

# Brexit Is an Obstacle Course for the EU, and Potentially a Game-changer Too

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Brexit is a truly British invention, yet what has become known as the “Gibraltar Paragraph” in the EU’s negotiating guidelines came as an unpleasant surprise to British diplomats and their political masters in London.

The UK government had not expected the centuries-old Gibraltar Question to be included in the agenda of complicated issues it must resolve with the European Union. London’s focus had been on the more obvious problems resulting from the mid-2016 decision taken by a narrow majority of British voters to leave the EU after more than four decades of membership.

The Gibraltar Paragraph nevertheless signals a significant shift in the politics of Europe. Brexit will alter the balance of power within the EU as Britain’s departure gives increased weight and influence to Spain and other southern European countries. Madrid’s achievement in getting Gibraltar’s future explicitly mentioned in the guidelines for the Brexit negotiation stands in contrast with the low ebb of Spain’s economic and political fortunes since the global financial crisis of 2008, but is a signpost to the future.

Northern Europe’s dominance within the EU is going to diminish with Britain’s departure, and while the list of problems in its southern neighbourhood is lengthening. The security challenges of the refugee and migrant crisis and deteriorating conditions in the Mediterranean region and in much of Africa are re-writing the EU’s priorities, even though the structural problems of ageing and poor productivity will continue to be Europe’s greatest long-term headache.

Brexit comes as an unwelcome diversion from these urgent priorities, and risks being dangerously disruptive. EU member governments should be concentrating their energies and resources on external difficulties, but instead these are to be diverted inwards. The UK’s withdrawal from the European Union potentially reduces the EU budget by a tenth, and so is creating divisive new tensions between the 27 remaining countries.

More optimistically, it may turn out that Brexit eventually ushers in a new era of European integration and cooperation. This sunnier scenario sees Brexit as a catalyst for the streamlining reforms that should have been introduced around the turn of the new century, but were sidelined by the EU’s hugely ambitious “Big Bang” enlargement from 15 countries to 28, and then by the economic strains of the austerity policies occasioned by the eurozone sovereign debt crisis.

The case for a determined new EU reform drive is overwhelming, even though it is ignored by governments unwilling to stir up controversy. The heydays of Europe’s post-World War II recovery and boom are at an end; the pressures of globalization and the rise of Asia’s economic giants demand a dramatic strengthening of the EU and its solidarity in areas ranging from research and innovation to trade and security. It has become a truism that no single European country can make its voice heard in the clamour of 21st-century geopolitics, but that makes it no less true.

Many analysts now believe that the EU needs a drastic re-think of its institutions, and that national governments should give them increased authority. Today’s European Union is a ramshackle construction built on the foundations of a sixty-year-old free trade area that is also saddled with a dysfunctional common currency; far from converging the econo-

mies of richer and poorer nations, it has created Europe's rapidly widening North-South gap.

Europe's inability to resist growing international competition - from the United States as well as from Asia - has seen voters placing much of the blame on the EU. The project of closer European integration promised greater prosperity, so its apparent failure to defend people's interests has seen calls for "less Europe" drowning out those urging "more Europe." Brexit has been an especially English phenomenon, but it has also been the expression of a wider mood in Europe.

In the UK itself, many experts see Brexit as a harmful aberration. And even before the UK's exit negotiations got fully under way it had become evident that Britain's trade and inward investment interests within the global economy would be threatened. It now remains to be seen whether these awkward truths will begin to influence eurosceptic public opinion not just in the UK but in all the other European countries where populist anti-EU political parties have gained so much ground.

What, then, are the major facets of Brexit in economic and political terms? Arguably, the first lesson to be learned is that the extent of European integration has been both a strength and a weakness. In the 60 years since the signing of the Treaty of Rome on March 25, 1957, Europe has become far more homogeneous. Yet it is precisely this unprecedented social, cultural and political heterogeneity that is now making the EU vulnerable to nationalists' antipathy. Born of the European Commission's far-sighted exchange programme enabling undergraduates to study for a time at a university elsewhere in the EU, the "Erasmus Generation" has become a pan-European elite. The upper reaches of politics, business and the professions are increasingly populated by these Europe-minded men and women who see the future in terms of collaboration and cross-border partnerships.

At the same time, this remarkable achievement has given rise to a counter-culture of jealousy and resentment. In the UK, the Brexit activists' slogan of "Take Back Control" was able to rally millions of British voters to the idea that their freedoms and living standards have suffered at the hands of "unelected bureaucrats in Brussels."

In short, the EU itself and all those who understand the need for European unity and solidarity have

failed to persuade public opinion in sufficient numbers. Although the integration process will continue to be painful and difficult, few EU policymakers doubt that their efforts must be redoubled.

It is a strange paradox that once the negotiations between the UK and the EU begin to spell out the details of the Brexit divorce, these could provide the convincing arguments for EU membership that have so far been absent.

