Brexit No Deal: The Budgetary Impact on CAP - Greece and the EU27

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Abstract

The EU and the UK are currently negotiating the framework of a new bilateral relationship as a result of the UK's decision to leave the EU. This briefing paper explores the direct consequences of Brexit on the Common Agricultural Policy (CAP) Budget of the European Union for final years (2019-2020) of the current Multi-annual Financial Framework (MFF) and investigates the ramifications for CAP Budgets of all EU Member States with a case study of Greece. Drawing on various recent contributions to the debate on the consequences of Brexit and the future of Europe, such as the research for the EU AGRI Committee and the budgetary research conducted by Alan Matthews. The paper will evaluate the scenario that the UK leaves the EU without a deal on the 29th March 2019 resulting in no transition deal or financial settlement. This scenario would leave an unprecedented funding gap for final year and three quarters of the current MFF period. This paper will also evaluate the options the EU has in order to limit the budgetary impact. The negotiations see both the EU and UK increasing rhetoric of a 'No Deal' outcome and both preparing for the consequences of a 'No Deal', thus the significance of understanding the potential implications of a 'No Deal' is of increasing importance.

1 Introduction

In March 2017 the United Kingdom (UK) triggered Article 50, which initiated the process of the UK leaving the European Union (EU). The June 2016 'In/Out' Referendum has created an unprecedented geopolitical shift within Europe, at a time when the EU is already confronting a number of challenges such as migration, adaption to climate change, the sovereign debt crisis and low levels of trust in EU institutions (Bachtler & Begg, 2018).

At the time of writing, the UK is expected to exit from the EU in March 2019 and enter into a 21 month transitional period. The transition period would enable the status quo – by and large – to continue. The UK would remain within the Single Market and Customs Union, apply EU laws (enforced by the ECJ) and continue the free movement of people, but would no longer have voting rights in EU institutions. This allows the British Government and the EU to create, finalize and ratify a long-term future relationship deal and UK/EU businesses time to prepare and adjust to any new regulations or changes in market access.

The British Government has set out stern red lines for its future relationship with the EU including: no free movement of people/labour, an independent trade policy, no compulsory budgetary contribution and complete legal oversight by UK courts only and not by the European Court of Justice. However, the British Prime Minister's determination to deliver a good Brexit and maintain her red lines is impeded by the weaker negotiation position of the UK. The UK economy relies much more on exports to the EU then the EU relies on exports to the UK (Sampson, 2016). The percent of GDP exposed to Brexit in the UK is 12.20%, whilst the percent of GDP exposed to Brexit in the EU is 2.64%. Slovenia, for example, has only 0.42% of GDP exposed to Brexit. These figures showcase the UK as having more trade-related risks and vunrability as a consequence of Brexit (Chen et al., 2017).

The draft withdrawal agreement published in February 2018 includes provisions on, citizens' rights, the financial settlement, transitional arrangements, institutional provisions and a protocol on Ireland/Northern Ireland border (European Commission, 2018). It should be made clear that failure to agree a withdrawal agreement will result in the termination of any transitional arrangements.

It is this articles view that whilst the withdrawal agreement is necessary to the success of Brexit, aspects of the agreement could reduce Britain's negotiation strength. The draft withdrawal agreement appeases the central areas of concern the EU holds regarding Brexit - EU citizens' rights and a financial settlement that covers the final two years of budgetary commitments and outstanding liabilities.

The financial settlement crucially contains the UK's contribution to the remaining MMF Budget that was agreed by the ex-Prime Minister David Cameron when he negotiated the seven-year funding program in 2013. Spending by the EU has already been agreed and costed until 31 December 2020, which coincides with the end of the transitional period as set out in the draft withdrawal agreement (European Commission, 2018). This part of the financial settlement is one of the most significant negotiation strengths the UK holds as a failure to pay - most likely only as a result of a 'No Deal' outcome in March 2019 – would create a challenging budgetary situation for the EU.

In the event that a withdrawal agreement is agreed and the UK enters into a transition period, the UK will continue to make budgetary payments during this period. It is therefore imperative that the significant aspects of the post-Brexit trade deal are agreed as early into this process as possible as the EU's negotiation strength will increase daily as the UK pays the remained of its MFF budgetary commitments during the transition period. Once the transition period has ended, the current MFF period will be fully paid off. It should be noted that the UK will be legally bound to pay the financial settlement under the withdrawal agreement and therefore parliament will need to change this law in order to stop further payments to the EU. The EU may try to drag negotiations out until the end of 2020 using the so called deadline effect strategy as theorized by Roth, Murnighan, & Schoumaker (1988). This would enable the EU to take advantage of the UK's weakend position in order to force a better outcome for themselves.

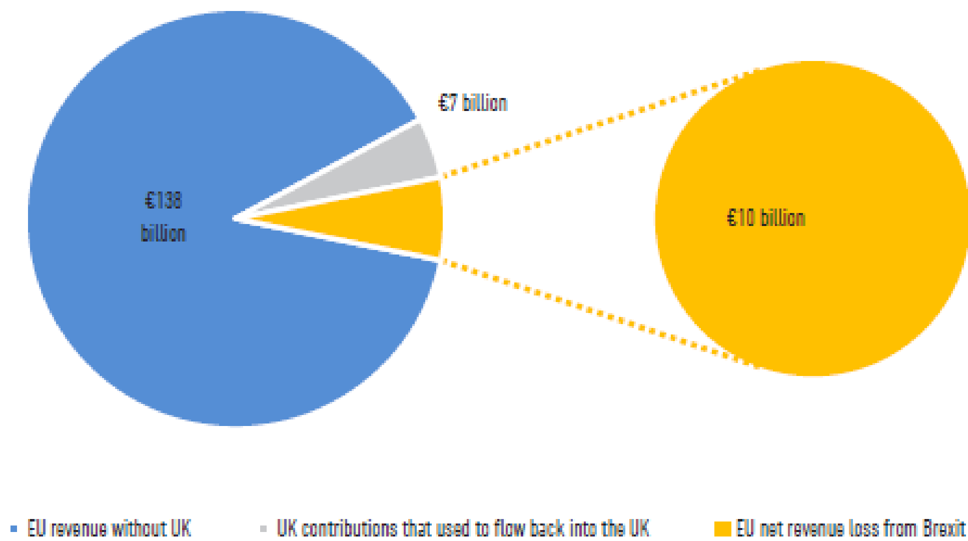
Failure to agree a withdrawal agreement would result in a 'No Deal' Brexit which could be the result of the UK and EU not reaching an agreement, or either the UK Parliament or the European Council rejecting the final deal. In this scenario the UK would need to decide if it would wish to honor the financial settlement, but this would only be under good-faith to stop negative diplomatic ramifications and a decline in trust. In this scenario the UK would not be legally bound to pay the financial settlement (European Union Committee, 2017).

This article will showcase the potential impact on the 27 EU Member States CAP Budgets for the remainder of the current financial period if the UK does not pay the financial settlement. The CAP Budget is one of the largest spending areas from the MFF Budget. This paper will also examine the possible options that are available to the EU if a budgetary gap becomes a reality.

