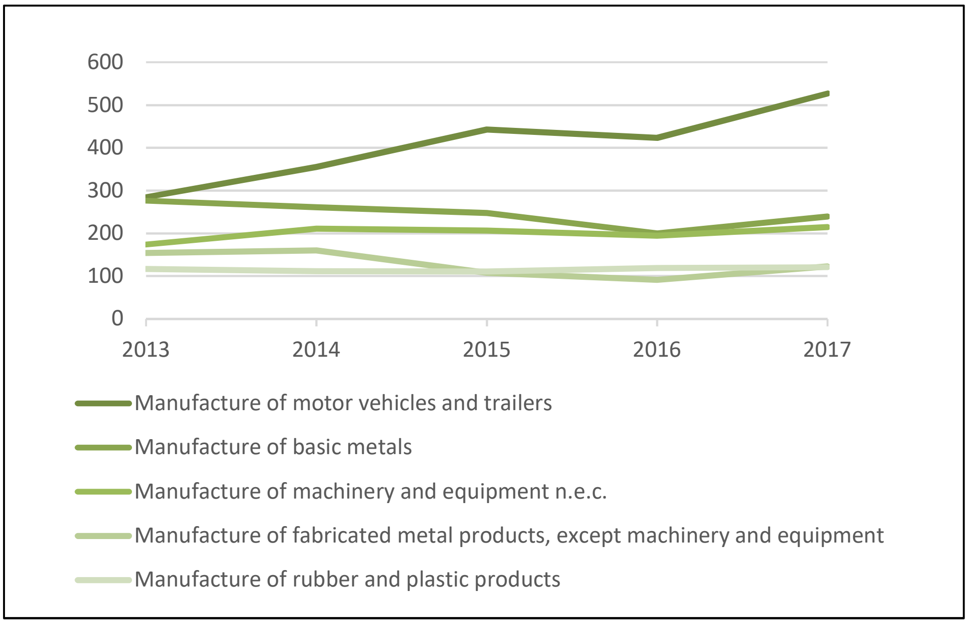
| **Sector** | **Million €** | **Weight (%)** |
|---|---|---|
| Manufacture of motor vehicles and trailers | 527,1 | 8,70 |
| Manufacture of basic metals | 239,7 | 8,96 |
| Manufacture of machinery and equipment n.e.c. | 214,6 | 6,43 |
| Man. of fabricated metal products, except machinery & equipment | 122,4 | 4,42 |
| Manufacture of rubber and plastic products | 120,8 | 7,89 |
| Manufacture of food products, beverages and tobacco products | 81,1 | 12,45 |
| Manufacture of coke and refined petroleum products | 40,6 | 1,79 |
| Manufacture of electrical equipment | 33,2 | 2,54 |
| Manufacture of other non-metallic mineral products and glass | 32,1 | 7,93 |
| Manufacture of computer, electronic and optical products | 19,6 | 11,80 |
| Manufacture of other transport equipment | 16,5 | 1,96 |
| Crop and animal production, hunting and related service activities | 15,7 | 22,54 |
| Manufacture of paper and paper products | 15,0 | 2,54 |
| Manufacture of chemicals and chemical products | 14,3 | 2,56 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 10,9 | 10,08 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 6,8 | 3,38 |
| Textiles, Manufacture of textiles, wearing apparel and leather products | 3,4 | 2,55 |
| Manufacture of furniture | 2,9 | 2,22 |
| Printing and reproduction of recorded media | 1,4 | 5,13 |
| Fishing and aquaculture | 1,3 | 0,58 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 0,3 | 0,53 |
| **TOTAL** | **1.519,6** | **6,30** |

*Source: own elaboration based on data from* ***datacomex.comercio.es***

[28] Note: see appendix figure A4, for information which sector contains which TARIC-category.

As it can be seen in Chart 12, these sectors have been the most important ones constantly over the last couple of years, with over 100 million euros in most cases. A rise in the motor vehicles an trailers sector can be observed, starting in 2015, while the other sectors were declining slightly (taking in account that values are in current prices).

**Chart 12: Evolution of Basque exports to the UK per sector, in million €**




*Source: own elaboration based on data from datacomex.comercio.es*

2) Imports from the UK

The ACBC imports primarily coke and refined petroleum product (including gas) from the UK (see Table 8). The imports worth 800 million Euros of this single sector in 2017 represented 60.2 percentage of all imports from the UK in that year. It was followed by the manufacture of basic metal sector with 231 million Euros, the manufacture of machinery and equipment sector (95 million) and fishery and aquaculture (43 million).

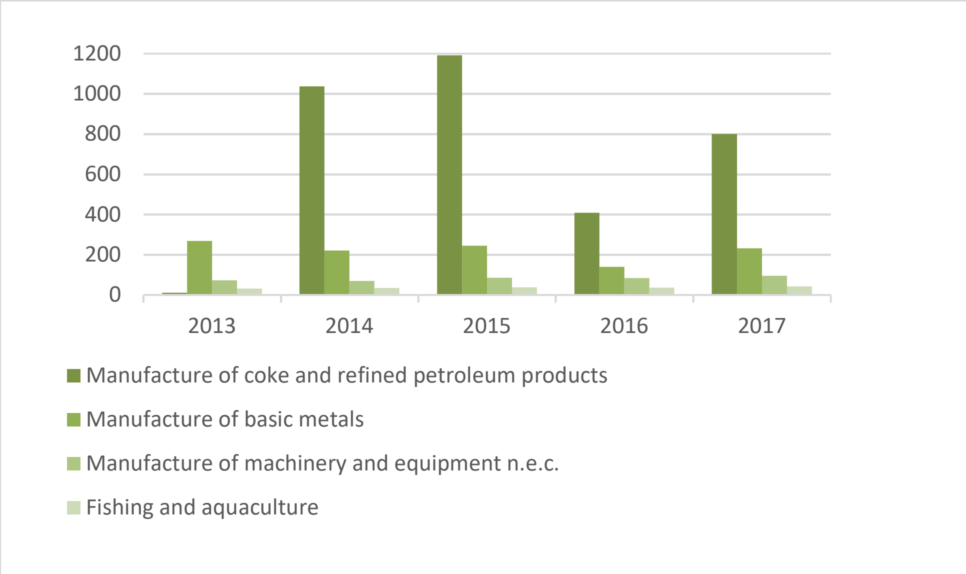
**Table 8: Sectoral Basque imports from the UK in 2017 (million €), and their weight in all imports of the sector (%)**

