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BREXIT: the Challenges Facing Both Britain and the European Union

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FOREWORD

On the 23rd June 2016 Britain voted to leave the European Union through a referendum on the issue. The referendum was called by the then Prime Minister, David Cameron, following his previous February 2016 negotiations, and was widely regarded as a means to appease a reinvigorated set of eurosceptic Conservative backbenchers, who had gained in confidence given the emergence of the United Kingdom Independence Party –who campaigned on the basis of holding a referendum. By calling a referendum, Cameron fulfilled his manifesto promise. However, on the morning of the result, he resigned from post, leaving his Home Secretary, Theresa May, to become Prime Minister and navigate Britain's exit from the European Union.

During the Brexit campaign, owing to the binary nature of the format and the question itself, there was a notable divide in the political and public sphere of Britain: for those who remembered the 'Thatcher rebate' or the Maastricht Treaty; there were those who felt that Europe had in some way benefit them. It became not only a political and economic question, but rather a question over how people perceived Britain, its place in the world and what kind of future they wanted Britain to have.

The General Election of 8th June left May governing with a slim majority, and whilst Brexit remains on the agenda (negotiations outlining priorities and securing a timetable for the departure of Britain began on Monday, 19th June), it remains to be seen if this result will affect the priorities and approach taken by British delegates.

Nevertheless, Britain has notified its intention to rescind membership of the EU, and the decision to do so carries with it several areas which are of interest to negotiators and politicians from both the British and European side. These are in what form a trade agreement will take as there are several models which could be followed; the rights of both British and EU citizens on either side; the internal politics of the European Union and the individual member states' reaction to Britain's desire to leave; the future shape of the European Union –be it centralisation, federalism or outright fragmentation- and finally, if Britain, considering these issues, can achieve a 'Brexit' which both parties involved in the negotiations can agree upon.



TRADE AGREEMENTS

Fundamental to Brexit is the issue of future trade relations with Europe and what shape this relationship will take. There are several avenues which may be pursued -through the World Trade Organisation with tariffs, trading with the Commonwealth, the Norway, Swiss, South Korean and Hong Kong models.

WTO RULES

If Single Market access is not attainable, trading with Britain will be conducted on terms of the World Trade Organisation. Britain does not need to gain membership as it is a member on its own right, but at the moment, Britain operates within European Union schedules –commitments which layout the terms of EU tariffs. It will have to formulate its own set of schedules with the World Trade Organisation. In order to do

this, Britain hopes to replicate existing EU schedules as its own, much like the Great Repeal Bill aims to achieve for existing laws and legislation (The Great Repeal Bill repatriates existing EU law into British law and repeals the 1972 European Communities Act, thereby halting legal authority of EU law as national law for any future legislation after Brexit). This approach is now without its own set of issues, especially in the context of quotas and subsidies which Britain will have to negotiate on its own accord.

TRADING WITH THE COMMONWEALTH

There is a strong focus on rekindling Commonwealth ties from both the Foreign Office in London and Commonwealth nations themselves. There is already precedent for a strong trading relationship -British-Commonwealth trade accounted for \$120 billion at its peak in 2012. In 2016, this fell to \$91 billion¹ due to global economic factors, but it demonstrates a stable existing relationship which could be furthered post-Brexit through the means of bilateral agreements. Pursuing this avenue would be of benefit given the common language between Commonwealth nations, historical ties, the fact that many Commonwealth nations are members of other trading blocs and geographic dispersal. Of course, forming these agreements rely upon mutual diplomatic willpower.

ACCESS TO THE SINGLE MARKET

Access to the Single Market, with its four freedoms –free movement of goods, capital, labour and services- remains a prized EU possession and is key to membership. Despite earlier desire to retain access to this market, it seems unlikely UK negotiators will be able to maintain access wholesale, and has now been rejected as a workable proposition.

THE ‘NORWAY MODEL’

A possible addition option is the ‘Norway Model’, which takes its name from the relationship Norway has with the European Union. Norway is not a member state, but it is a member of the European Economic Area. It has access to the Single Market, but has to comply, in principle, with EU law. Britain would then become a follower of laws, not a maker. That

¹ <http://thecommonwealth.org/sites/default/files/news-items/documents/BrexitandCommonwealthTrade.pdf>

said, Norway can be informally consulted on new proposals, but does not carry a final vote. In this relationship, Norway carries a 'right of reservation' on new laws. In practice, however, it has only been utilised once.

THE 'SWISS MODEL'

The relationship Switzerland and the European Union have offer another model which may be of use to Britain as it seeks to trade post-Brexit. Switzerland is a member of the European Free Trade Association, governed by numerous bilateral agreements and has a degree of access to the Single Market.

On the face of it, the Swiss model seems to answer the some of the concerns of Britain, vis-à-vis continuous access to the Single Market, benefits of European cooperation and a lesser financial contribution to the EU.

That said, there are issues with this model. Firstly, it doesn't provide cross-border access to financial services, so could have a detrimental impact on Britain's financial sector. That said, currently the Swiss government are negotiating this access, and a number of financial firms already have offices in Europe as to bypass this possible lack of flexibility.