2 The MFF Budget

A new Multi-annual Financial Framework (MFF) that will set new overall spending ceilings limits and any changes in expenditure ratios is currently being debated by EU Member States and will come into effect in the financial year 2021. The departure of the UK - the second largest net contributor to the EU budget - from the EU in March 2019 however, jeopardizes the final year and three quarters of the current budgetary period if the UK fails to pay the financial settlement. This would leave a budgetary funding gap in the EU Budget of €10 billion per financial year or the equivalent of the entire Horizon 2020 research program in 2015 (Begg, 2017)

Figure 1: Brexit Gap

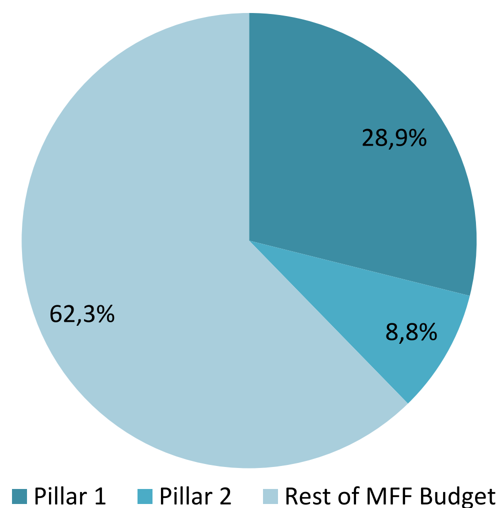


Source: Haas, J. and Rubio, E. (2017), Brexit and the EU budget: Threat or Opportunity, Jacques Delors Institute, Policy Paper 183

In order to counter the budgetary gap, the EU could reduce spending, but this would be extremely difficult due to existing spending commitments (Begg, 2017). It would also be extremely difficult for the EU to reach a quick agreement with remaining EU Member States on increasing contributions to the EU Budget to counter the budgetary gap. It should be noted that Article 315 of The Treaty on the Functioning of the European Union states that if there is no agreement on how to adjust the MFF Budget in response to the UK not paying a financial settlement, spending corresponding to the 2019 budget would be maintained and the gap would be automatically filled through an increase in national contributions.

The Common Agricultural Policy (CAP) amounts to an average of 37.7% of the total MFF Budget, with 28.9% spent on Pilar 1 (Direct Aid to farmers and Common Market Organization) and 8.8% spent on Pilar 2 (Rural Development).

Figure 2: Pillar 1 & Pillar 2 as a percentage of the MFF Budget



Source: Authors' calculations, based on CAP net ceilings and projected MFF Budget

3 The likelihood of a 'No Deal'

The British Government has continually ruled out any possibility that the UK will remain in either the Single Market or Customs Union as this would not allow the UK to create free trade agreements with third countries. This is commonly referred to as a 'Hard Brexit'. This form of Brexit presents many seemingly politically impossible challenges for the EU and UK to solve that increases the likelihood of a 'No Deal' outcome.

One key example of a difficult problem is the EU/UK land border between the Republic of Ireland and Northern Ireland which would breach the Good Friday Agreement. Senior negotiators have suggested this to be the single biggest risk to agreeing a transition deal and a future relationship deal (Barker, Chassany, & Beesley, 2018; Hughes & Parker, 2018). A hard border could be avoided by the UK remaining in 'full alignment' with the Single Market and Custom Union regulations (European Union and United Kingdom Government, 2017). However, 'full alignment' would go against the Brexit mantra that the UK seeks to diverge from EU Regulations otherwise the UK will remain obeying all EU rules without any say in writing them.

The UK has also often taken unrealistic negotiating positions and failed to understand the gravity of key issues such as the Ireland border, consistently lambasting the EU for UK Ministers lack of knowledge. An eloquent example of this was in May 2016 when David Davis stated on Twitter that trade agreements could be made with individual EU Member States such as Germany and France and the UK could simply sideline Brussels (Davis, 2016). This increasingly ferments the idea that a deal on a future relationship with the EU will not be brokered in time as UK Ministers fail to understand the damaging consequences that a no deal would have on the UK economy that would be far greater than the damage on the EU economy (European Union Committee, 2017).

The consistent cheerleading of 'No Deal' rhetoric such as: 'a no deal is better than a bad deal' by Ministers like David Davis has caused - much to his dismay - the EU to initiated strategic planning for the consequences of a 'No Deal' Brexit (Pickard & Barker, 2018). The suggestion by some British MPs to create a Ministerial position to prepare for the eventualities of a 'No Deal' outcome and the creation of a €3.37 Billion Budget to pay for the consequences of a 'No Deal' suggests this option is more serious than a simple negotiation ploy and therefore the consequences of this outcome should be fully investigated (McKee , 2018).

The UK Government has stated that it will fulfil funding commitments to the current MFF that where agreed in 2013 under the then Prime Minister David Cameron to safeguard British 'moral principles and obligations', to uphold positive diplomatic relationships and to avoid a trust crisis with remaining EU Member States and the rest of world that could hamper the signing of future trade deals. However, these issues do not hamper the British Government in using the Financial Settlement as a threat to try and force the EU into submission, demanding that all issues that concern Britain need to be resolved before any payment is made (Colson, 2018). A 'No Deal' is therefore a valid outcome option of the negotiations and its impacts would be felt both in the UK and the EU.

This paper will explore in detail the possible impacts on the Common Agricultural Policy (CAP) Budget of the remaining EU Member States with a detailed example of Greece's CAP Budget for the scenario of a 'No Deal' or 'No Agreement' on the UK's future relationship with the EU. The paper will specifically calculate the Brexit Funding Gap for the remaining Member States in the final year and three quarters of the CAP Budget and access its impact and possible solutions to a shortfall in funding.

4 Methodology

This Briefing Paper will use the latest publicly available forecast data published in March 2018 by the Office for Budget Responsibility on UK contributions to the EU Budget. This data shows how much the UK would contribute to the EU Budget if the UK had not voted to leave the EU in 2016. This assumption means that the forecast does not factor in changes to the UK economy as a result of the referendum including: lower migration, reduced productivity, higher inflation, lower interest rates, direct effects of the weaker exchange rate, some developments in property markets and the monetary policy stimulus announced by the Bank of England in August (Office for Budget Responsibility, 2017). This forecast data was chosen as EU spending

calculated based on seven year cycles (MFF) – though some adjustments are made year-to-year - and so to calculate the real loss to the EU Budget of the UK leaving the EU, the forecast should not include the economic consequences of the referendum vote.

This paper will also use EU spending ceiling limits (the total amount of funds each Member State can withdraw from the EU Budget) which can be found in the MFF regulations, as well as planned commitment spending data from the EU in order to forecast the impact on the CAP Budget of the remaining EU Member States. The use of planned commitment spending data differs from papers such as Ferrer & Rinaldi (2016) which uses recorded spending from the financial year 2014 to make future assumptions. Ferrer & Rinaldi (2016) use this data as it is seen as more resentative of the average UK contribution which flucturates due to changes in GNI and an appreciation of the British Pound. Whilst it is true that the use of forecast data can result in inaccuracies, the use of 2014 data can also forecast underestimations of the impact on Member States. The forecasts from this paper should therefore be used in conjunction with others as this papers objective is not provide exact figures as to the impact of a no deal on remaining Member States. It seeks to illustrate the potential impact and ways in which the Budget could be adapted to compensate for the Brexit Gap.

It should also be noted that some papers such as Haas & Rubio (2017), they do not include revenues from Traditional Own Resources, which consist mainly of customs duties on imports from outside the EU (20% is retained by Member States to cover costs of collection). They do not include this in their calculations as they are direct EU revenues that are collected by Member States. However, TOR will inevitable be reduced as a result of Brexit and therefore it is uncluded in the calculations of this paper.

This paper does not include the Common Market Organization Policy (CMO) which falls under Pillar 1 of CAP in its calculations. CMO regulates agricultural markets in the EU and provides some sector-specific support. Spending ceiling limits for CMO are not set out in the MFF regulations and thus it is difficult to predict impacts with any reliable accuracy.

5 UK Budgetary Contributions

The UK is forecasted by the Office for Budget Responsibility to pay a net contribution to the EU Budget of €18.500 Billion for the financial years 2019-2020 if the UK was not to leave the EU in March 2019. This figure can be broken down into the two financial years:

- 2019: €8.1 Billion
- 2020: €10.400 Billion
- Total Brexit Gap: €18.500 Billion

The financial year of 2019 is lower than 2020 as it is only 9 months contribution. The UK will leave the EU in March 2019 and therefore the first three months of 2019 the UK will pay into the EU Budget as a Member State. It should be noted that this figure also accounts for the request that the Commission can make for up to five months' worth of total GNI and VAT contributions less the UK rebate in the first quarter of a financial year to take into account frontloading of CAP payments. The Office for Budget Responsibility (2018) has forcasted the draw-forward will be 4.35 months in 2019 or roughly 30% of the UK's net contribution being paid in the first quarter of 2019. The €8.1 Billion accounts for this draw-forward.

