



Why the 27 are taking a hard line on Brexit

by Charles Grant

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Britain's partners have forged a common response to the forthcoming Brexit talks. Given their tough line – refusing 'pre-negotiations' and insisting that Britain cannot have the single market without free movement – how should Theresa May's government respond?

The British government knows that the Article 50 exit procedure was designed to put the country leaving the EU at a disadvantage. So, prior to invoking the article, its envoys have been urging other EU governments to give some indication of which demands would be acceptable to them; they don't want their opening bids to be shot down as soon as the procedure starts. But the 27 – fearing that British diplomacy may sow divisions among them – have refused any 'pre-negotiation'. In the words of one senior German official, "we tell the British, 'too bad, you'll have to take your chances.'" Once the article is invoked, the British will have to negotiate with the European Commission, though the Council of Ministers, representing the member-states, will watch it closely.

The two years prescribed by Article 50 will weaken the British hand. The clock will be ticking when Britain seeks to complete not only the exit talks, but also an interim agreement covering the period between when it leaves the union and the entry into force (probably many years later) of a free trade agreement (FTA) between the UK and the EU. The UK will also have just two years to become a normal member of the World Trade Organisation (WTO), and to negotiate bilateral deals with the 53 countries with which the EU has FTAs, which will cease to apply to Britain on the day of Brexit (see '[Theresa May and her six-pack of difficult deals](#)'; technically, the two-year period may be extended, but only if the 27 agree to do so unanimously, and they will not). If these talks break down or Britain leaves the EU without having completed these agreements, the British economy would take a very big hit.

On recent visits to Berlin, Brussels, Paris and other EU capitals, I have been struck by the largely united approach of the 27 to the Brexit negotiations. They assert that if Britain restricts free movement after it has left the EU, it cannot be part of the single market. Instead, they suggest, it should negotiate a free trade agreement with the EU, along the lines of that between the EU and Canada. This could be very damaging to Britain's services industries, including those in the City of London, since FTAs do not normally cover many services.

Boris Johnson, Britain's cavalier foreign secretary, recently said that suggestions of a link between single market access and freedom of movement were "complete baloney...the two things have nothing to do with each other." Britain's partners think he is talking baloney. Wolfgang Schäuble, Germany's finance minister, offered to give Johnson lessons on how the EU works and to send him a copy of the treaties.

British eurosceptics are onto something when they point to the EU's inconsistent commitment to the 'four freedoms' of goods, services, capital and people. The liberalisation of services has been only partial, partly because of Germany's reluctance to open up its own service industries and restricted professions.

But that will not help the British, because the indivisibility of the four freedoms is a mantra that European leaders believe in. British negotiators need to understand why the 27 are taking such a tough line on the four freedoms. Their obduracy is based on more than the attachment of EU politicians and officials to conservative, traditional thinking. There is a real worry that if the British achieve some special status, with their own institutional arrangements, other countries – inside or outside the EU – might ask for equivalent deals. And that could undermine existing institutional structures, to which the Commission and the European Parliament are especially attached, and possibly even lead to an unravelling of the EU.

The biggest reason why most governments take a tough line on the four freedoms is their fear of populism. Thus in Paris, mainstream politicians do not want Marine Le Pen to be able to say: "Look at the Brits, they are doing fine outside the EU, let's follow them there". Similar views colour thinking in The Hague, Rome and many other capitals. So the British must be seen to pay a price for leaving. They cannot be allowed to enjoy the benefits of membership, like participation in the single market, without accepting the responsibilities, like paying into the EU budget and accepting free movement (which both Switzerland and Norway do).

I found a strong consensus for this hard line in EU capitals. Many governments adopt a softer tone than the French, the Commission and the Parliament, but they differ little on substance. The British government needs to take MEPs very seriously. They must approve both the Article 50 agreement and the FTA governing future relations between the UK and the EU. If by some feat of brilliant diplomacy, Britain were to negotiate single market membership combined with limits on free movement, MEPs would certainly throw out the deal.

So the extraordinarily harsh reaction in most EU capitals to the recent and much-discussed Bruegel paper is not surprising. Written by a group of respected thinkers – including Jean Pisani-Ferry, head of policy planning in the French government, and Norbert Röttgen, chairman of the Bundestag foreign affairs committee – the paper proposes a 'continental partnership' that would give Britain (and potentially others) membership of the single market, the right to be consulted on its rules, and the ability to limit EU migration. In return Britain would have to accept rulings of the European Court of Justice (ECJ) and pay into the EU budget.