| Sector | Million € | Weight (%) |
|---|---|---|
| Manufacture of coke and refined petroleum products | 799,6 | 1,59 |
| Manufacture of basic metals | 231,3 | 12,32 |
| Manufacture of machinery and equipment n.e.c. | 94,8 | 0,25 |
| Fishing and aquaculture | 43,0 | 1,78 |
| Manufacture of electrical equipment | 26,4 | 0,30 |
| Manufacture of rubber and plastic products | 23,8 | 0,70 |
| Manufacture of chemicals and chemical products | 20,7 | 10,14 |
| Manufacture of fabricated metal products, except machinery and equipment | 18,5 | 15,96 |
| Manufacture of computer, electronic and optical products | 15,4 | 1,74 |
| Manufacture of motor vehicles and trailers | 14,3 | 0,66 |
| Manufacture of other non-metallic mineral products and glass | 11,8 | 2,52 |
| Manufacture of other transport equipment | 10,3 | 3,82 |
| Textiles, Manufacture of textiles, wearing apparel and leather products | 6,2 | 7,83 |
| Crop and animal production, hunting and related service activities | 3,3 | 1,99 |
| Manufacture of paper and paper products | 2,7 | 5,59 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 2,2 | 2,42 |
| Manufacture of furniture | 1,5 | 4,03 |
| Manufacture of food products, beverages and tobacco products | 1,4 | 1,22 |
| Printing and reproduction of recorded media | 0,7 | 7,03 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 0,3 | 1,15 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 0,3 | 1,19 |
| **TOTAL** | **1.328,4** | **7,11** |

*Source: own elaboration based on data from* ***datacomex.comercio.es***

As shown in Chart 13, this has been very different before 2014. In 2013, for example, the imports from the UK of coke and refined petroleum product have only amounted to about 10 million Euros, before increasing a 10,000 percent to over a billion in 2014. Before 2014, the manufacture of basic metal, now on second place, has been by far the most importing sector from the UK, followed by machinery and equipment, fishery, chemicals and chemical products.

**Chart 13: Evolution of Basque imports from the UK per sector, in million €**




*Source: own elaboration based on data from* ***datacomex.comercio.es***

# Chapter 7: Effects of Brexit

## 7.1 Expected tariffs in the "WTO scenario"

In the "WTO scenario", Basque companies working in the **textile and leather products sector will be most affected**, in exports (see Table 9) and in imports (Table 10). They must expect an average ad valorem (AV) duty of 9.13% on their exports to the UK, and of 9.09% on their imports from the UK. In both cases, the AV duties are very accurate (the indicator of the AV validity is 0.93 and 1), and only very few Duty-free product are granted (the duty-free indicator is 0.13 in exports, and 0.03 in imports).

Exporting companies of crop and animal production must expect an average AV duty of 8.38%, with very few duty-free products granted. The AV validity is little (0.46), which means a lot of non-AV duties are going to be applied[29]. This sector will also be significantly affected in imports, with an average AV duty of 4.93 percent. Like in exports, validity is quiet low (0.53) and few duty-free products are granted (0.27).

Exporting companies of the important Basque manufacture of motor vehicle sector should expect an average AV duty of 3.09 percent of absolute validity, although with almost half of products duty-free granted (0.49). The sector is going to be more affected in imports, where the average AV duty will be 6.19 percent of total validity and very few duty-free products granted (0.09).

Basque companies working in the sector of food products, beverages and tobacco will be affected with an AV duty of 2.79% in exports, and 9.8% in imports. Again, in exports and imports, there are a lot of non-AV duties applied, discriminating quality products lesser than low quality ones.

---

[29] In general, non-AV duties like, for example, 90 Sterling Pounds per 100 kg, enhance the trade of quality products, by discriminating them less than low quality products (which are cheaper, usually).

The fishing and aquaculture sector is taking a special position within the tariff regimes. Basque companies exporting fish to the UK don't have to expect a lot of tariffs, in this scenario. A lot of products are going to be duty-free (indicator of 0.88), and the ones going to be charged have a high valid 0.5% AV duty. On the other side, in imports it's completely different: 10.8 percent average AV duty, the highest of all the EU is charging, and very few products are duty-free (indicator 0.06).

Two other sectors are going to be strongly affected in imports, but only little in exports: manufacture of rubber and plastic products, with 5.33% average AV duty on imports, and manufacture of chemicals with 4.81% on imports. On exports, 2.08% and 2.66% are to be expected, respectively.

Products of the paper industry and printing and reproduction sector will neither be affected in exports nor in imports (100 percent duty-free, in both cases). Companies of the pharmaceutical sector must expect 0.2% average AV duty on very few products (duty-free indicator 0.97) in exports only, while imports are all duty-free.