Secondly, much like the European Economic Access members, Switzerland is bound by EU law and regulations, but unlike EEA members, have limited access to meetings in order to influences these rules. Furthermore, this agreement requires Switzerland to accept the free movement of people, which is something which political would be difficult to achieve given concerns voiced over immigration during the referendum.

Thirdly, in terms of diplomacy, Brexit is already a large burden on the government to deliver, and it is worth considering the Swiss model is not a whole entity. It is not a 'deal', instead it is the result of 120 bilateral agreements Switzerland carries with the EU. Purely on the grounds of resources and the fact that Article 50 has to be concluded within two years, this seems a difficult model to follow. Unless, of course, negotiations can be fast-tracked or prolonged.

THE 'SOUTH KOREAN MODEL'

The EU-South Korean Free Trade Agreement was the first major EU trade deal with an Asian country and came into force in July 2011, after a period of five year long discussions and negotiations which were the result of the EU Trade Commission's call to improve engagement with Asia. It carried the following provisions: duties eliminated on industrial and agricultural products, discounted tariffs and provisions in areas of competition policy, government procurement, intellectual property and so on. Whilst this agreement does not give South Korea access to the Single Market, it does give discounted tariffs and removes duties on vital South Korean sectors such as industry. This may be an attractive agreement for Britain to pursue as it leaves the European Union. However, there would need to be further negotiations on terms if the drop of duties on certain sectors is to benefit Britain. It is also worth noting that the agreement with South Korea is not in force in Britain. That said, this model does illustrate that trade with the EU, even as a non-member is possible and on satisfactory terms, given that trade between the EU and South Korea increased by 55% since the FTA entered into force. In a 12 month period before the FTA was implemented, trade amounted to €30.6 billion to €47.3 billion in its fourth year of implementation².

THE 'HONG KONG MODEL'

The Hong Kong model is the unilateral free-trade option, which advocates no tariffs or trade barriers whatsoever, governed through WTO frameworks. Import and licensing will be kept to a minimum too. Whilst this model could be supported by those who advocate free-market and liberal-economic thinking, they are as of yet to become a force in the political sphere. Furthermore, this model although the rewards are appealing in terms of trade and economic growth, it would be difficult to implement politically. It would be difficult given voter disaffection, a general shift to the centre ground those who favour economic regulation. In addition, given market forces are the determining factor in this model, agricultural and steel industries would suffer given it would be cheaper to import rather than produce domestically.

² http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154699.pdf

WHAT IT MEANS FOR THE EUROPEAN UNION

As far as the EU is concerned, Britain's exit from the Union could result in the loss of a main trading partner. Britain remains the fifth largest economy in the world, with strong service and economic sectors. It is a notable importer of goods, as the EU sells to Britain an estimated £60 billion more in goods and services than Britain sells to it. Furthermore, Britain remains a net contributor to the EU, at an estimated £8.6 billion in 2016³. This is from the £13.1 billion paid to the EU, with a reduction of £4.5 billion which amounts to EU spending on Britain⁴.

By its very nature, trade agreements and which model Britain will adopt realise upon on how favourable negotiations are. Whilst each model – WTO, Norway, Swiss, South Korean, Hong Kong and Commonwealth-carry benefits, they rely upon a strong negotiating hand. Depending on the pragmatism of negotiators, a favourable trading relationship between Europe and Britain will remain. However, it seems unlikely that the EU will creed access to the Single Market and that Britain will negotiate maintaining single market arrangement.

³ <https://fullfact.org/europe/uk-trade-deficit-eu/>

⁴ <https://fullfact.org/europe/our-eu-membership-fee-55-million/>



THE RIGHTS OF CITIZENS AFTER BREXIT

Guaranteeing the rights of citizens, both British and European, will be at the centre of negotiations and the issue where tension will be most felt. Despite the early optimism of the Prime Minister, who suggested that the issue could be resolved at the end of June, this is an area mired in complexity and political pressure both domestically and European. Members of the European Research Group (a parliamentary group with the aim of pressuring the government through Brexit negotiations) and 'pro-remain' politicians wish for a quick reciprocal deal to be achieved; conversely, immigration may become a difficult political issue for the new government (whichever form it takes) given concerns over 'open' immigration and the

desire to limit entry into Britain held by a minority. In terms of European political pressure, in December 2016, Theresa May met with the German Chancellor, Angela Merkel, with the aim of an early assurance on the rights of Britons living in the EU and vice-versa. This was rebuffed, citing no pre-negotiations, despite early encouragement from officials. Despite the restriction on pre-negotiations, at a meeting with EU leaders before the formal talks began on 19th June, May outlined her plan to guarantee the rights of both EU and UK citizens. This plan will now be examined.

The proposed solution to guaranteeing the rights of EU citizens in Britain is predicated upon a contribution basis. EU citizens living in Britain will need to build five years' worth of residence, which would entitle them to 'settled status', with access to rights to work, healthcare, pensions and so forth for life. EU citizens can still utilise freedom of movement until Britain leaves, so they will have a two year grace period in order to clarify their status⁵. However, such a proposal is conditional on Britain gaining a reciprocal pledge from the EU on the rights of Britain citizens who reside within the EU⁶.

