

## Europe in limbo while the UK descends into chaos

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The EU Summit and the separate meeting of the EU27 without the UK on 28/29 June 2016 demonstrated that the EU is in limbo. Following the initial shock, frustration and anger after the unexpected result of the UK 'in/out' referendum, the future relationship between the European Union (EU) and the United Kingdom (UK) monopolised the meetings of EU leaders. The EU has entered uncharted waters and leaders are struggling to figure out how exactly to deal with the manifold (potential) consequences of the 'Brexit crisis'. Despite the many uncertainties, the EU27 managed to reach some common lines, trying to convey four key messages, although the final outcome of the crisis and its effects on the Union's overall future are still very unclear:

### **Key message 1 – let the dust settle, but not too long**

Following some initial misgivings among governments, EU leaders have acknowledged that they need some time to figure out how exactly to react and deal with the Brexit vote. Everyone – including the current UK government – agrees that there is a need to organise the (potential) UK withdrawal from the EU in an "orderly fashion" on the legal basis provided by Article 50 of the Treaty on European Union – but whether, how and when exactly the divorce procedure will be conducted involves many uncertainties on all sides.

With respect to the UK and following the political turmoil in the aftermath of the referendum, there are numerous unanswered questions and some need to be (at least partially) answered before the process can be initiated. Who will follow David Cameron as Prime Minister in September and what position will the new government take with respect to the divorce between the EU and the UK? Will the new Prime Minister trigger Article 50 and, if yes, when and under which conditions? What will happen to the Labour Party now that Jeremy Corbyn has overwhelmingly lost a vote of no confidence and how will the new/old leadership position itself? Will there be a need for general elections to 'confirm' a new government and provide it with a robust enough mandate to take decisions fundamentally affecting the future of the country? Or will we – as some already suggest – witness another referendum? If yes, when will it take place and what will it be about – another in/out question or will it rather ask voters in a couple of years whether they accept the conditions of a Brexit? What kind of relationship will the EU and the UK eventually agree on in case of a successful withdrawal and when will London actually exit the Union?

One key determinant for answering some of the above questions will be public opinion. How will the British people react to the lack of leadership and to the fact that the UK is witnessing the (initial) economic, political and societal consequences of the Brexit vote – although the full magnitude of potential effects might not be felt as long as the possibility of an 'exit from Brexit' is still in the cards? Standard & Poor's and Fitch have downgraded the UK's credit ratings, the Pound has touched a low against the US dollar (around 10 per cent), some investors are in the process of shifting their investments away from the UK, while it is unclear when the markets will settle and how they will react to instable political developments. In addition, a potential disintegration of the UK is another major factor effecting public attitude, should the Brexit vote push Scotland (further) towards independence and thus endanger the unity of the country.

Apart from all these questions, one thing seems rather certain: the process following the UK referendum promises to be long, complex and cumbersome, full of potentially negative or positive surprises in Great Britain, the EU27 and maybe even beyond, which could (severely) affect the outcome of the Brexit crisis. From the perspective of the EU27, this is exactly what everyone wanted to avoid: uncertainty and the potential negative political and economic consequences and spill-overs for the EU and for individual member states.

Despite all the grievances, EU leaders individually and collectively expressed their respect for the decision of British voters and underlined the need for an “orderly process”, calling on the British government to notify the European Council of the UK’s decision to withdraw from the Union – which should according to the EU27 be done as quickly as possible. Once the notification has been received, the EU would have to adopt guidelines for the negotiations of an agreement with London, which could result in a very different kind of relationship between the EU and the UK, following the Norwegian, the Swiss or the Canadian model.

But in the UK both the Remain camp and the Brexiters don’t seem to be in a hurry. They know that invoking the divorce procedure along the lines of Article 50 would deprive them of their main leverage and push the UK out of the EU within two years, maybe even without an agreement in their hands. But it is not just a tactical issue. Whoever pulls the trigger might be the one ending up destroying the economy, the UK and the relationship with Europe, so their political future might be very limited.

At the same time, the EU27 do not seem to be able to exert pressure on London to trigger the procedure. As a consequence, it might take much longer than some think/hope before negotiations commence. The EU27 and EU institutions declared that, in the meantime, they would not start any form of informal or formal negotiations, although one can doubt as to whether this will hold in practice. It might very well be that London will be marginalised in the EU decision-making processes, but both sides will at least have to open some channels of communication to consult each other on key principles before the UK government will be able and ready to state its final intentions.

The desire in the UK not to invoke Article 50 and the determination of EU governments and institutions not to negotiate until London triggers the procedure might substantially prolong the process and change people’s minds, especially if it becomes increasingly clear that the Leave campaign continues to renege on its arguments and promises.

In more fundamental terms, there are also major differences of opinion between and within the EU27, which are not expressed in public, with respect to what they should wish for in the end. There are some who (firmly) believe that it is – despite the ‘out’ in the referendum – still in the interest of the EU and its members to avoid a British withdrawal from the EU given the potential incalculable consequences of an orderly or disorderly divorce. They thus still hope that the referendum result will, at the end of the day, not lead to an exit of Britain and are even ready to support – at least up to a certain point – efforts to avoid a withdrawal by being more accommodating to some UK claims while not giving in on key red lines (see also next section).

Others argue that now that the EU and the UK have come so far, it will be best if Britain leaves the Union. This camp believes that Brexit will liberate the EU from an “awkward partner”, which would be even more difficult to deal with in case Brexit should be averted against the will of a big part of British society, who has voted in favour of Brexit and still firmly believes that this was the right decision. Some in this camp hold that a withdrawal of the UK would create a new positive momentum in the EU, helping it to (better) address and tackle some of the challenges it faces; that Brexit would help to put pressure on the EU27 to unblock the Union which seems to be stuck and thus unable to master the ‘poly-crisis’.