**Table 9: Expected Ad valorem tariffs for Basque Country's exports to the UK in the WTO scenario**

| Sector | AV Duty (%) | AV% validity | Indicator of Duty-free TL |
|---|---|---|---|
| Textiles, Manufacture of textiles, wearing apparel and leather products | 9,13 | 0,93 | 0,13 |
| Crop and animal production, hunting and related service activities | 8,38 | 0,46 | 0,13 |
| Manufacture of food products, beverages and tobacco products | 2,79 | 0,54 | 0,36 |
| Manufacture of chemicals and chemical products | 2,66 | 0,99 | 0,42 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 1,55 | 0,85 | 0,48 |
| Manufacture of motor vehicles and trailers | 3,09 | 1,00 | 0,49 |
| Manufacture of rubber and plastic products | 2,08 | 1,00 | 0,49 |
| Manufacture of electrical equipment | 1,40 | 1,00 | 0,54 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 2,10 | 0,98 | 0,56 |
| Manufacture of fabricated metal products, except machinery and equipment | 1,74 | 0,95 | 0,59 |
| Manufacture of machinery and equipment n.e.c. | 1,25 | 1,00 | 0,65 |
| Manufacture of computer, electronic and optical products | 1,00 | 0,98 | 0,67 |
| Manufacture of furniture | 1,60 | 1,00 | 0,69 |
| Manufacture of other non-metallic mineral products and glass | 1,53 | 0,98 | 0,72 |
| Manufacture of basic metals | 1,02 | 1,00 | 0,74 |
| Manufacture of other transport equipment | 1,48 | 1,00 | 0,77 |
| Manufacture of coke and refined petroleum products | 0,50 | 0,61 | 0,85 |
| Fishing and aquaculture | 0,50 | 0,97 | 0,88 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 0,20 | 1,00 | 0,97 |
| Manufacture of paper and paper products | 0,00 | 1,00 | 1,00 |
| Printing and reproduction of recorded media | 0,00 | 1,00 | 1,00 |

*Source: own elaboration based on data from the WTO database on tariffs*

**Table 10: Expected Ad valorem tariffs for Basque Country's imports from the UK in the WTO scenario**

| Sector | AV Duty (%) | AV% validity | Indicator of Duty-free TL |
|---|---|---|---|
| Textiles, Manufacture of textiles, wearing apparel and leather products | 9,09 | 1,00 | 0,03 |
| Fishing and aquaculture | 10,80 | 1,00 | 0,06 |
| Manufacture of other transport equipment | 2,12 | 1,00 | 0,08 |
| Manufacture of motor vehicles and trailers | 6,19 | 1,00 | 0,09 |
| Manufacture of rubber and plastic products | 5,53 | 1,00 | 0,10 |
| Manufacture of food products, beverages and tobacco products | 9,80 | 0,55 | 0,11 |
| Manufacture of chemicals and chemical products | 4,81 | 0,98 | 0,14 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 2,48 | 1,00 | 0,19 |
| Manufacture of machinery and equipment n.e.c. | 1,78 | 1,00 | 0,24 |
| Manufacture of electrical equipment | 2,36 | 1,00 | 0,27 |
| Crop and animal production, hunting and related service activities | 4,93 | 0,53 | 0,27 |
| Manufacture of fabricated metal products, except machinery and equipment | 2,12 | 1,00 | 0,31 |
| Manufacture of furniture | 2,40 | 1,00 | 0,38 |
| Manufacture of computer, electronic and optical products | 1,45 | 1,00 | 0,50 |
| Manufacture of other non-metallic mineral products and glass | 1,67 | 0,99 | 0,55 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 1,74 | 1,00 | 0,67 |
| Manufacture of coke and refined petroleum products | 0,80 | 1,00 | 0,71 |
| Manufacture of basic metals | 1,11 | 1,00 | 0,78 |
| Manufacture of paper and paper products | 0,00 | 1,00 | 1,00 |
| Printing and reproduction of recorded media | 0,00 | 1,00 | 1,00 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 0,00 | 1,00 | 1,00 |

*Source: own elaboration based on data from the WTO database on tariffs*

### 7.2 Expected tariffs in the "Atlantic island" scenario

As the EEA agreement is part of this scenario, no tariffs will be applied on most sectors, except the agricultural and fishery sectors. In exports (see Table 11), the sector of food products, beverages and tobacco must expect a 1.2% average AV duty, although with a high indicator of duty-free tariff lines (0.87). The crop and animal production sector must expect a 2.59% average AV duty, with an even higher duty-free indicator (0.92). In imports (see Table 12), the fishing industry will be most affected, with a 3.58% average AV duty of absolute validity and few products granted duty-free. Then follows the food products, beverages and tobacco sector with significant 3.81% average AV duty and the crop and animal production sector with 1.02%, although having a high duty-free indicator of 0.85.

**Table 11: Expected Ad valorem tariffs for Basque Country's exports to the UK in the Atlantic island scenario**

| Sector | AV Duty (%) | AV% validity | Indicator of Duty-free TL |
|---|---|---|---|
| Manufacture of food products, beverages and tobacco products | 1,20 | 0,88 | 0,87 |
| Crop and animal production, hunting and related service activities | 2,59 | 0,97 | 0,92 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 0,00 | 0,98 | 0,98 |
| Rest of sectors | 0,00 | 1,00 | 1,00 |

*Source: own elaboration based on data from the WTO database on tariffs*

**Table 12: Expected Ad valorem tariffs for Basque Country's imports from the UK in the Atlantic island scenario**

| Sector | AV Duty (%) | AV% validity | Indicator of Duty-free TL |
|---|---|---|---|
| Fishing and aquaculture | 3,58 | 1,00 | 0,20 |
| Manufacture of food products, beverages and tobacco products | 3,81 | 0,59 | 0,52 |
| Crop and animal production, hunting and related service activities | 1,02 | 0,88 | 0,85 |
| Manufacture of chemicals and chemical products | 0,06 | 0,98 | 0,98 |
| Manufacture of other non-metallic mineral products and glass | 0,02 | 0,99 | 0,99 |
| Rest of sectors | 0,00 | 1,00 | 1,00 |

*Source: own elaboration based on data from the WTO database on tariffs*

## Conclusions

This aim of this Project is to advance in the understanding of the historical factors that fuelled process of the Brexit and to analyse the potential economic effects that the UK leave could have for the (ACBC). In order to do so, first, I have analysed the historical trajectory of the relationship between the UK and the EU in political and economic terms since the foundation of the EU until the Brexit negotiations between both parts. I have studied the evolution of the commercial relationship between the UK and the Basque country. Second, I have roughly estimated the potential effects of the Brexit under different scenarios.