EEA+ nations can remain in the UK and be termed a 'qualified person' under European Union law if they are in employment, studies, job seeking or a self-sufficient person. The administrative and diplomatic burden of settling the status of the 2.1 million –excluding those of Irish descent- EEA+ (European Economic Area) citizens in Britain is significant. EEA+ nationals who have settled in Britain are a diverse mix with differing backgrounds, countries of origin, length of residence and employment⁷. Clarifying their status and conveying the British Government's policy on their status will be a sizable strain upon the resources of the Home Office. Secondly, unpicking reciprocal arrangements will require skilled diplomatic manoeuvring and substantial legal inquiry given the majority of both EU and UK nationals have their status underpinned by EU law. The EU wishes the legal status to be clarified by the European Court of Justice, which May has refused given it would be an extension of European legal writ.

⁵ <https://www.theguardian.com/politics/2017/jun/22/theresa-may-makes-fair-and-serious-offer-on-rights-of-eu-citizens-in-uk>

⁶ <https://blogs.spectator.co.uk/2017/06/long-last-theresa-may-grants-assurance-eu-nationals/#>

⁷ http://www.britishfuture.org/wp-content/uploads/2016/12/EUNationalsReport.Final_12.12.16.pdf

Whilst this proposal is likely to be pursued, there are areas of concern, one being that of family reunification. Currently, there are no restrictions for EEA+ nations in bringing a spouse or family member to Britain to settle; whereas, for those non EEA+ nations, they need to earn at least £18,600 per annum in order to settle in Britain⁸. This issue has yet to be expanded upon in the current proposal.

Despite issues over the details, the overarching sentiment with this approach is that Britain will assure the 2.1 million EEA+ nationals over their status of residence in the country after Brexit. Something which campaigners and politicians alike wanted to clarify through the referendum. Whilst this proposal is not perfect, it goes some way to find a resolution to an issue which otherwise is difficult to find, given the incompatibility of Britain leaving the EU and the institutional desire for homogenised rights and freedom of movement within the European Union; much like Article 50, it was unforeseen that a Member State would intend on leaving the Union.

⁸ <http://www.migrationobservatory.ox.ac.uk/resources/reports/the-minimum-income-requirement-for-non-eea-family-members-in-the-uk-2/>



INTERNAL STABILITY OF BRITISH POLITICS IN LIGHT OF BREXIT

The Brexit referendum proved to be divisive throughout British society, given its binary nature, and such divisions have remained within the political sphere. There are concerns over the enduring settlement of the United Kingdom, especially given the position of the SNP, who hold a ruling minority in the Scottish Parliament, on Brexit. Scotland overall voted in favour of remain by a margin of 38%, and this has been capitalised upon by the First Minister, Nicola Sturgeon.

THE PROSPECT OF SCOTTISH INDEPENDENCE

The Scottish First Minister was against Brexit, to the extent of meeting EU diplomats with the possibility of discussing Scottish inclusion into the EU. Whilst this never materialised, she also offered the possibility of another Scottish Independence Referendum to the Scottish electorate. The possibility of this being delivered, however, is remote regardless of general election results, owing to the composition of the British Parliamentary Constitution and the Scotland Act 2016. Whilst it is accepted through parliamentary precedent and the Scotland Act 2016 that Westminster will not legislate with regard to devolved powers without due consent⁹, the Scottish Parliament cannot conduct a Referendum without the consent of the British Prime Minister. With the Conservatives (now billing themselves as the 'Conservative and Unionist Party') winning the general election by a slim minority, and the Scottish Conservatives winning 11 more seats than the previous 2015 election, the prospect of another referendum on Scottish independence looks increasingly remote. The loss of support for the SNP and the rise of the Conservatives suggests the likelihood that, politically at any rate, the Scottish input into Britain's Brexit strategy will be more in-tune with their colleagues in Westminster. Furthermore, going by recent polling data (effective as of 1st May 2017), the SNP's push for independence in light of Brexit seems out of step with Scottish society, with 'No' leading 53% to 'Yes' at 47%¹⁰.

EFFECTS UPON IRISH AFFAIRS

A significant domestic issue for Britain in relation to Brexit is regarding its relationship with Republic of Ireland and the likelihood of a hard land border between the two countries. A return of a hard border between the Republic of Ireland and Northern Ireland is a prospect no-one wishes to occur, for it will be viewed as retrograde step in relations, scarred by conflict and tension for decades. A hard border may additionally put into question the Common Travel Area agreement which has been in existence since 1922. It would also be the only 'hard' border on the British Isles.

⁹ http://www.legislation.gov.uk/ukpga/2016/11/pdfs/ukpga_20160011_en.pdf Accessed: 26/05/2017

¹⁰ <https://yougov.co.uk/news/2015/05/05/scottish-independence-no-lead-6/> Accessed: 26/05/2017

Of a less symbolic nature are the practicalities faced by both countries post-Brexit. The Republic of Ireland may have to choose its allegiance; its own political path in this future, given Britain's exit. Whilst this cannot be determined before negotiations seriously begin, Ireland's economic relationship with Britain is significant, especially in agriculture. Half of Ireland's farming exports go to Britain, whilst 44% of the exports made by Irish firms arrive in Britain¹¹. Politically, Ireland loses Britain in Brussels, and this may lead the EU to focus on Ireland's low corporation tax – vital to Ireland's economy – without notable defence. That said, despite this hypothetical choice facing Ireland, it would be politically and socially unthinkable for Ireland to choose Britain over Europe as a political partner.