Table 1: The UK's net contributions to the EU Budget 2016-2023. (Forecasts after 2016)

Year	Gross Contribution	Rebate	Public sector receipt	Private sector receipt	Net Contribution
2016	17,8	-6,7	-4,3	-2.8	10.7
2017	13.8	-5,1	-5,6	-1.7	6,5
2018	16,5	-4,8	-5.6	-1.7	9.2
2019	19.4	-4,7	-6,3	-2.0	11.1
2020	19,0	-5,4	-6.6	-2.0	10.4
2021	18,8	-5,3	-6.6	-2.0	10.1
2022	18,5	-5,2	-6.6	-2.0	9.8
2023	18,4	-5,2	-6.7	-2.0	9.4

Figures displayed in € Billion
Source: Office for Budget Responsibility

Based on the Common Agricultural Policy (CAP) ceiling spending limits, CAP accounts for 38% (€56,784 Billion) of the total commitment appropriations at current prices. The UK is forecasted to contribute gross 13% (€5,117 Billion) or net 5% (€2,072 Billion) in the financial year 2019 and gross 13% (€7,176 Billion) or net 5% (€2,827 Billion) to the CAP Budget in the financial year 2020 (European Commission, 2017; European Parliament and European Council, 2014; European Parliament and European Union Council, 2017; Office for Budget Responsibility, 2017). Figures for 2019 take into account the draw-forward of payments as previous explained.

In relation to the CAP Budget for the financial year 2019, the UK's net contribution of €2,072 Billion (which has removed the first quarter (30%) of contributions in which the UK would still be an EU Member State as previously explained) can be broken down into the two CAP Pillars:

- Pillar 1: 75% (€1,408 Billion)
- Pillar 2: 25% (€665 Million)

(Pillar 1 does not include the Common Market Origination Policy)

The UK's net contribution to the CAP Budget for the financial year 2020 is €2,827 Billion can be broken down into the two CAP Pillars:

- Pillar 1: 74% (€1,909 Billion)
- Pillar 2: 26% (€918 Million)

(Pillar 1 does not include the Common Market Origination Policy)

For both years combined this equals a loss to the CAP Budget of €4,899 or:

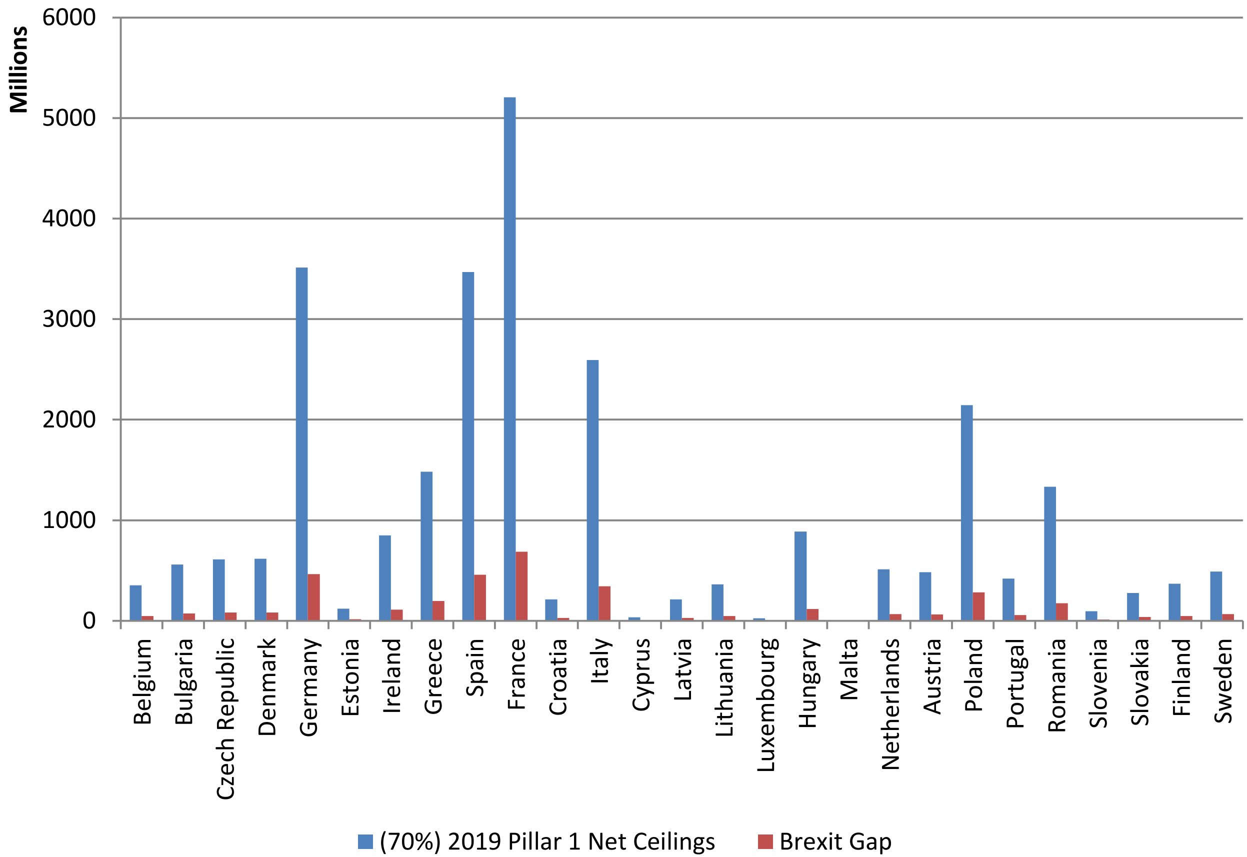
- Pillar 1: 75% (€3,317 Billion)
- Pillar 2: 25% (€1,583 Billion)

(Pillar 1 does not include the Common Market Origination Policy)

6 Pillar 1 Brexit Gap

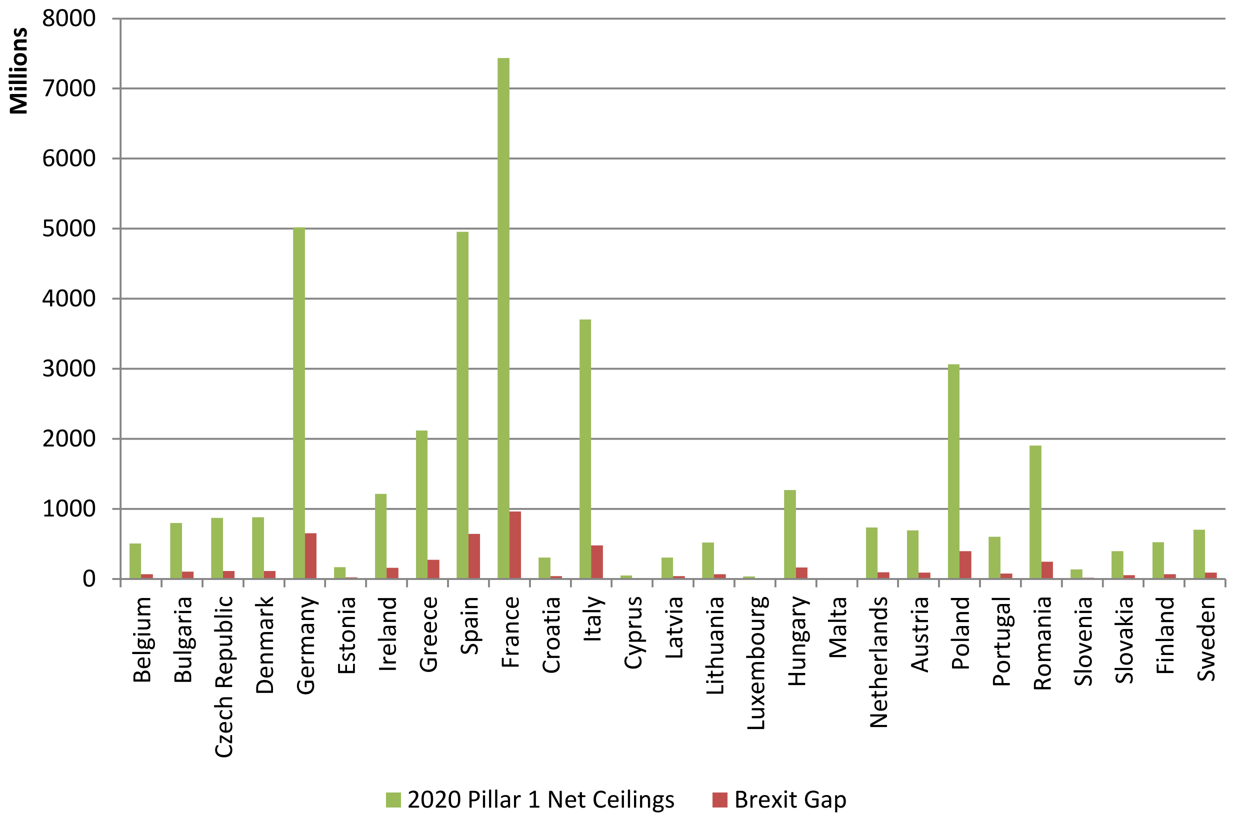
To calculate the Brexit Gap for each individual EU Member State's Pillar 1 CAP Budget for the final year and three quarters of the current MFF, the UK's gross contribution to Pillar 1 in 2019 of €3,922 Billion and 2020 of €5,501 Billion must be divided by the percentage share each Member State receives of the total Pillar 1 EU CAP Budget. Greece is forecasted to receive 3.49% in 2019 and 4.99% in 2020. The largest receiving country, France, is forecasted to receive 12.25% in 2019 and 17.51% in 2020, whilst the smallest receiving country, Luxembourg, is forecasted to receive 0.06% in 2019 and 0.08% in 2020.