I have found out that the Brexit threat and the outcome of the UK referendum on leaving the EU have left deep political tranches between London and Brussel. The GDP growth-rate in the UK has slowed down since the referendum, more than it did on mainland Europe (where it even grew in some years), the output per worker has stagnated. A clear long-term fall of the Sterling Pound relative to the Euro and the US dollar can be observed: from 1,107 SDRs in first quarter of 2015 to 0,928 SDRs in second quarter of 2019. However, the referendum and its outcome did not influence European stock markets negatively in the long-term. It seems that positive political news on the Brexit do not affect the development of currencies or stocks anymore: neither the agreement of 2018 on a transition period nor the agreements on delaying Brexit did influence them at all.

Any kind of Brexit will have a negative impact on British real GDP growth as well as on the one of each remaining EU member state, although a soft Brexit will affect the remaining EU only little. Interestingly, in almost any Brexit scenario, the most affected state will be Ireland, not the UK. In case of a hard Brexit, it seems to be better for the remaining EU members if the UK manages to negotiate free trade agreements with other leading economies in the world rather than turn into an isolated WTO member.

Further, I have found out that for the Autonomous Community of the Basque Country, the UK is a constant, very important trade partner. For example, in 2017, the last year of available official data, it was the fourth most important country for exports, and the third for imports. In total, Basque companies exported 2017 about 1,5 billion Euros to the UK, which represented 6,3 percentage of all exports of the autonomous community. Imports amounted to 1,3 billion Euros, representing 7,1 percentage of all imports. The most important Basque sectors in exports to the UK are: manufacture of motor vehicles and trailers, manufacture of basic metals, manufacture of machinery and equipment, manufacture of fabricated metal products and manufacture of rubber and plastic products. Exports of these five sectors counted for 80,6 % of all exports to the UK in 2017. The imports were primarily of coke and refined petroleum (60,2 percentage), followed by the sectors of basic metals and machinery equipment.

In the “WTO scenario”, a very hard Brexit scenario, tariffs will apply on all exporting sectors except for the paper and paper products, and printing and reproduction of recorded media sectors. Most affected Basque companies will be the ones exporting textiles, wearing apparel and leather products crop and animal products and motor vehicles and trailers. The most affected sectors in the Basque Country by import discrimination from the UK will be fishing and aquaculture, food products, beverages and tobacco and again textiles, wearing apparel and leather products manufacture of motor vehicles and trailers

If the UK opts for a very Soft Brexit, for example for a similar status Iceland has right now within the EEA but important exclusions in fisheries and agriculture, Basque companies of the crop and animal production must expect a 2,59 percentage AV duty only on very few of their products, and of food, beverages and tobacco products only 1,2 percentage. The rest will be duty-free.

In imports, the fishing and aquaculture sector will suffer the most tariff discrimination. Some food products, beverages and tobacco products and crop and animal production will be tariffed too.

# Bibliography


An area of freedom, security and justice: General aspects. Retrieved from http://www.europarl.europa.eu/factsheets/en/sheet/150/an-area-of-freedom-security-and-justice-general-aspects

Bar, A. (2017). El reino unido y la unión europea: Inicio y fin de una relación atormentada. *Teoría Y Realidad Constitucional, 40*, 141-180. Retrieved from http://revistas.uned.es/index.php/TRC/article/view/20906

Bayoumi, T., & Eichengreen, B. (1997). Is regionalism simply a diversion? evidence from the evolution of the EC and EFT. *Regionalism versus multilateral trade arrangements* (pp. 141-186) University of Chicago Press.

Billón Currás, M. (1997). El conflicto pesquero hispano británico en el marco de la política común de pesca. *Revista española de economía agraria,* (180), 225-261. Retrieved from http://dialnet.unirioja.es/servlet/oaiart?codigo=2154230

The common fisheries policy: Origins and development. Retrieved from http://www.europarl.europa.eu/factsheets/en/sheet/114/the-common-fisheries-policy-origins-and-development

UN convention on the law of the sea - part V: Exclusive economic zone. Retrieved from https://www.un.org/depts/los/convention_agreements/texts/unclos/part5.htm

David Cameron. (2013). EU speech at Bloomberg. Retrieved from https://www.gov.uk/government/speeches/eu-speech-at-bloomberg

De Areilza, J. M.El reino unido en la unión europea. *Politica Exterior, n° 15* (Mayo-junio 1996) Retrieved from https://www.politicaexterior.com/articulos/politica-exterior/el-reino-unido-en-la-union-europea/

De Lyon, J., & Dhingra, S. (2019). UK economy since the brexit vote: Slower GDP growth, lower productivity, and a weaker pound. Retrieved from https://blogs.lse.ac.uk/europpblog/2019/03/22/uk-economy-since-the-brexit-vote-slower-gdp-growth-lower-productivity-and-a-weaker-pound/

EU referendum: Cameron sets june date for UK vote. (2016). Retrieved from https://www.bbc.com/news/uk-politics-35621079

Felbermayr, G., Gröschl, J., Heiland, I., Braml, M., & Steininger, M. (2017). Ökonomische Effekte eines Brexit auf die deutsche und europäische Wirtschaft. *ifo Forschungsberichte, 85* Retrieved from https://www.econstor.eu/handle/10419/176882

Fernández Navarrete, D. (2006). *Fundamentos económicos de la unión europea*. Madrid: Thomson. Retrieved from https://ehu.on.worldcat.org/oclc/932553853

Goodwin, M. J., & Heath, O. (2016). The 2016 referendum, brexit and the left behind: An aggregate-level analysis of the result. *The Political Quarterly, 87*(3), 323-332. doi:10.1111/1467-923X.12285

Jason Walsh. (2009). Could ireland join schengen?. Retrieved from https://www.theguardian.com/commentisfree/2009/mar/04/immigration-eu

Kroll, D. A., & Leuffen, D. (2016). Ties that bind, can also strangle: The brexit threat and the hardships of reforming the EU. *Journal of European Public Policy, 23*(9), 1311-1320. doi:10.1080/13501763.2016.1174532

Kuethe, A. J., & Andrien, K. J. (2014). *The spanish atlantic world in the eighteenth century: War and the bourbon reforms, 1713–1796*. New York: Cambridge University Press.