In Northern Ireland, remaining in the European Union was backed by 55% to 45% of the electorate¹², and as such the issue over Brexit has become the cornerstone of NI politics furthered by still present political divisions from its past. The Northern Irish assembly, Stormont, is in the midst of a snap general election and Brexit is to the forefront for the electorate. The Unionist party, the DUP, rallied around supporting Brexit; whilst the Republican party, Sinn Féin, opposed it. The Unionists view Brexit as a way of unity with mainland Britain, whilst the Republicans view it as a means of furthering the possibility of a United Ireland. However, whilst feelings were expressed strongly through the Brexit referendum, it is unclear if these elections can be clearly predicted. NI is experiencing its fourth election in 18 months with large amounts of frustration towards politicians and politics in general being felt.

Another issue of notable complexity is the standing of the 1998 Belfast Agreement. The Belfast Agreement (or Good Friday Agreement, as it is often referred to) was drafted under a Labour government and was the result of multi-party negotiations with an aim to bring peace between Britain and Ireland and to foster peaceful governance in Northern Ireland. It introduced the concept of 'power sharing' to Northern Ireland and found its expression in the current Stormont assembly. However, it carried the assumption that both parties would continue to the European Union members. This was due to the safeguards that EU membership

¹¹ <https://www.chathamhouse.org/publications/twt/ireland-s-dilemma> Accessed: 26/05/2017

¹² <https://www.electoralcommission.org.uk/find-information-by-subject/elections-and-referendums/past-elections-and-referendums/eu-referendum/electorate-and-count-information> Accessed: 26/05/2017 ireland

provided in underpinning the agreement; the positive nature of EU funding in Northern Ireland and the effect of common-EU membership had a diluting cross-community tensions. The incorporation of the European Court of Human Rights into Northern Irish law was an obligation of the Belfast agreement, but as the ECHR falls outwith the remit of the European Union, Brexit does not impact upon this aspect. Any changes to the original agreement will have to be ratified by the Republic, and given the current political divisions between Democrat Unionists and Sinn Féin in Northern Ireland, may be politically difficult to achieve future negotiations.

Following the general election, which took place on June 8th 2017, the political repercussions of Brexit in the context of the Irish politics became more apparent. The Conservative government won a slim majority and there is ongoing discussion on entering into a 'confidence and supply' arrangement with the Democratic Unionist Party of Northern Ireland in order to govern sufficiently. Such an arrangement is different to an official coalition as the DUP would either support or abstain from voting on key financial bills and confidence votes. If this arrangement comes to fruition, the DUP could influence the outcome of Brexit, as they have repeatedly been against the formation of a 'hard' border between Northern Ireland and the Republic. An arrangement with the DUP will also lead to several Conservative manifesto promises being dropped and the likely return to future elections once Brexit negotiations are concluded.

EFFECTS UPON THE CHANNEL ISLANDS

The Channel Islands which encompass Jersey and Guernsey did not have a vote during the referendum, however they are UK Crown Dependencies. This means that Britain retains control over their overseas affairs. Given this dynamic, both Jersey and Guernsey are deemed 'third countries' by the EU –not members in their own right but have access to the Single Market and Customs Union. The islands are a haven for businesses given their tax arrangements and it has been said that the Brexit result may be of benefit to the islands given the attractive access to the Single Market. Politically, both parliaments of the Channel Islands retrospectively are working in cooperation with Westminster and will have their say during the negotiation period.

EFFECTS UPON GIBRALTAR

Much like the Channel Islands, Gibraltar is a UK Crown Dependency with its own parliament. That said, it has its own complex relationship with the EU, as it has access to the single market and can elect its own MEP (under the guise of a South-West England constituency). During the referendum, 96% of Gibraltarians voted remain. The local economy is dependent upon access to the single market and the majority of Gibraltar's workforce cross the border from Spain daily. Furthermore, relations with Spain have taken on a new dynamic in light of Brexit -Gibraltar is a disputed territory in the eyes of the Spanish, and this will affect to a degree the negotiations for the UK. Disputes between the two countries have up till recently been resolved through the European Courts. It has also been suggested that the EU will support Spain through negotiations due to Gibraltar, though how successful this will be and the impact it will have on wider affairs is disputed. Concerns over the Spanish reaction and mostly successful cross border relations seemed to have encouraged such a resolutely positive vote on the EU.



WALES

A net beneficiary of EU funding through farming and EU programmes such as Erasmus and 'Horizon'. Through Horizon, Wales has received more than €140m from the Horizon during its existence. Through CAP payments, Welsh farmers receive around £250m a year in direct payments, with an additional £665m for rural development over the course of six years. Overall, in terms of contributions, Wales receives more than any other UK country, with £628.82 funding per person, compared to £134.28 for Scotland, which amounts to overall European funding for Wales amounting to £1.9 billion¹³. The Brexit campaign throughout the referendum stated that they intended in honouring contributions till 2020¹⁴, if this is the case, it is clear that Wales is the region in need of most attention given the level of EU funding experienced by the region.