## Key message 2 – no cherry-picking

Whatever the differences between the EU27, all governments and EU institutions stand firm on one thing: the UK should not be allowed to cherry-pick. Even if EU leaders hold that the outcome of negotiations should, in the interest of both sides, lead to a strong and close partnership between the Union and the UK, there seems to be no readiness to compromise on certain key principles of European integration.

In more concrete terms, full access to the Single Market, which has been and will be key for the UK, has and will always involve the full acceptance of all four freedoms, including the free movement of labour. There will be no special treatment. In the words of President Tusk at the press conference after the meeting of the EU27: “there will be no single market *à la carte*”. There is no willingness to go beyond this red line, even though Prime Minister Cameron argues that the Remain camp lost the referendum because EU leaders had failed to address public concerns over immigration.

Looking beyond London, EU leaders are very eager to avoid sending ‘wrong signals’, which could trigger potential negative domino effects in other member states. They do not want to play into the hands of Eurosceptic forces in other EU countries, who are already claiming that their country should follow suit and demand concessions while threatening to ask their citizens whether they want to stay or leave the EU (or the euro).

## Key message 3 – EU business must go on

Although this EU Summit was dominated by discussions related to the management of the Brexit crisis, EU leaders were also keen to send out the message that the Union needs to go on with its daily business. Despite the fact that they did not discuss these issues in depth, on Day 1 of the Summit the European Council adopted Conclusions related to a number of areas: (i) migration (support to Western Balkan countries; a Partnership Framework of cooperation with countries of origin and transit; implementation of the Valetta Action Plan; initiative of the European Investment Bank in the Southern Neighbourhood and the Western Balkans; External Investment Plan; European Border and Coast Guard); (ii) jobs, growth and investment (conclusion of the 2016 European Semester; Single Market with an emphasis on the Digital Single Market; trade negotiations; Investment Plan including the EFSI; completion of the Economic and Monetary Union (EMU); fight against tax fraud, evasion and avoidance) as well as (iii) issues in the field of external relations (Libya; EU-NATO cooperation ahead of the Warsaw Summit; Association Agreement with Ukraine).

With respect to external relations, it is noteworthy that the European Council “welcomed” the presentation of the Global Strategy for the EU’s Foreign and Security Policy by the High Representative, Federica Mogherini, and invited her, the Commission and the Council “to take the work forward”. This is worth mentioning, as there had been speculations in the weeks ahead of the Summit that the publication of the Global Strategy might be postponed or even effectively abandoned in the event of a Brexit vote.

That the Global Strategy was not withheld is another indication that EU governments want to show that the Union is still ‘alive and kicking’. Many EU governments, including Germany and France, hold that the areas of internal and external security as well as defence are the ones where substantial progress could be achieved. However, given a poor past track record, it remains to be seen whether ‘Sunday rhetoric’ will be matched in practice. Member states have in the past struggled to translate into action initiatives related to internal security or issues of ‘war and peace’, despite increasing pressure on Europeans to rise to the challenges, especially in its direct neighbourhood.

With respect to the future of EMU, EU leaders were once again not able to make much progress. The Summit Conclusions merely state that the European Council “took stock of the progress achieved” in the work towards completing EMU, including the roadmap to complete the Banking Union. This is once again an indication that Euro

countries are not eager to push forward more substantial reforms related to EMU completion, given the many severe differences among them. The hope some have had that Brexit might give way to greater integration within the Eurozone seems at least doubtful based on this evidence.

#### **Key message 4 – need for political reflection, but no major step changes**

With respect to the overall future of the Union, leaders of the EU27 had a first discussion and acknowledged that European citizens expect the Union “to do better”. They were eager to send a sign of confidence that the EU is there to stay and that the Brexit vote is of historical importance but by no means the end of the European project.

However, the 27 heads of state or government as well as the Presidents of the European Council and the Commission did not (yet) present concrete conclusions of what this might mean in concrete terms. They confined themselves to affirming that they are “determined to remain united” and that they will “deal with the challenges of the 21<sup>st</sup> century” within the framework of the EU. They will continue their discussions at an informal meeting of the EU27 in September in Bratislava.

Despite the lack of concrete initiatives, the EU27 gave some indications of which direction the “political reflection” might or should *not* go. With respect to the latter, leaders made clear that no one in the room indicated a wish to reform the EU Treaties or to start the process of another Convention. The EU27 rather want to concentrate on the implementation of reforms and objectives already included in the Strategic Agenda agreed in June 2014.

In other words, following the logic of past years, the focus should be on realistic approaches aiming to deliver concrete results, especially with respect to growth and jobs, and not on more ambitious proposals and initiatives aiming to fundamentally reform the EU in the years to come. The Lisbon Treaty offers – according to the EU27 – ample room for a ‘better Europe’, whether this means ‘more’ or at times also ‘less Europe’. This basic attitude signals a strong ‘no’ to all those who hold that the Brexit crisis should be seized as an opportunity to ‘rethink Europe’ by advocating and implementing reforms, even if this would require the amendment of the existing EU Treaties.

What we can rather expect is that the EU(27) will do as much as is needed to avert a severe escalation of the ‘poly-crisis’ as a consequence of Brexit. The fact that the ‘prophets of doom’ were right for the first time since the eruption of the crisis and that an ‘accident’ has happened, while it was averted in the case of Greece, the confrontation with Russia or the survival of Schengen, does not (automatically) mean that the kicking-the-can-down-the-road attitude will be abandoned in the foreseeable future. Let’s all hope that it will be enough.

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