Figure 3 (Pillar 1 Brexit Gap 2019)



Source: Authors' calculations, based on European Commission data

Figure 4 (Pillar 1 Brexit Gap 2020)



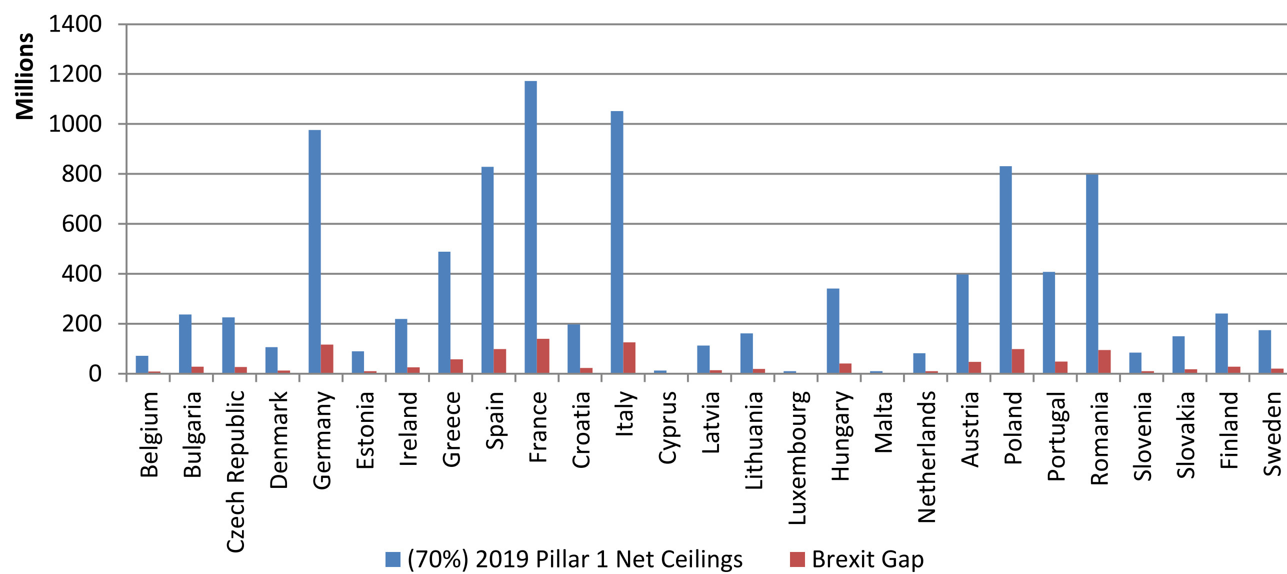
Source: Authors' calculations, based on European Commission data

As shown in Figure 3, Greece is calculated to lose a forecasted €195,630 Million from its total 2019 Pillar 1 net spending ceiling limits of €1,483 Billion or 3%. It should be noted that the net spending ceiling limit and Brexit Gap reflect the 3 months the UK will be an EU Member State in 2019 and the 4.35 months of forecasted advanced payments into the EU Budget as previously explained. France would lose the most from its 2019 Pillar 1 budget, a forecasted €686,617 Million from its total 2019 Pillar 1 net spending ceiling limits of €5,206 Billion or 12%. France is followed by Germany, losing €463,308 Million (8%) and Spain, losing €457,400 Million (8%). Please see Appendix Table 3 for the calculation data.

As shown in Figure 4, Greece is calculated to lose a forecasted €274,357 Million from its total 2020 Pillar 1 net spending ceiling limits of €2,119 Billion or 5%; in other words, almost the entirety of Greece's Common Market Organization (CMO) Commitments for 2016 (European Commision, 2018). France would lose the most from its 2020 Pillar I budget, a forecasted €962,929 Million from its total 2020 Pillar 1 net spending ceiling limits of €7,437 Billion or 18%. France is followed by Germany, losing €649,756 Million (12%) and Spain, losing €641,469 Million (12%). Please see Appendix Table 2 for the calculation data.

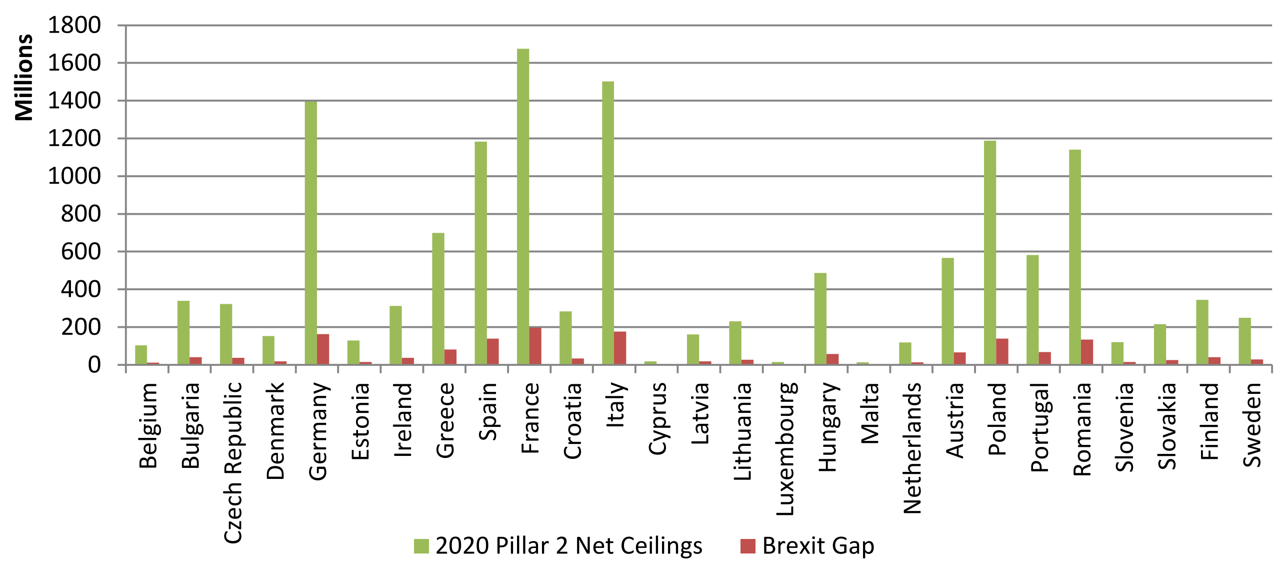
7 Pillar 2 Brexit Gap

Figure 5 (Pillar 2 Brexit Gap 2019)



Source: Authors' calculations, based on European Commission data

Figure 6 (Pillar 2 Brexit Gap 2020)



Source: Authors' calculations, based on European Commission data

The same method used to calculate the Member State's Pillar 1 Brexit Gap is used for Pillar 2. The UK's gross contribution to Pillar 2 in 2019 of €1,194 Billion and 2020 of €1,675 Billion must be divided by the percentage share each Member State receives of the Pillar 2 CAP Budget. Greece is forecasted to receive 3% in 2019 and 5% in 2020. The largest receiving country, France, is forecasted to receive 8% in 2019 and 12% in 2020, whilst the smallest receiving country, Luxembourg, is forecasted to receive 0.07% in 2019 and 0.1% in 2020.