¹³ <http://ppi.w.org.uk/what-will-brexite-mean-for-wales/> Accessed: 26/05/2017 wales

¹⁴ https://www.jrf.org.uk/press/uk-government-needs-plan-boost-poorest-regions-following-brexite?utm_medium=email&utm_campaign=JRF%20weekly%20round-up%20wc%204th%20July%202016&utm_content=JRF%20weekly%20round-up%20wc%204th%20July%202016+CID_114bfc9bdd4022b052db502728843c2b&utm_source=Email%20marketing%20software&utm_term=Read%20Story Accessed: 26/05/2017

Despite the high level of contributions Wales experiences through the EU, it was the region where the leave vote was predominantly expressed. One key narrative being used to explain this result is the 'leave behind' narrative. It is said that Wales, in particular, felt left behind domestically politically and in relation to the wider forces of globalisation. It is also worth considering that given the closeness of local Assembly elections, local media outlets and political organisation were fatigued and there was little EU referendum campaigning on the run-up to the vote. Making Brexit work in the context of the previously unique economic relationship with the EU which Wales carried will be an issue for policymakers and negotiators to overcome.

Politically, barring a few voices, Britain as a whole has accepted the Brexit referendum and is about to vote on how Brexit negotiations should proceed. Furthermore, with the exception of Irish relations, it is expected that the Union will remain intact. The earlier Cassandra-like proclamations over the disintegration of the United Kingdom seem unlikely to occur, at least in the immediate short term. That said, the future of the Republic of Ireland and borders is an issue dependent upon the progress of negotiations.



EU INTERNAL POLITICS

GERMANY

As far as Germany is concerned, politically the stability and unity of the remaining 27 member states remains key. Whilst there are key links of trade between Germany and Britain through exports and supply chains (witness the remark made by Nigel Farage about German car manufacturers still wanting to sell Britain their products) the single market and its overall integrity remains of importance to Germany, domestically and in wider European affairs. Despite the value Germany places upon upholding the integrity of the single market and the political stability of Europe as a whole, within foreign and defence policy, the country benefits from the input and assistance which Britain brings. These aspects,

plus the pressure from the domestic industry lobby to maintain British access, could result in Germany softening its negotiating stance to provide a beneficial partnership for both countries. Of course, such an outcome realises upon how much political pressure is exerted upon Angela Merkel.

FRANCE

With the election of the centralist candidate Emmanuel Macron as French President, it could be suggested that 'brexiteers' such as Nigel Farage, lost the possibility of capitalising upon French euroscepticism in an institutional context as leader of the National Front, Marine Le Pen failed to gain election. Macron himself has internal French-German tensions to content with too. Given the EU was very much a joint creation of France and Germany, the two nations have different ideas of how to the EU ought to be run.

Most of these differing opinions are expressed through economic policy and the possibility of reforming Eurozone governance. France, and Macron, favour greater macroeconomics and the formation of 'Eurobonds' as a means to mutualise debts; meanwhile Germany favours greater regulation on individual governments and structural reforms.

Domestically, France is the major European agricultural producer, accounting for 18% of the total EU farming output. It benefits from 17% of CAP (Common Agricultural Policy) payments¹⁵, and it is this common policy which may bring tension between France and Britain. Currently, Britain receives 7% of CAP payments.

CAP payments are split into two pillars: direct payments and funding for the wider-rural economy. These payments amount to in excess of €58bn per year for all member states¹⁶. Brexit will result in Britain leaving the common policy.

To this end, Britain could form its own alternative to CAP, much like Switzerland, utilising domestic revenue. However, there remains concerns that leaving CAP would reduce farming incomes as it forms a significant part of incomes for farmers, and a domestic model would fail to replace this income fully.

¹⁵ <http://www.fao.org/ag/agp/agpc/doc/Counprof/France/france.htm>

¹⁶ <http://www.bbc.com/news/world-europe-11216061>

Whether Britain could replace CAP or come to an agreement with the European Union depends on the mood of negotiations and what conditions farmers will operate under once Brexit occurs. Given France's large agricultural sector, the French response will be of significance during negotiations. A response which will be tempered by the dynamic carried between Germany and France.

VISEGRÁD GROUP

Brexit will result in the loss of a traditional ally for the Visegrád Group (composing of Poland, Czech Republic, Slovakia and Hungary) within the European Union. Britain has acted as a proponent against the future European integration and the possibility of greater federalism, which are concerns also carried by the Visegrád nations. However, despite this loss, Brexit could be utilised by the Visegrád nations to adapt the balance of power within the EU. It could empower the group on issues and improve their status.

That said, the group itself cannot always galvanise over issues, and often maintain individual divergent views. Furthermore, Brexit may have repercussions for those in the Visegrád, in particular, Poland who experienced favourable movement of people and capital to Britain. There remains concern in this quarter over the rights of Polish people in the UK and there are reports of numerous Poles returning home in light of the result, given the strong transnational family connections. The rights of people in Britain, plus Britons who live and work in the EU ought to be clarified as negotiations progress –but as previously outlined, it is a technically difficult area.