One principle underpinning the Bruegel paper is that it is in the interests of the 27 to have as close as possible an economic relationship with the UK; another is that, in economic terms, absolute free movement of people is not necessary for the good functioning of the single market. But EU governments do not necessarily accept either premise. When I asked a senior German official if he agreed that it would be good for Germany for the UK to be as closely integrated as possible, he demurred. He said that a bad deal for the British would divert foreign investment from the UK to Germany. As for the second premise,

German and other officials point out that one cannot have free movement of non-tradeable services (like hair dressers, nurses and teachers) unless labour is free to move around the single market. In any case, a British government would probably be unable to accept either EU budget payments or ECJ rulings (as the Bruegel scheme would require), since many of those voting for Brexit did so to be rid of them.

A lot of British politicians believe that the hard line of the 27 is merely an opening stance, and that once negotiations get underway, they will soften. Some Britons hope that the Americans will help. It is true that most American politicians favour a soft Brexit and will encourage the 27 to keep the UK as close as possible. But the US has little sway over the policies of most European governments.

Rather more Britons assume that, in the end, Angela Merkel will look after the UK. One French official told me that he worried that the Germans could go soft on the British. The Chancellor certainly laments Brexit and wishes Britain well. But her main responsibility, as the EU's unofficial leader, is to keep the 27 together, and that means working closely with the French to do so. For Merkel, the interests of the EU come first. She believes that maintaining the institutional integrity of the EU, and the link between the four freedoms, is in Europe's interest and therefore Germany's. One friend of Merkel told me that if the French maintain a hard line she would not be able to soften hers.

Furthermore, British politicians should not assume that German policy is driven only by economic rationality. German industry would like a very close relationship with a post-Brexit UK, but does not necessarily determine policy. German manufacturers have spent the past two years lobbying against EU sanctions on Russia, without any impact. In any case, an FTA between the EU and the UK, removing tariffs on goods, would suit German industry. It would not be so good for the service-dependent UK economy.

A lot of British politicians urge May's government to delay invoking Article 50, on the grounds that France and Germany have general elections next year, and that they may be more amenable to UK demands when new governments are installed. But in my view those elections will make little difference to the Brexit talks. Merkel is likely to remain German chancellor. And the next French president, whether Alain Juppé, Nicolas Sarkozy or someone from the centre-left, is likely to pursue the French national interest, which – in the views of the French elite – is to be tough on the British. (It is true that Sarkozy has floated the idea of a new EU treaty to lure the British back in, but any new treaty requires the accord of 27 governments, most of which, including Germany, think his scheme a mad idea).

One reason why British politicians may be over-optimistic about the kind of deal they can achieve is that many of them misread continental debates on migration. In the UK, everybody agrees that EU migration is a big political issue. British politicians tend to assume that people in other EU countries must think the same way; therefore, argue both Conservative and Labour MPs, the 27 will in time come round to Britain's viewpoint and wish to restrict free movement. And that could, they hope, allow the British to achieve some sort of single market membership combined with limits on free movement.

It is true that migration is a big issue in many EU countries. But in most of them the salient problem is inflows of refugees and economic migrants from outside the EU. In Germany, for example, mainstream politicians do not see intra-EU migration as a big problem (though far-right politicians do, as is the case in France, the Netherlands and elsewhere). So British politicians should not count on their EU peers adopting their own views on migration.

Having listened to continental viewpoints, I have a few suggestions on how the British government should handle the Brexit talks. On migration, the British should not rush into a new system for restricting free movement without consulting partners (once Article 50 is invoked). Unilateral actions in this area would go down badly. One German official said that if the British decided to exclude only unskilled workers, with the result that many poor Romanians ended up in Germany rather than the UK, it would be seen as an unfriendly act. The longer the British delay announcing the details of their restrictions on free movement, the greater are the chances that they could choose a system that is tolerable to the 27.

More generally, the British need to sort out their priorities and not have too many of them. And if they really wish to pursue a hard-to-obtain objective like 'passporting' for the City of London, they will need to offer a substantial trade-off, such as payments into the EU budget (German officials told me that British offers to pay into the budget would not be a game-changer, but I suspect they would like some British money).

Finally, the British should be polite. Because Article 50 puts them in a weak position, they cannot hope for a good deal without the goodwill of their partners. An acrimonious divorce would damage both parties but be worse for the UK, since much more of the UK's trade is with the EU than vice versa. Thumping the table and making threats – for example, to block EU defence integration or withhold budget payments – would erode the goodwill that Britain will depend on. Nor do inflammatory comments help, as when international trade secretary Liam Fox recently said that the EU was "going to sacrifice at least one generation of young Europeans on the altar of the single currency, and you can only rip out the social fabric from so much of Europe before it starts imploding." Theresa May must ensure that her ministers deal with their EU counterparts in a modest, sober and courteous manner.

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