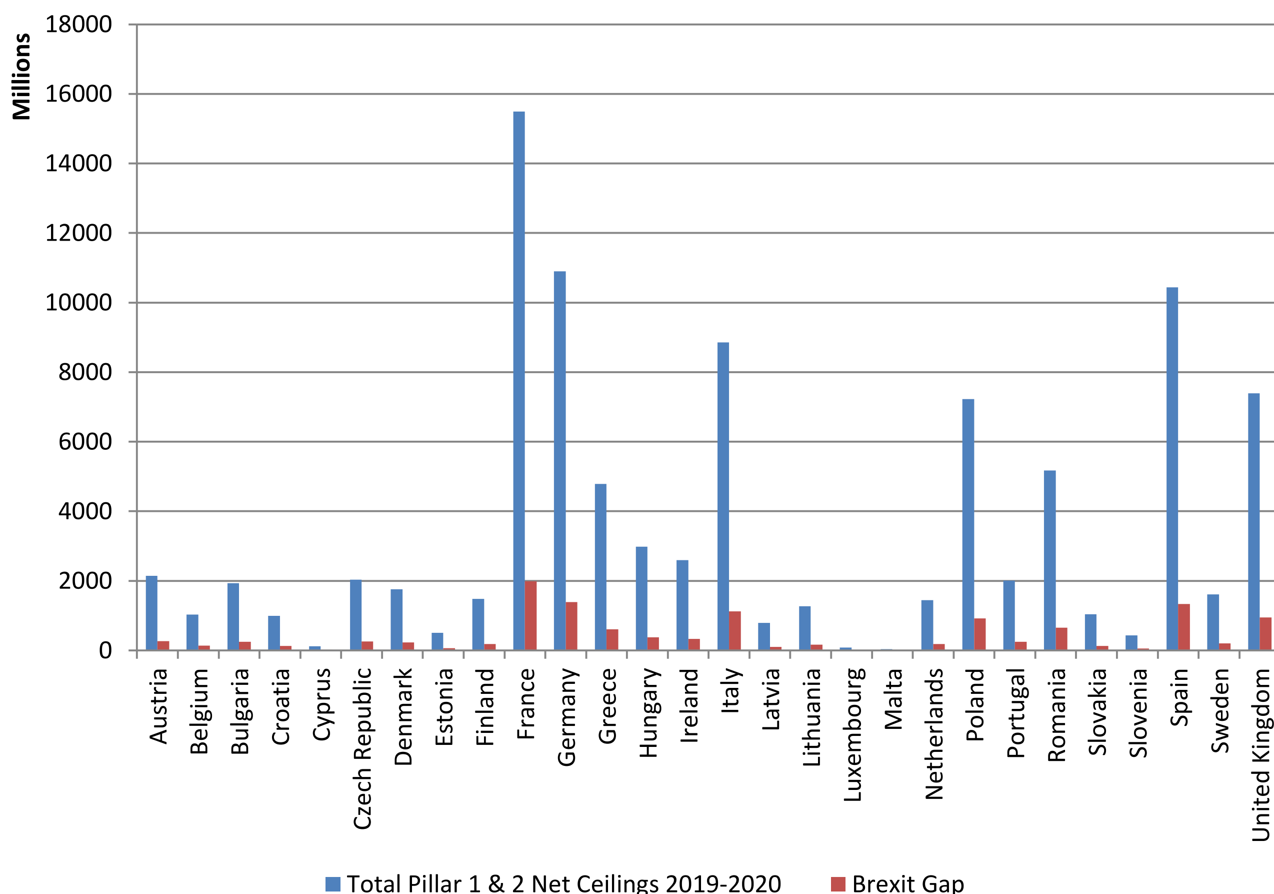
As shown in Figure 5, Greece is calculated to lose a forecasted €58,319 Million from its total 2019 Pillar 2 spending ceiling limit of €488,783 Million or 3%. It should be noted that the spending ceiling limit and Brexit Gap reflect the 3 months the UK will be an EU Member State in 2019 and the 4.35 months of forecasted advanced payments into the EU Budget as previously explained. France would lose the most from its 2019 Pillar 2 budget, a forecasted €139,927 Million from its total 2019 Pillar 1 spending ceiling limits of €1,173 Billion or 8%. France is followed by Italy, losing €125,427 Million (7%) and Germany, losing €116,476 Million (7%). Please see Appendix Table 5 for the calculation data.

As shown in Figure 6, Greece is calculated to lose a forecasted €81,788 Million from its total 2020 Pillar 2 net spending ceiling limits of €698,261 Million or 5%. France would lose the most from its 2020 Pillar 2 budget, a forecasted €196,238 Million from its total 2020 Pillar 2 net spending ceiling limits of €1,675 Billion or 12%. France is followed by Italy, losing €175,902 Million (11%) and Germany, losing €163,349 Million (10%). Please see Appendix Table 4 for the calculation data.

It should be noted the figures in Figures 5 and 6 do not include national co-funding of RDP (Pillar 2) by Member States. For Greece, this national co-funding equates to €0.9 Billion for the MFF period 2014-2020. Figures 3 and 4 only assesses the Gap in funding from the EU Pillar 2 Budget and does not take into account funding from the national budgets of Member States.

8 The Total Impact on the CAP Budget

Figure 7 (Total Pillar 1 & 2 Brexit Gap 2019-2020)



Source: Authors' calculations, based on European Commission data

Figure 7 shows the total budgetary impact (Brexit Gap) on each Member State's total CAP Budget (Pillar 1 & 2 combined) for the final year and three quarters of the current MFF. Greece would have a total Brexit Gap of €610,093 Million. This is money that would no longer be available to Greece from the EU Budget. France would lose the most from their budget; a forecasted €1,986 Billion would no longer be available to them. France is followed by Germany; losing €1,392 Billion and Spain losing €1,336 Billion. Please see Appendix Table 6 for the calculation data.

9 The Options for Greece and the EU to counter the Brexit Gap

The forecasted impact of the Brexit Gap on Greece's CAP Budget appears relatively small in comparison to the overall net ceiling limits as shown in Figure 7. However, the total budgetary loss of €610,093 Million could have significant consequences if this scenario was to come to fruition.

Greece went into recession for 8 years after the economic crisis of 2008 and still has a very fragile economy that would struggle to cope with any sudden loss of funding from the EU Budget. Greece has significantly high public debt, a high creditworthiness risk, and Greek banks' have large stocks of non-performing loans (NPLs) which make Greece financial vulnerable (Organisation for Economic Co-operation and Development 2017). The austerity measures put in place to tackle the financial crisis included tax rasies, public sector cuts, benefit cuts, spending cuts, labour market reforms and privatisation. The financial flexibility of Greece's national budgets to obsorb the Brexit Gap is extreamly small.