Politically, Brexit may consolidate the growing Eurosceptic settlement, especially illustrated in Poland with PiS and Hungary under Viktor Orbán. Whilst it is highly unlikely these countries will actively pursue leaving the Union, it may inspire greater opposition to feudalistic ideas.

THE SOUTHERN MEDITERRANEAN STATES

Southern countries will be affected by Brexit, given the European Union will lose the fifth largest world economy as a member, this will have economic repercussions for the economics of Italy, Spain and Greece.

In 2001, the UK was the 3rd most important destination for Greek imports; in 2010, Greek trade in UK goods amounted to £1.4 billion, as is a popular destination for British tourists. In relation to Greece, there is the potentially thorny issue over previous financial liabilities in subsequent Greek bailouts. However, as in 2011 European leaders agreed that future bailouts would be paid for and benefiting only those countries operating within the Eurozone, Brexit will not have any detrimental effects in this area –either paying future bailouts or previous financial liabilities, especially as the European Central Bank agreed to cover the third Greek bailout, which was funded by borrowing against the EU budget.

In 2011, Italy was the 7th most important destination for UK goods, amounting to £10 billion or 3.4% of all exports. Britain wishes for talks on the leaving the EU and the formation of a new trade deal to occur simultaneously, which is something that the Italian government state may be possible, due to possible overlap. That said, despite rhetoric over friendly relations and a desire to maintain notable trading links, Italy has backed the European Commission in wishing for ‘fair but firm’ negotiations, citing concerns that overly generous terms may lead to an exodus of other member states.

THE FUTURE DIRECTION OF THE EU

The European Union now faces three possible distinct avenues: federalism, centralisation and fragmentation. All of these avenues carry with them profound social and political repercussions.

CENTRALISATION

In the immediate aftermath of Brexit, the remaining member states met to celebrate the 60th anniversary of the signing of the 1957 Treaty of Rome, it was during this meeting that they reaffirmed the values and aims of this treaty through a declaration. Of note was the aim of ‘ever closer union’ and continued support for the single and common market. The three pillars of policy which could be considered liable for centralisation are foreign and defence policy, economics and political ways and means.

FOREIGN AND DEFENCE POLICY

The prospect of an 'EU Army' is not a new idea policy proposal within European circles. In a bid to counter perceived European Union weakness during the Balkans Crisis, a Common Security and Defence Policy (CSDP) was formed in 1999 in Helsinki. The CSDP assists in peacekeeping operations, conflict resolution and crisis management. It acts under the remit of the European Union and acts in cooperation with NATO, but did not negate early concerns from NATO officials that a common European defence policy would weaken the alliance. These concerns notably came to a head at the 'Chocolate Summit' of 2003, when NATO officials were concerned when France, Germany, Belgium and Luxembourg conducted a mini-defence summit to discuss the prospect of forming an independent European defence force. There was a shared notion by participating nations that the European Constitution could draw strength by being bolstered by European defence, and it would be declaration of European Union independence from the United States. The mini-defence summit did not amount to significant alternations in European policy, hence the nickname 'Chocolate Summit' as it was perceived that diplomats drank coffee and ate chocolate without much to show for it.

Nevertheless, the idea of a common EU defence force continues to be circulated every so often, citing financial and strategic benefits. That said, there remains technical and logistical issues to this idea. First of all, the extra expense of establishing a separate organisation outwith the NATO framework, when NATO has existing resources and infrastructure which is pooled between members, and secondly, although through European eyes a common European force could react to wholly European affairs, it is uncertain that such a force could match the military and diplomatic capabilities of NATO.

ECONOMICS

Fiscal centralisation was mildly touched upon by the MacDougall Report of 1977 –but only in terms of centralised budgets- but came to the forefront of European policy through the 2012 European Fiscal Com-

pact, itself an extension of the 1998 Stability and Growth Pact, and of course, the formation of the Eurozone.

The Eurozone was established in 1999, encompassing eleven EU member states who had passed the Euro Convergence Criteria. Eight new states have thus joined, through the conditions of Maastricht for accession. As Monnet argued, the success of the Eurozone is not wholly dependent upon an economic union, but closer fiscal and political convergence.

There have been several ‘centralising’ economic programmes already undertaken, one of which being the 2012 European Fiscal Compact. It was a compact predicated upon balanced budgets and constraints to structural deficits. Although the EFC was ratified by all Eurozone members, and an additional six EU member states, it did not include the Czech Republic, Great Britain or Croatia –who acceded into the EU the following year. This suggests that the prospect of centralising economic affairs in a coherent, concessional manner faces difficulties, which has the effect upon the capabilities and successes of said programme. That said, the EFC was left open for any future accession. Furthermore, there were concerns that such programmes furthered the creation of a ‘two speed’ Union with the Eurozone becoming further integrated, whilst the opt-outs are not.

POLITICAL WAYS AND MEANS

The second pillar of centralisation concerns the political ways and means of the European Union. This, in essence, would mean than even closer political union. Indeed, monetary union was historically deemed a route to political union, as Jacques Rueff reportedly said: “L’Europe se fera par la monnaie, ou ne se fera pas” (Europe will be made through the currency, or it will not be made). A more modern interpretation of Rueff’s statement was to be found through the Lisbon Agenda.