McAgnus, C. (2016). *Report on initial analysis of a survey of UK fishermen ahead of the referendum on the UK's membership of the EU.* (). Retrieved from https://goo.gl/qYt3QA, https://www.abdn.ac.uk/news/9282/

Morris, C., Williamson, L., Hill, J., Harrison, S., Galpin, R., Rainsford, S., Rosenberg, S. (2016, Jun 24,). Brexit: Europe stunned by UK leave vote. *Bbc* Retrieved from https://www.bbc.com/news/uk-politics-eu-referendum-36616018

Nadal Farreras, J. (1978). *Comercio exterior y subdesarrollo : España y gran bretaña de 1772 a 1914 : Política económica y relaciones comerciales*. Madrid: Instituto de Estudios Fiscales. Retrieved from https://ehu.on.worldcat.org/oclc/757319896

Parker, G., Chazan, G., Chassany, A., & Brunsden, J. (2016, ). Cameron pins brexit on EU failure to grant UK brake on migration. *Financial Times* Retrieved from https://search.proquest.com/docview/1807440913

Pelkmans, J. (1997). *European integration : Methods and economic analysis*. [New York]: Longman. Retrieved from https://ehu.on.worldcat.org/oclc/644773563

Prime Minister's Office, 10 Downing Street, & David Cameron. (2015). EU reform: PM's letter to president of the european council donald tus. Retrieved from https://www.gov.uk/government/publications/eu-reform-pms-letter-to-president-of-the-european-council-donald-tusk

Tom Moseley. (2016). The rise of the word brexit. Retrieved from https://www.bbc.com/news/uk-politics-37896977

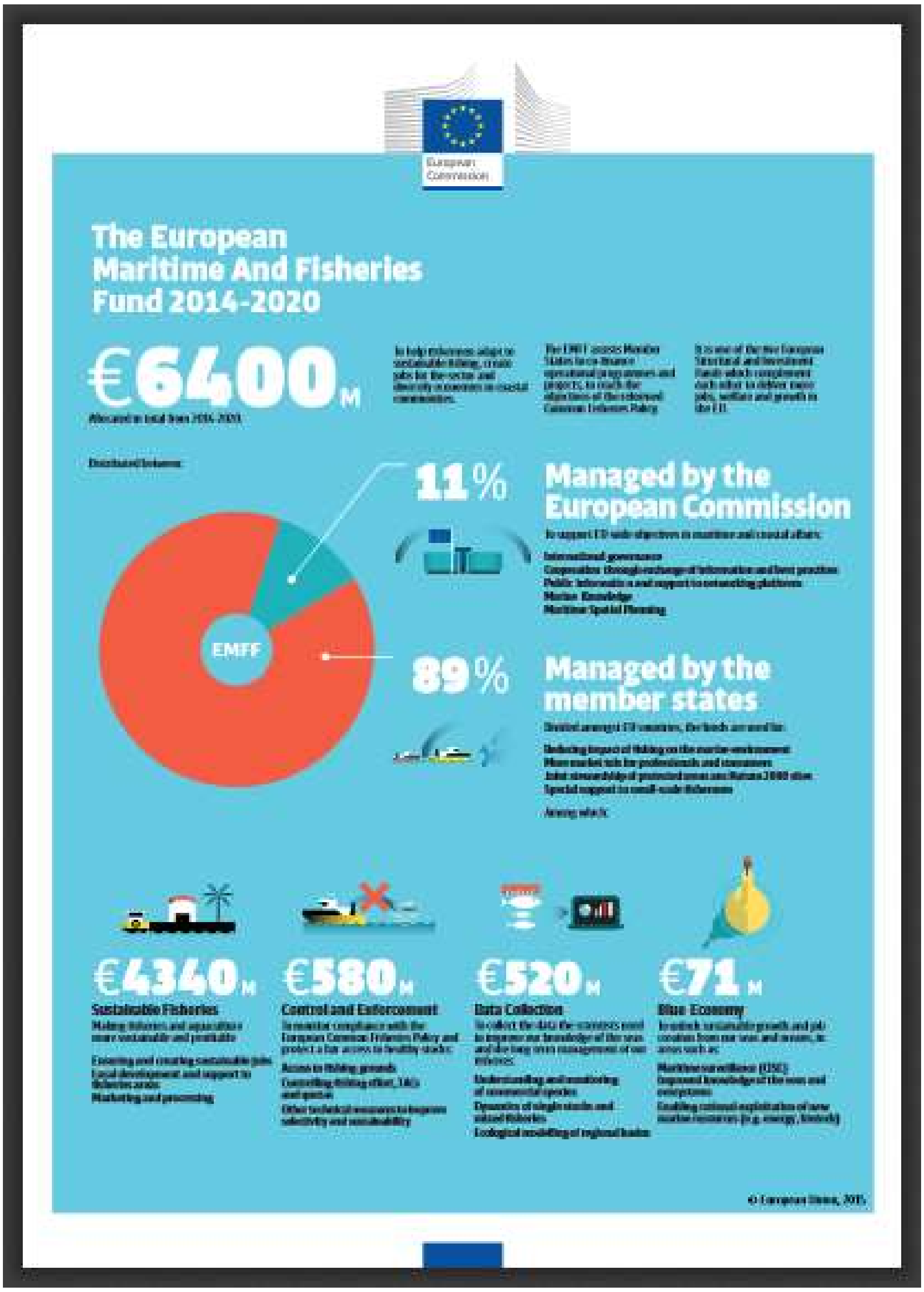
Weidenfeld, W. (2013). *Die europäische union* (Third ed.)