The EU economy in general is strengthening with average growth rates of about 2% in advanced Europe and 3% in emerging Europe with all euro area countries growing (International Monetary Fund, 2017). However, all EU Member States have national debts with some Member States having significant amounts of debt. In 2017 the debt of Greece reached €317,407 Billion and the combined EU 28 Member States debt reached €12,504 Trillion in 2017 (Eurostat, 2017). This is important because if the UK fails to pay the Financial Settlement, it will be highly likely national, regional and local governments will be forced to cover the Brexit Gap (Scheffer, 2017). The EU is only permitted to borrow money to finance loans to countries and cannot borrow to finance its budget (European Commission, 2017). The spending commitments for projects in Member States have already been agreed in advance which makes it extremely difficult to revoke payments (Begg, 2017). This could result in Member States cutting other types of national expenditure, alerting taxation policies or increasing borrowing to cope with the Brexit Gap.

In the scenario that the UK leaves the EU with no future relationship trading deal and refuses to pay the financial settlement as a consequence,

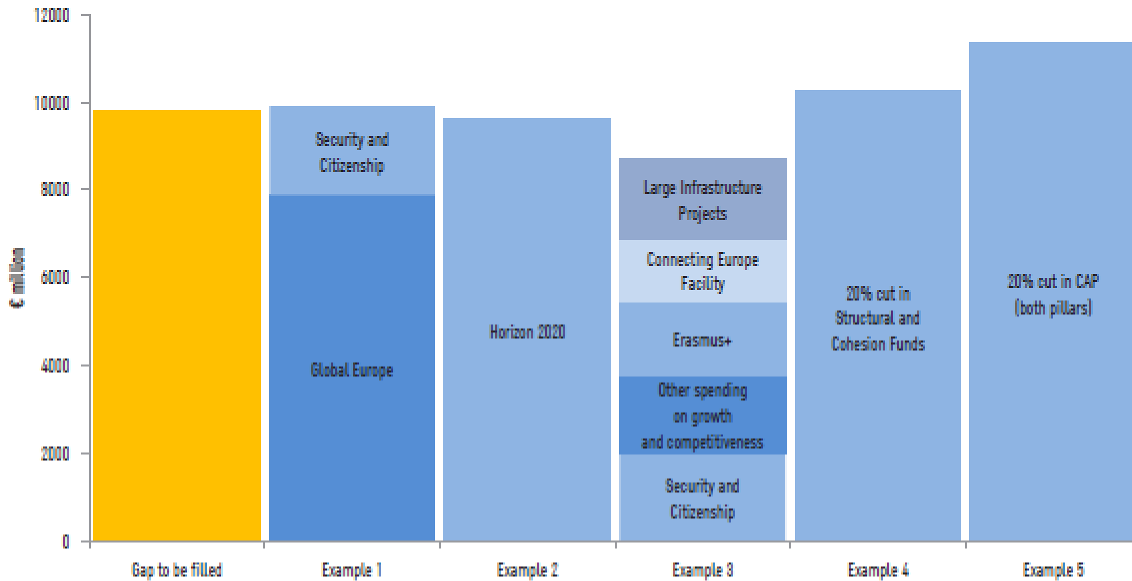
The EU and Member States have very few options to limit the potential impact of a Brexit Gap on Member States in the scenario of a 'No Deal' and no financial settlement. Begg (2017) has previously outlined two options the EU has:

(1) Reduction in CAP spending:

The EU could maintain a balanced budget by cutting spending across the EU budget. Figure 8 illustrates how the total 2020 UK net contribution compares to other EU projects. Although in practice, cuts would not be carried out in such a way, it clearly showcases the scale of the negative consequence the Brexit Gap could have on the EU.

Cuts to the CAP Budget can be seen in Example 5 of Figure 8, see Tables 6 in the Appendix for the total Brexit Gap for each Member State. Greece would need to reduce spending by €610,093 Million. This would mean that not all spending commitments agreed by the Greek Government and EU could continue to be honored. This would be extremely difficult as Begg (2017) previously discribed, the EU and Greece have already committed to spending a certain amount of money and this stratagy could result in farms losing a percentage of their subsidy income and/or Rural Development Projects losing a percetage or even the entirity of their funding.

Figure 8 (The size of the Brexit Gap compared to EU programs)

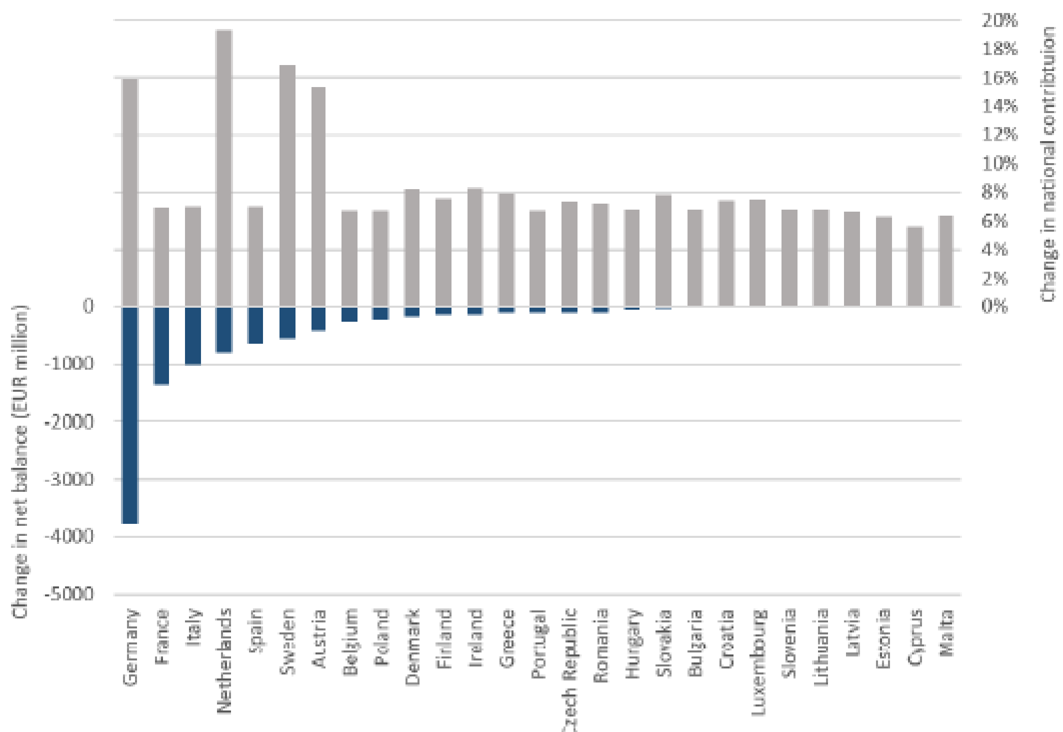


Source: Haas, J. and Rubio, E. (2017), Brexit and the EU budget: Threat or Opportunity, Jacques Delors Institute, Policy Paper 183

(2) Increase contributions to the EU Budget:

Each Member State could increase their contribution to the EU Budget for the final year of the MFF in order to cover the Brexit Gap. Research conducted for the AGRI Committee on the impact of Brexit on the CAP Budget suggests Greece would be almost unaffected in terms of its contributions as wealthier net contributors would pay for the largest share of contribution increases. Most Member States would see their gross national contributions increase by between 5% and 8% (Haas & Rubio, 2017). This would magnify existing imbalances between CAP net contributors and net recipients but would not result in a large increase in contributions for Greece.