The 2000 Lisbon Agenda –which aimed to increase the productivity of the European Union within the knowledge economy, maintaining wage developments and promoting policies to address economic issues with an aging population- was an early example of an attempt to encourage centralisation through the European Union framework, yet was regarded as only partly achieving its aims.

Whilst it is true that there was a gradual reduction of unemployment and inactivity in several European member states through tax and benefit reform, there were imbalances within the Eurozone in terms of competitiveness, citing the emergence of property and asset bubbles, a growth in salaries out of step with the level of productivity and rapid credit growth. Furthermore, the Lisbon Agenda missed its overall aim of given the economic crisis of 2007. This partial success and the wider economic crisis was interpreted as a justification for further centralisation of national policies, which was the direction taken by President of the EU Commission, Jose Manuel Barroso in his 2012 State of the Union address. Barroso outlined his idea, which can be summed up as “Globalisation demands more European unity. More unity demands more integration.”

Whilst centralisation of policy and further integration could be viewed as a way of countering future economic crises by formulating a coherent ‘EU’ contingency plan, and would facilitate the means of forming a deeper economic and political ‘bloc’ of European states, there are issues which the EU has to overcome if centralisation is to be adopted. The newly elected French President, Macron wishes for the post of EU Financial Minister to be established. However, EU Commissioner, Jean-Claude Juncker has warned over the prospect of centralised European ministers who could interfere with the budgets of national parliaments. This, in essence, gets to the crux of the matter over centralisation -how willing member states will be to pursue this line of enquiry. If they are willing, how much are they willing to creed to a centralised EU administration without concerns over democracy, economic freedom and the possibility of the dilution of the nation state arising? Furthermore, the paradox of greater centralisation in order to guarantee the future of the European Union is that could undermined the very values the EU was founded upon to espouse -to facilitate and encourage citizens to identify with being ‘European’, rather than with narrow nationalistic identities.

A bid to further centralise Europe’s policy making, be it through economics, foreign and defence policy or political means, will require an improvement in institutional trust, tact and sensitivity towards interests, preferences and histories and true consent from members involved.

Nevertheless, the shock of Brexit may lead to European policymakers to fortify the Union and lessen the likelihood of further exits.

FRAGMENTATION

The third situation which faces the European Union is the possibility of fragmentation of the Union itself. It has been suggested that Brexit may lead to a 'domino effect' being undertaken through the EU, with Britain being taken as an torch leading the way for those states looking for an exit route. The domino effect thesis is predicated upon the assumption that there is deep-seated disfranchisement with the idea of the European Union. In order to discuss the likelihood of defragmentation, this disfranchisement will need to be examined.

Disfranchisement with the governance of the European Union has been demonstrated by several fringe parties in Europe, primarily in Hungary, Germany and Italy.

The leading Fidesz party, with President Viktor Orbán, is party which in the current interpretation is deeply conservative and nationalistic. It is against immigration and is eurosceptic and there is marked emotive and nationalistic dimension to Orbán's criticism of the European Union, leading to a possibly combative relationship between the European Union and Hungary in the future.

AfD (Alternative für Deutschland) is primarily holds an anti-immigration platform, but has in the past campaigned to return EU powers to the national level and for the scrapping of the Euro currency. In the 2014 European Parliamentary election, AfD polled 7.1% of the vote – its first major electoral success – and following the 2016 state elections, AfD is represented in 10 out of 16 state parliaments¹⁷. The AfD is now expected to gain representation in the German national government in September.

The Five Star Movement (Movimento 5 Stelle) led by Beppe Grillo is a populist group who favour euroscepticism and direct democracy. M5S have called for a referendum on Italy's future in the Eurozone, but in order to do so, they would have to change the Italian constitution, as it is currently illegal to hold referendums on the ratification of international

¹⁷ <http://www.dw.com/en/ten-things-you-need-to-know-about-the-afd/a-37208199>

treaties. In the 2013 Italian elections, M5S gained 109 out of 630 seats in the Chamber of Deputies and 54 out of 315 seats in the Senate. Whilst in the 2014 European Parliament elections, they gained 17 out of 73 seats. Through the European Union there have been attempts by M5S to enter into blocs with fellow eurosceptic parties, but these have not been successful¹⁸.

However, it is worth considering that with the exception of Fidesz, AfD and M5S are still considered fringe parties and although they demonstrate an articulation of euroscepticism –be it through concerns over immigration, democracy or the economy- it cannot be said that their presence now means that Hungary, Germany and Italy are dissent states to the European Union. However, the fundamental issues which associate them all is displeasure with the structures and governance of the European Union and this displeasure may have the possibility of continuing to grow into a bigger force.