Woodcock, A. (2016, Jun 28,). Cameron warns EU immigration rules could threaten UK trade deal. *The Independent* Retrieved from https://www.independent.co.uk/news/uk/politics/immigration-fears-caused-brexit-vote-david-cameron-tells-brussels-a7108516.html

Zabala Uriarte, A. (1983). *El comercio y tráfico marítimo del norte de españa en el siglo XVIII. V. II.* San Sebastián: Haranburu. Retrieved from https://ehu.on.worldcat.org/oclc/1055081048

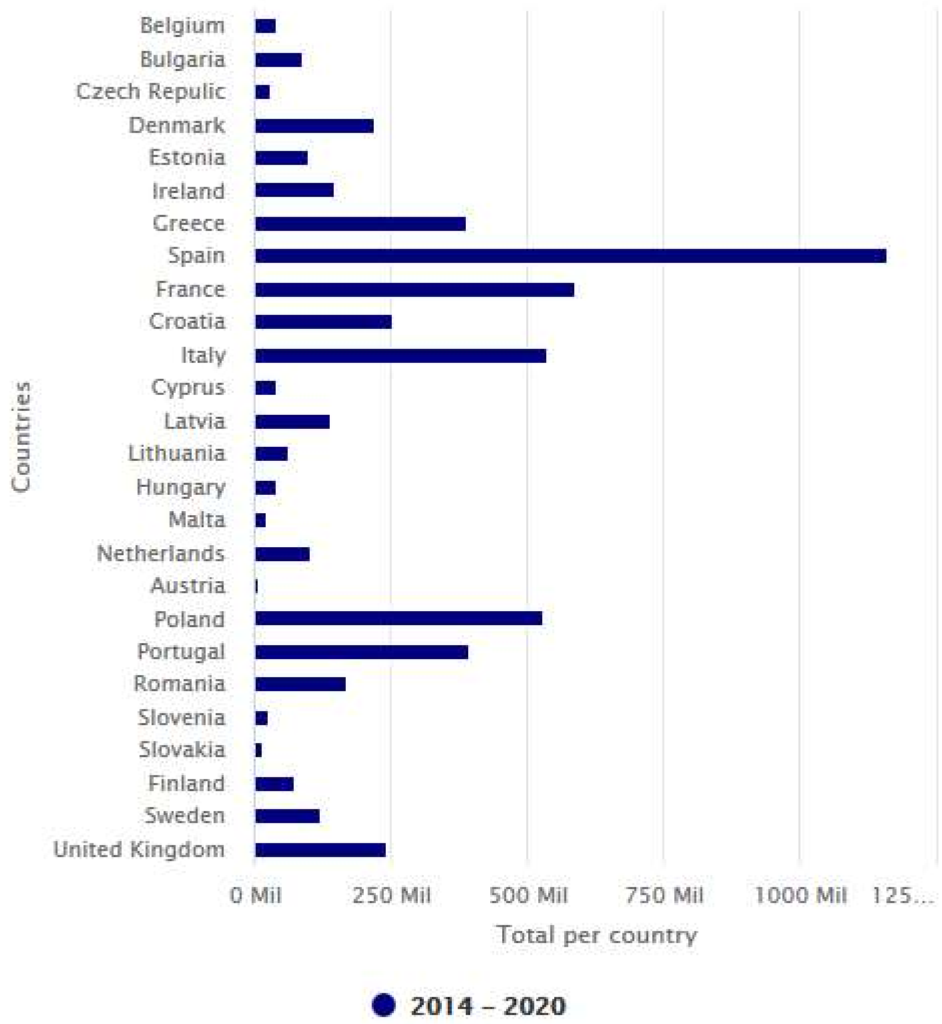
# Appendix

**Figure A1. The European Maritime and Fisheries Fund. 2014-2020**




*Source: European Commission. Retrieved from **https://ec.europa.eu/fisheries/cfp/emff_en** on 20th July of 2019.*

**Figure A2. EMFF Financial allocation per member state (2014 – 2020)**




*Source: European Commission. Retrieved from* ***https://ec.europa.eu/fisheries/cfp/emff_en*** *on 20th July of 2019.*

**Figure A3. Article 50 of the Treaty on the European Union**[30]

Article 50

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

---

[30] Source: **https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12016M050,** retrieved on 9th of August 2019

## Figure A4. Composition of sectors

| Nr. | Sector | TARIC (level 2) code and description |
|---|---|---|
| 1 | Crop and animal production, hunting and related service activities | 01 LIVE ANIMALS<br>02 MEAT AND EDIBLE MEAT OFFAL<br>04 DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED<br>05 PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED<br>10 CEREALS<br>11 PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN<br>12 OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUIT; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER<br>07 EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS<br>08 EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS<br>09 COFFEE, TEA, MATÉ AND SPICES |
| 2 | Fishing and aquaculture | 03 FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES |
| 3 | Manufacture of food products, beverages and tobacco products | 13 LAC; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS<br>15 ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES<br>16 PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES<br>17 SUGARS AND SUGAR CONFECTIONERY<br>18 COCOA AND COCOA PREPARATIONS<br>19 PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS' PRODUCTS<br>20 PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS<br>21 MISCELLANEOUS EDIBLE PREPARATIONS<br>22 BEVERAGES, SPIRITS AND VINEGAR<br>23 RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER<br>24 TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES |

| | | |
|---|---|---|
| 4 | Textiles, manufacture of textiles, wearing apparel and leather products | 41 RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER<br>42 ARTICLES OF LEATHER; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT (OTHER THAN SILKWORM GUT)<br>43 FURSKINS AND ARTIFICIAL FUR; MANUFACTURES THEREOF<br>50 SILK<br>51 WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC<br>52 COTTON<br>53 OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND WOVEN FABRICS OF PAPER YARN<br>56 WADDING, FELT AND NONWOVENS; SPECIAL YARNS; TWINE, CORDAGE, ROPES AND CABLES AND ARTICLES THEREOF<br>57 CARPETS AND OTHER TEXTILE FLOOR COVERINGS<br>58 SPECIAL WOVEN FABRICS; TUFTED TEXTILE FABRICS; LACE; TAPESTRIES; TRIMMINGS; EMBROIDERY<br>59 IMPREGNATED, COATED, COVERED OR LAMINATED TEXTILE FABRICS; TEXTILE ARTICLES OF A KIND SUITABLE FOR INDUSTRIAL USE<br>60 KNITTED OR CROCHETED FABRICS<br>61 ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED<br>62 ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED<br>63 OTHER MADE-UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS<br>64 FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES<br>65 HEADGEAR AND PARTS THEREOF |
| 5 | Forestry; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 06 LIVE TREES AND OTHER PLANTS; BULBS, ROOTS AND THE LIKE; CUT FLOWERS AND ORNAMENTAL FOLIAGE<br>14 VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED<br>44 WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL<br>45 CORK AND ARTICLES OF CORK<br>46 MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK |
| 6 | Manufacture of paper and paper products | 47 PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD<br>48 PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD |

| | | | |
|---|---|---|---|
| 7 | Printing and reproduction of recorded media | 49 | PRINTED BOOKS, NEWSPAPERS, PICTURES AND OTHER PRODUCTS OF THE PRINTING INDUSTRY; MANUSCRIPTS, TYPESCRIPTS AND PLANS |
| 8 | Manufacture of coke and refined petroleum products | 27 | MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES |
| 9 | Manufacture of chemicals and chemical products | 28 | INORGANIC CHEMICALS; ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS, OF RARE-EARTH METALS, OF RADIOACTIVE ELEMENTS OR OF ISOTOPES |
| | | 29 | ORGANIC CHEMICALS |
| | | 31 | FERILISERS |
| | | 32 | TANNING OR DYEING EXTRACTS; TANNINS AND THEIR DERIVATIVES; DYES, PIGMENTS AND OTHER COLOURING MATTER; PAINTS AND VARNISHES; PUTTY AND OTHER MASTICS; INKS |
| | | 33 | ESSENTIAL OILS AND RESINOIDS; PERFUMERY, COSMETIC OR TOILET PREPARATIONS |
| | | 34 | SOAP, ORGANIC SURFACE-ACTIVE AGENTS, WASHING PREPARATIONS, LUBRICATING PREPARATIONS, ARTIFICIAL WAXES, PREPARED WAXES, POLISHING OR SCOURING PREPARATIONS, CANDLES AND SIMILAR ARTICLES, MODELLING PASTES, ‘DENTAL WAXES’ AND DENTAL PREPARATIONS WITH A BASIS OF PLASTER |
| | | 35 | ALBUMINOIDAL SUBSTANCES; MODIFIED STARCHES; GLUES; ENZYMES |
| | | 36 | EXPLOSIVES; PYROTECHNIC PRODUCTS; MATCHES; PYROPHORIC ALLOYS; CERTAIN COMBUSTIBLE PREPARATIONS |
| | | 37 | PHOTOGRAPHIC OR CINEMATOGRAPHIC GOODS |
| | | 38 | MISCELLANEOUS CHEMICAL PRODUCTS |
| 10 | Manufacture of basic pharmaceutical products and pharmaceutical preparations | 30 | PHARMACEUTICAL PRODUCTS |
| 11 | Manufacture of rubber, plastic products and synthetic textiles | 39 | PLASTICS AND ARTICLES THEREOF |
| | | 40 | RUBBER AND ARTICLES THEREOF |
| | | 54 | MAN-MADE FILAMENTS; STRIP AND THE LIKE OF MAN-MADE TEXTILE MATERIALS |
| | | 55 | MAN-MADE STAPLE FIBRES |
| 12 | Manufacture of other non-metallic mineral products and glass | 25 | SALT; SULPHUR; EARTHS AND STONE; PLASTERING MATERIALS, LIME AND CEMENT |
| | | 26 | ORES, SLAG AND ASH |

| | | |
|---|---|---|
| | | 68 ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS<br>69 CERAMIC PRODUCTS<br>70 GLASS AND GLASSWARE |
| 13 | Manufacture of basic metals | 72 IRON AND STEEL<br>74 COPPER AND ARTICLES THEREOF<br>75 NICKEL AND ARTICLES THEREOF<br>76 ALUMINIUM AND ARTICLES THEREOF<br>78 LEAD AND ARTICLES THEREOF<br>79 ZINC AND ARTICLES THEREOF<br>80 TIN AND ARTICLES THEREOF<br>81 OTHER BASE METALS; CERMETS; ARTICLES THEREOF |
| 14 | Manufacture of fabricated metal products, except machinery and equipment | 73 ARTICLES OF IRON OR STEEL<br>82 TOOLS, IMPLEMENTS, CUTLERY, SPOONS AND FORKS, OF BASE METAL; PARTS THEREOF OF BASE METAL<br>83 MISCELLANEOUS ARTICLES OF BASE METAL<br>93 ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF |
| 15 | Manufacture of computer, electronic and optical products | 90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF |
| 16 | Manufacture of electrical equipment | 85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES |
| 17 | Manufacture of machinery and equipment n.e.c. | 84 NUCLEAR REACTORS; BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF |
| 18 | Manufacture of motor vehicles and trailers | 87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF |
| 19 | Manufacture of other transport equipment | 86 RAILWAY OR TRAMWAY LOCOMOTIVES, ROLLING STOCK AND PARTS THEREOF; RAILWAY OR TRAMWAY TRACK FIXTURES AND FITTINGS AND PARTS THEREOF; MECHANICAL (INCLUDING ELECTROMECHANICAL) TRAFFIC SIGNALLING EQUIPMENT OF ALL KINDS |