Figure 9 (The impact of a €10 billion increase in contributions on Member States' net balances)

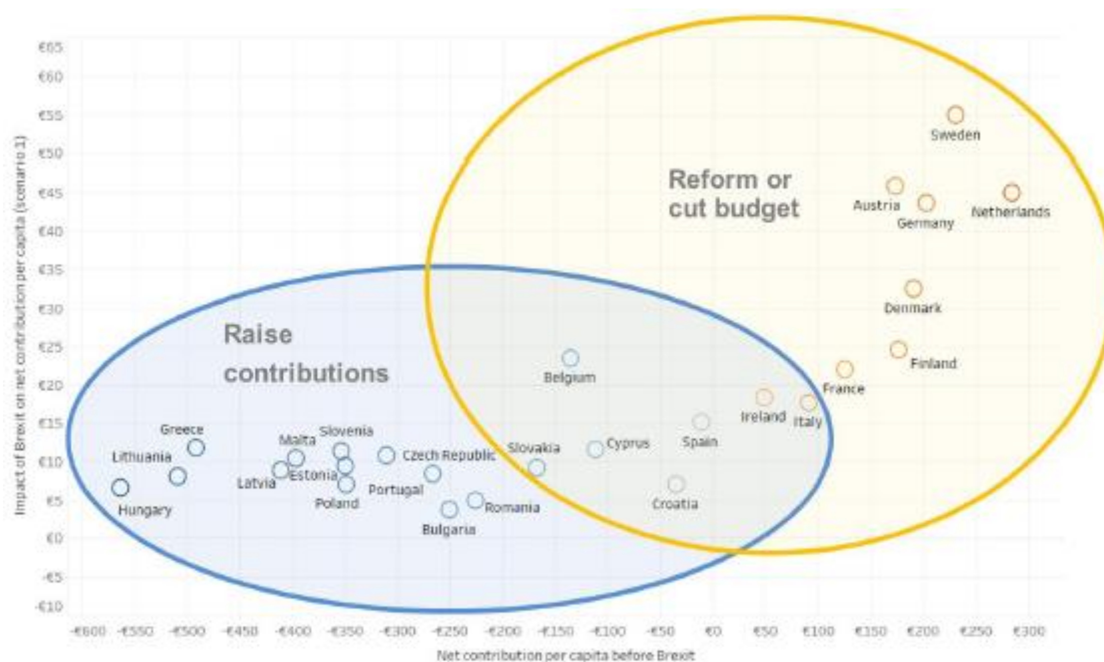


Source: Haas, J. and Rubio, E. (2017), Research for AGRI Committee -Possible impact of Brexit on the EU budget and, in particular, CAP funding

Note: A Member State's national contribution consists of the revenue generated by the VAT- and the GNI-based Own Resource

This option seems unlikely as Member States that would see their net contributions rise significantly such as Germany, the Netherlands, Austria, Sweden and Denmark are opposed to any increases in national contributions and would welcome any reductions in the EU Budget (Brunsden & Khan, 2018; European Commission, 2018). Figure 10 from Haas, J. and Rubio, E. (2017) showcases the possible positions Member States will take in regard to increasing contributions. Greece being one of the largest net receivers of EU funds argue for an increase in funds.

Figure 10: Possible coalitions in the MFF negotiations under scenario 2



Source: Haas, J. and Rubio, E. (2017), Brexit and the EU budget: Threat or Opportunity, Jacques Delors Institute, Policy Paper 183
Note: Net contributions calculated by subtracting total EU spending taking place in a country from its total contributions to the EU budget

(3) Member States individually pay for any shortfalls in funding from national budgets:
The final option the EU has that was not included by Begg (2017) is to force Member States to cover the Brexit Bill from national funds. Member States would directly pay for the Brexit Gap from national funds and therefore not increasing contributions to the EU Budget. This could also mean that the decisions of whether to honor previously agreed payments will be put firmly in the hands of Member States, potentially also removing the negative political ramification for the EU as public focus will be framed towards national governments. If this option became a reality, Greece would most likely struggle to pay the amount that would be required and would either need to seek an increase in its loans or cut many EU funded projects.

10 Conclusions and Recommendations

There is a relatively small, although increasing possible chance of a ‘no deal’ being the final outcome of the Brexit negotiations. Simon Hix (2018) stated in a speech in Athens to the Hellenic Observatory that there is only a 10% chance of a ‘No Deal’. A free trade agreement would be the most preferential outcome for both the UK and EU economically. However, the political outcome of Brexit is equally as important in shaping the future direction of the EU and the UK. The high political stakes have led both the EU and UK to use extensive resources to plan for a ‘No Deal’ outcome whilst also continuing to chant the possibility of such an option. The likelihood of a ‘No Deal’ may actually be much higher than 10% (Pickard & Barker, 2018).

This paper has demonstrated that the European Union and Greece specifically would struggle to uphold budgetary commitments in the event of a ‘No Deal’ outcome where the UK does not maintain its previously agreed budgetary commitments. Greece is forecasted to lose a total of €610,093 Million in CAP Budget funding and the EU-27 would lose a total of €11,343 Billion (See Appendix Table 6). There also appears to be no clear option for the EU to reduce the impact on Greece or wider EU Member States. The restrictions on the EU give the Commission no ability to make up any Brexit Gap via loans. Therefore, one of the three

solutions in this paper (reduction in CAP spending, increase contributions to the EU Budget or national contributions covering the shortfall) must be implemented by the EU and Member States.

This paper recommends that in the event of a 'No Deal' in which the UK refuses to pay a Financial Settlement in March 2019, Greece should seek to persuade the EU to implement option two (Increase contributions to the EU Budget). This option would still put financial pressure on Greece as it would slightly reduce Greece's budget as their contributions to the EU Budget would increase. However, this would allow Greece to fulfill most of its commitment obligations in full which would not threaten Greece's financial stability. Although, Figures 9 and 10 illustrates EU Member States like Germany, the Netherlands, Austria, Sweden and Denmark would be opposed to such an option due to the significant increase in their contributions. It is this papers view that in light of this budgetary difficulty, the EU would most likely choose option three in which Member States individually pay for any shortfalls in funding from national budgets. This option could harm the financial stability of Greece as it would struggle to maintain previously agreed commitments. In the event this option is chosen by the EU, Greece should seek a special agreement with the EU and EU Member States to reduce its Brexit Bill as Greece would be unable to finance this through national funding which could result in increased financial and political instability.

Past the current MFF period however, the next MFF that is currently being negotiated by Member States could see the introduction of new own resources such as a carbon tax, a harmonized corporation tax, a financial transaction tax, or a value-added tax raised directly by EU Member States in order to counter the Brexit Gap in the long term.

It should also be noted that the end of the transition deal also coincides with the end of the current MFF period. If the UK does not leave the transitional deal early and therefore continues to pay into the EU Budget as agreed, the budgetary threat described in this paper will become obsolete as the Brexit Gap will not affect the next MFF period due to start in 2021. The remaining EU Member States are now negotiating the new MFF period taking into account the budgetary impact of the UK leaving the EU. The remained of the financial settlement that covers liabilities such as pensions for EU officials would be the only other budgetary concern of the EU. However, this would not be a financial impact and could most likely be resolved by the EU through budgetary adjustments over a longer period of time.

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12 Appendix

Table 2: 2020 Pillar 1 Brexit Gap

Member States	2020 Pillar 1 Net Ceilings (Million €)	% of Total Budget	Brexit Gap (€)	% of Gap of Net Ceilings
Belgium	505,3	1,19	65,423,554	1,19
Bulgaria	798,9	1,88	103,437,320	1,88
Czech Republic	872,8	2,06	113,005,498	2,05
Denmark	880,4	2,07	113,989,506	2,07
Germany	5018,4	11,82	649,755,720	11,81
Estonia	169,4	0,40	21,933,010	0,40
Ireland	1211,1	2,85	156,806,782	2,85
Greece	2135	5,03	274,356,841	4,99
Spain	4954,4	11,67	641,469,341	11,66
France	7437,2	17,52	962,929,070	17,51
Croatia	261,1	0,61	39,425,039	0,72
Italy	3704,3	8,72	479,613,047	8,72
Cyprus	48,6	0,11	6,292,469	0,11
Latvia	302,8	0,71	39,204,932	0,71
Lithuania	517	1,22	66,938,408	1,22
Luxembourg	33,4	0,08	4,324,454	0,08
Hungary	1269,2	2,99	164,329,260	2,99
Malta	4,7	0,01	608,531	0,01
Netherlands	732,4	1,73	94,827,254	1,72
Austria	691,7	1,63	89,557,634	1,63
Poland	3061,5	7,21	396,386,725	7,21
Portugal	599,5	1,41	77,620,069	1,41
Romania	1903,2	4,48	246,416,206	4,48
Slovenia	134,3	0,32	17,388,449	0,32
Slovakia	394,4	0,93	51,064,813	0,93
Finland	524,6	1,24	67,922,416	1,23
Sweden	699,8	1,65	90,606,379	1,65