Advocates of the EU like to point to the rising "average" living standards across Europe of recent decades, but that does little to convince unemployed young people or workers whose jobs have moved to low-wage countries. Revelations of Britain's difficulties in adjusting to economic conditions outside the EU's single market, and in global markets without the collective clout of the EU's trade negotiators, look set to be far more persuasive.

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So too will the spectacle of service sectors in the UK ranging from banking to aviation and from consulting to education, as they struggle to adapt to norms and standards they have had no part in setting. In the "Information Age" and the "Digital Economy," it will be increasingly uncomfortable for UK-based companies to be outside the EU's rule-making mechanisms.

The ramifications of Brexit, meanwhile, will continue to occupy much time and attention. It would be rash to predict how the negotiations between London and Brussels will develop, but it is comparatively safe to set out the topics that will have to be covered. It is estimated that over 20,000 separate pieces of EU legislation must be modified in one way or another. Much of this body of law can probably be tackled at the UK end by using a process of parliamentary rubber-stamping that dates back to the 16th-century English King Henry VIII when toughing it out with the Pope in Rome. But that will still leave

a formidable menu of treaty agreements to be renegotiated on both sides.

The Brexit negotiations are due to come in three distinct phases. The first concerns the “divorce” settlement to be paid by the UK. The second is the framework defining the UK’s future relationship with the EU. A third phase will consist of the transitional arrangements needed for the period of years (some say a decade) needed for the UK to disentangle itself from the Union.

The negotiations may quite possibly never get past Phase One, which concerns the cash that the British government owes for its past, present and future commitments to the EU budget. It is such a staggeringly large amount that in UK political terms its consequence could be a British walk-out and a refusal to pay some or even all of the bill. The amount that has been discussed in Brussels is somewhere between €40 billion and €60 billion.

This might seem deliberately punitive, but the EU’s remaining 27 governments are very concerned over the hole that the UK’s departure will leave in the 2021-27 budget, the Multiannual Financial Framework. Longstanding supports like the farm subsidies paid out under the Common Agricultural Policy could well be in jeopardy, creating bitter divisions within the Union. Large as it may seem, the amount of money being demanded from Britain for leaving dwarfs the annual cost of €8 billion that featured prominently in the country’s debate over EU membership.

Assuming that a “Hard Brexit” can be avoided - in which the UK would walk away from any future relationship with the EU - the way would then be open to Phase Two, the meat of the negotiation. This covers the future trading relationship and new structures governing energy, transport and foreign and security policies. As well as the thorny question of whether UK companies will have access to the single market, or are within or outside the EU customs union, this second phase must also focus on institutional arrangements. Will Britain continue to abide by rulings of the European Court of Justice in Luxembourg, and will it accept the free movement of EU nationals wanting to live and work in the UK?

The signs are that the British government is progressively softening the hardline stance of its “Brex-

iteer” ministers. Faced with the reality of managing a national economy whose growth in recent years has been fuelled by migrant labour, and whose earnings from exports and financial services rely heavily on access to EU markets, it seems that London may be less obdurate a negotiator than has been feared. The early stages of the Phase Two talks will open up the question of Phase Three; the need for a transitional arrangement that enables all these complex issues to be discussed beyond the two-year exit period that began in late March 2017 when Britain’s Prime Minister Theresa May invoked the EU treaty’s Article 50. It has been widely accepted on both sides of the English Channel that two years will not be enough, not least because the 2017 French and German elections in practice reduce negotiating time to little more than 12 months.

Before May formally triggered Article 50, Brexit had amounted to little more than a “phoney war” of rhetoric and ill-tempered exchanges between politicians and commentators. Brussels was obviously concerned at the outset of the Brexit process that any mishandling on its part could encourage copy-cat reactions elsewhere in the EU. Instead, a pan-European poll of 15,000 people by Germany’s Bertelsmann Stiftung soon showed a strong increase in support for the EU.<sup>1</sup> In March, before the Brexit referendum, 57 per cent had backed membership, and by August that had risen to 62 per cent.

These are, however, strange and difficult times. It would be rash to forecast the outcome of Brexit, and its effect on Europe and even the wider world. To the unpredictable nature of the Trump Administration in the US must be added uncertainties and tensions within the EU. It is not even a guaranteed certainty that the UK will actually leave the European Union.

The scenario painted by leading figures among the 48 per cent of UK voters who want to stay is that Britain’s deteriorating economy will lead to an abrupt change of heart, and a second referendum that revokes the first. “There is no legal obstacle to the UK changing its mind,” observed Jean-Claude Piris, the distinguished French lawyer who for many years headed the legal services of the Council of the European Union.

<sup>1</sup> [www.bertelsmann-stiftung.de/fileadmin/files/user\\_upload/EZ\\_flashlight\\_europe\\_02\\_2016\\_EN.pdf](http://www.bertelsmann-stiftung.de/fileadmin/files/user_upload/EZ_flashlight_europe_02_2016_EN.pdf)