| | | |
|---|---|---|
| | | 88 AIRCRAFT, SPACECRAFT, AND PARTS THEREOF<br>89 SHIPS, BOATS AND FLOATING STRUCTURES |
| 20 | Manufacture of furniture | 94 FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS; LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED; ILLUMINATED SIGNS, ILLUMINATED NAMEPLATES AND THE LIKE; PREFABRICATED BUILDINGS |
| 21 | Precious metals and other manufacture; including jewellery, arts, watches and toys | 66 UMBRELLAS, SUN UMBRELLAS, WALKING STICKS, SEAT-STICKS, WHIPS, RIDING-CROPS AND PARTS THEREOF<br>67 PREPARED FEATHERS AND DOWN AND ARTICLES MADE OF FEATHERS OR OF DOWN; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR<br>71 NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL, AND ARTICLES THEREOF; IMITATION JEWELLERY; COIN<br>91 CLOCKS AND WATCHES AND PARTS THEREOF<br>92 MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES OF SUCH ARTICLES<br>95 TOYS, GAMES AND SPORTS REQUISITES; PARTS AND ACCESSORIES THEREOF<br>96 MISCELLANEOUS MANUFACTURED ARTICLES<br>97 WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES<br>98 COMPLETE INDUSTRIAL PLANT<br>99 SPECIAL COMBINED NOMENCLATURE CODES |

*Source: own elaboration*

**Figure A5. Basque Country's trade balance with the world, in million €**

| Year | Export | Import | Saldo |
|---|---|---|---|
| 2007 | 19.072,4 | 18.900,4 | 172,0 |
| 2008 | 20.279,2 | 20.117,4 | 161,8 |
| 2009 | 14.942,2 | 12.294,2 | 2.648,1 |
| 2010 | 17.874,5 | 15.430,3 | 2.444,3 |
| 2011 | 20.487,3 | 17.308,7 | 3.178,6 |
| 2012 | 20.970,8 | 15.822,3 | 5.148,6 |
| 2013 | 20.631,3 | 15.951,8 | 4.679,6 |
| 2014 | 22.501,1 | 17.131,4 | 5.369,6 |
| 2015 | 21.865,5 | 16.818,8 | 5.046,7 |
| 2016 | 21.615,4 | 15.583,4 | 6.032,0 |
| 2017 | 24.108,5 | 18.695,1 | 5.413,4 |

*Source: own elaboration based on data from* ***www.datacomex.comercio.es***

**Figure A6. 2013 – 2017 Basque Country's average yearly exports to the UK**

| Sector | Mill. € |
|---|---|
| Manufacture of motor vehicles and trailers | 339,0 |
| Manufacture of basic metals | 204,2 |
| Manufacture of machinery and equipment n.e.c. | 166,7 |
| Manufacture of fabricated metal products, except machinery and equipment | 106,0 |
| Manufacture of rubber and plastic products | 96,4 |
| Manufacture of food products, beverages and tobacco products | 59,5 |
| Manufacture of electrical equipment | 31,6 |
| Manufacture of paper and paper products | 21,7 |
| Manufacture of coke and refined petroleum products | 20,4 |
| Manufacture of other non-metallic mineral products and glass | 19,5 |
| Manufacture of chemicals and chemical products | 19,3 |
| Manufacture of other transport equipment | 19,0 |
| Crop and animal production, hunting and related service activities | 9,8 |
| Manufacture of computer, electronic and optical products | 8,4 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 6,0 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 4,9 |
| Textiles, Manufacture of textiles, wearing apparel and leather products | 2,6 |
| Manufacture of furniture | 2,4 |
| Printing and reproduction of recorded media | 1,8 |
| Fishing and aquaculture | 1,3 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 0,2 |
| **TOTAL** | **1.140,6** |

*Source: own elaboration based on data from* ***www.datacomex.comercio.es***

**Figure A7. 2013 - 2017 Basque Country's average yearly imports from the UK**

| Sector | Mill. € |
|---|---|
| Manufacture of coke and refined petroleum products | 574,7 |
| Manufacture of basic metals | 184,0 |
| Manufacture of machinery and equipment n.e.c. | 67,9 |
| Fishing and aquaculture | 30,3 |
| Manufacture of chemicals and chemical products | 22,9 |
| Manufacture of rubber and plastic products | 17,8 |
| Manufacture of electrical equipment | 17,3 |
| Manufacture of fabricated metal products, except machinery and equipment | 14,1 |
| Manufacture of motor vehicles and trailers | 12,8 |
| Manufacture of other transport equipment | 9,6 |
| Manufacture of computer, electronic and optical products | 9,2 |
| Manufacture of other non-metallic mineral products and glass | 8,6 |
| Textiles, Manufacture of textiles, wearing apparel and leather products | 5,3 |
| Manufacture of paper and paper products | 4,6 |
| Manufacture of basic pharmaceutical products and pharmaceutical preparations | 2,7 |
| Manufacture of food products, beverages and tobacco products | 2,5 |
| Crop and animal production, hunting and related service activities | 2,2 |
| Precious metal and other manufacture; including jewellery, arts, watches and toys | 1,9 |
| Manufacture of furniture | 1,4 |
| Forestry and logging; manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 0,6 |
| Printing and reproduction of recorded media | 0,5 |
| **TOTAL** | **990,8** |

*Source: own elaboration based on data from* ***www.datacomex.comercio.es***