Note: These figures include TOR in their calculation
Source: Authors' calculations, based on European Commission data

Table 3: 2019 Pillar 1 Brexit Gap

Member States	2019 Pillar 1 Net Ceilings (Million €)	(70%) 2019 Pillar 1 Net Ceilings	% of Total Budget	Brexit Gap (€)	% of Gap of Net Ceilings
Belgium	505,3	353,71	0,83	46,650,279	0,83
Bulgaria	798,9	559,23	1,32	73,756,003	1,32
Czech Republic	872,8	610,96	1,44	80,578,594	1,44
Denmark	880,4	616,28	1,45	81,280,241	1,45
Germany	5018,4	3512,88	8,27	463,308,454	8,27
Estonia	169,4	118,58	0,28	15,639,338	0,28
Ireland	1211,1	847,77	2,00	111,811,109	2,00
Greece	2135	1483,3	3,49	195,630,203	3,49
Spain	4954,4	3468,08	8,16	457,399,849	8,16
France	7437,2	5206,04	12,25	686,616,777	12,25
Croatia	261,1	213,15	0,50	28,112,033	0,50
Italy	3704,3	2593,01	6,10	341,988,184	6,10
Cyprus	48,6	34,02	0,08	4,486,847	0,08
Latvia	302,8	211,96	0,50	27,955,085	0,50
Lithuania	517	361,9	0,85	47,730,446	0,85
Luxembourg	33,4	23,38	0,06	3,083,553	0,06
Hungary	1269,2	888,44	2,09	117,175,014	2,09
Malta	4,7	3,29	0,01	433,913	0,01
Netherlands	732,4	512,68	1,21	67,616,593	1,21
Austria	691,7	484,19	1,14	63,859,090	1,14
Poland	3061,5	2143,05	5,04	282,643,638	5,04
Portugal	599,5	419,65	0,99	55,347,007	0,99
Romania	1903,2	1332,24	3,14	175,707,128	3,14
Slovenia	134,3	94,01	0,22	12,398,837	0,22
Slovakia	394,4	276,08	0,65	36,411,776	0,65
Finland	524,6	367,22	0,86	48,432,093	0,86
Sweden	699,8	489,86	1,15	64,606,898	1,15

Note: These figures include TOR in their calculation
Source: Authors' calculations, based on European Commission data

Table 4: 2020 Pillar 2 Brexit Gap

Member States	2020 Pillar 2 Net Ceilings (€)	% of Total Budget	Brexit Gap (€)
Belgium	102,723,155	0,72	12,031,999
Bulgaria	338,990,216	2,37	39,706,042
Czech Republic	321,615,103	2,25	37,670,889
Denmark	151,588,619	1,06	17,755,628
Germany	1,394,588,766	9,75	163,348,667
Estonia	129,177,183	0,90	15,130,568
Ireland	312,570,314	2,19	36,611,470
Greece	698,261,326	4,88	81,787,592
Spain	1,183,394,067	8,28	138,611,358
France	1,675,377,983	11,72	196,237,605
Croatia	282,342,500	1,97	33,070,875
Italy	1,501,763,408	10,50	175,902,070
Cyprus	18,881,481	0,13	2,211,594
Latvia	161,491,517	1,13	18,915,557
Lithuania	230,443,386	1,61	26,991,914
Luxembourg	14,511,390	0,10	1,699,724
Hungary	486,662,895	3,40	57,002,994
Malta	13,858,647	0,10	1,623,268
Netherlands	117,976,388	0,83	13,818,615
Austria	567,266,225	3,97	66,444,090
Poland	1,187,301,202	8,30	139,069,002
Portugal	582,456,022	4,07	68,223,276
Romania	1,139,927,194	7,97	133,520,068
Slovenia	120,720,633	0,84	14,140,050
Slovakia	214,524,943	1,50	25,127,381
Finland	344,776,578	2,41	40,383,800
Sweden	249,818,786	1,75	29,261,361

Note: These figures include TOR in their calculation
Source: Authors' calculations, based on European Commission data

Table 5: 2019 Pillar 2 Brexit Gap

Member States	2020 Pillar 1 Net Ceilings (€)	% of Total Budget	(70%) 2019 Pillar 2 Net Ceilings	Brexit Gap (€)
Belgium	102,723,155	0,50	71,906,209	8,579,419
Bulgaria	338,990,216	1,66	237,293,151	28,312,401
Czech Republic	321,615,103	1,57	225,130,572	26,861,235
Denmark	151,588,619	0,74	106,112,033	12,660,654
Germany	1,394,588,766	6,83	976,212,136	116,475,801
Estonia	129,177,183	0,63	90,424,028	10,788,855
Ireland	312,570,314	1,53	218,799,220	26,105,816
Greece	698,261,326	3,42	488,782,928	58,318,659
Spain	1,183,394,067	5,79	828,375,847	98,836,858
France	1,675,377,983	8,20	1,172,764,588	139,927,266
Croatia	282,342,500	1,38	197,639,750	23,581,194
Italy	1,501,763,408	7,35	1,051,234,386	125,427,008
Cyprus	18,881,481	0,09	13,217,037	1,576,978
Latvia	161,491,517	0,79	113,044,062	13,487,742
Lithuania	230,443,386	1,13	161,310,370	19,246,590
Luxembourg	14,511,390	0,07	10,157,973	1,211,989
Hungary	486,662,895	2,38	340,664,027	40,645,997
Malta	13,858,647	0,07	9,701,053	1,157,472
Netherlands	117,976,388	0,58	82,583,477	9,853,367
Austria	567,266,225	2,78	397,086,358	47,377,972
Poland	1,187,301,202	5,81	831,110,841	99,163,181
Portugal	582,456,022	2,85	407,719,215	48,646,621
Romania	1,139,927,194	5,58	797,949,036	95,206,513
Slovenia	120,720,633	0,59	84,504,443	10,082,565
Slovakia	214,524,943	1,05	150,167,460	17,917,084
Finland	344,776,578	1,69	241,343,605	28,795,677
Sweden	249,818,786	1,22	174,873,150	20,864,820

Note: These figures include TOR in their calculation
Source: Authors' calculations, based on European Commission data

Table 6: Total Brexit Gap

Member States	Total Pillar 1 & 2 Net Ceilings 2019-2020 (€)	Total Brexit Gap (€)
Austria	2,140,242,583	267,238,787
Belgium	1,033,639,364	132,685,252
Bulgaria	1,934,413,367	245,211,766
Croatia	997,632,250	124,189,141
Cyprus	114,718,518	14,567,888
Czech Republic	2,030,505,675	258,116,217
Denmark	1,754,380,652	225,686,029
Estonia	507,581,211	63,491,771
Finland	1,477,940,183	185,533,986
France	15,491,382,571	1,985,710,717
Germany	10,902,080,902	1,392,888,642
Greece	4,789,344,254	610,093,296
Hungary	2,984,966,922	379,153,265
Ireland	2,590,239,534	331,335,176
Italy	8,850,307,794	1,122,930,309
Latvia	789,295,579	99,563,317
Lithuania	1,270,653,756	160,907,358
Luxembourg	81,449,363	10,319,720
Malta	31,549,700	3,823,184
Netherlands	1,445,639,860	186,115,829
Poland	7,222,962,043	917,262,546
Portugal	2,009,325,237	249,836,973
Romania	5,173,316,230	650,849,914
Slovakia	1,035,172,403	130,521,054
Slovenia	433,535,076	54,009,902
Spain	10,434,249,914	1,336,317,407
Sweden	1,614,351,936	205,339,458
Total	**89,140,876,876**	**11,343,698,902**

Note: These figures include TOR in their calculation
Source: Authors' calculations, based on European Commission data