The notion of fragmentation of the European Union and the likelihood of such a thing occurring cannot be discounted –Brexit was deemed unforeseeable by numerous experts, and it is worth remembering that all Unions eventually dissolve, depending on the circumstances- but the issue being discussed here is how likely fragmentation is to occur in the short term. Given the reaffirming towards the ideas and ‘mission’ of the European Union by member states, as demonstrated by the Rome Declaration, immediate defragmentation is seemingly unlikely. Surprisingly, it seems that Brexit may even galvanise further support for the Union across Europe and lead to further streamlining of a Europe that considers the interests of all involved. However, for that support to be galvanised and for a new Union to be cast, the Union must pay attention to its tone and actions towards Britain and existing members. Be encouraging, not coercive towards member states and pragmatic, not bullish towards Britain in its negotiations.

FEDERALISM

¹⁸ <http://blogs.lse.ac.uk/europpblog/2017/04/20/italys-looming-election-will-the-five-star-movement-really-form-the-next-government/>

Another possible configuration for the European Union post-Brexit is federalism. Federalism has experienced something of a renaissance in European thought recently, and is often attributed to the figure at the forefront of articulating federalist ideas: Guy Verhofstadt MEP. Verhofstadt has been on the record saying that he advocates a 'United States of Europe', essentially using the federalist ideas of the United States of America as a model for the future of Europe. By that he means a confederation of states working together, with strong external borders, under a European remit, but allowing member states a degree of autonomy and decision making powers, working meetings upon the basis of unanimity. However, how close is Verhofstadt's vision? To answer this, we must consider financial divisions, the strength of national governments and policy convergence.

FINANCIAL DIVISIONS

As Alexander Hamilton found out, a strong federalist movement needs a clear expression of division of financial responsibility between the federal centre and the states. In its current form, the EU has little fiscal capacity, but retains strong administrative instruments. The European Central Bank, for example, whose responsibility is to maintain the price stability of the Eurozone. However, in light of the economic downturns and crises which the Eurozone has experienced, it seems the ECB has failed to promote good governance in this area. For a Federal Europe to succeed, it is clear that the Eurozone and its governance needs to be reformed.

NATIONAL GOVERNMENTS

Critics of the European Union, and especially federalism, say that it cannot work given the diversity between nations. However, for federalism to be successful it must strike a balance between being a unified entity whilst maintaining individual diversity at state level. Furthermore, proponents of Federalism argue that states in the EU are bounded by a common idea –that of a stable, united Europe. It can be suggested that the EU is a regulatory polity, and lacks a coherent defence, foreign, health and education policy. The first two policies would be of necessity if federalism of an American form was to be established. Of course, by being a regulatory polity and with no 'EU' policymaking as such in existence,

national governments do remain relatively strong in the implementation of their domestic policies. However, within the Eurozone and in terms of fiscal policy, the balance of power between the nation state and the European Union is heavily weighted towards the supranational – witness German demands towards Greece during the economic crisis. Bridging these two phenomena will be key for policymakers if federalism is to be Europe's future.

POLICY CONVERGENCE

Whilst federalism as a concept espouses respect for individual autonomy through domestic affairs whilst simultaneously supporting the need for convergence on 'national' issues such as defence, environmental and foreign affairs, critics have suggested that the past trajectory of the EU means that federalism will be difficult to achieve. This argument is predicated upon the perceived erosion of state autonomy through treaties such as Maastricht and Lisbon, plus the overarching desire for 'ever closer union' as stated in the Treaty of Rome. Whilst there has been policy convergence in terms of the single market, freedom of movement and the creation of a Eurozone (to name just a few), at the time there was support for these policy, and future treaty changes can be vetoed by member states. Domestically, there have been suggestions that the migration and financial policies of the wider European Union are areas of tension between the EU and member states. It is uncertain that federalism could sooth these tensions, given the political effort necessary to pursue this arrangement, but it has reframed the argument for this concept in a European context.

Nevertheless, despite the political difficulties which may face reform to the Eurozone and the lack of overall policy coherence, especially on the terms Verhofstadt speaks of (strong external borders, unified defence and foreign policy), it could be suggested that Brexit itself highlighted concerns over the loss of national sovereignty and autonomy – perceived or otherwise. On these grounds, the notion of federalism is an appealing prospect for existing members – greater autonomy whilst remaining in a Union.



BRITISH-UKRAINIAN RELATIONS POST-BREXIT

Given the historical bilateral ties between the two countries (Britain was one of the first European countries to recognise an independent Ukraine), Brexit will not have any direct implications for British-Ukrainian relations. However, the exit may impact upon Ukraine's European Union ambitions.

On the face of it, Brexit should not pose an issue to the continued warm feelings between Britain and Ukraine. Ukraine is not a member state of the EU, after all. That said, Ukraine does operate within EU frameworks, to a degree. Given Britain's future exit, as a whole the Union will lose a net contributor; a single market trading partner and a strong critic of Russian aggression. This could have repercussions for Ukraine and its

ambitions to become a member state. Britain has been a strong proponent of Ukrainian interests and has often acted as a mediator between Ukraine, Germany and France within the European Union. Ukraine will soon lose this mediator and may have to facilitate relationships with existing members in a new light.

British-Ukrainian relations have consistently been strong and consistent. Diplomatic relations were formed in 1992, with Embassies opening in both retrospective countries and a Ukrainian Consulate opening in Edinburgh in 2002. Through these relations, several notable agreements have been signed and agreed upon. In 1993, there was a Memorandum of Understanding on British technical assistance to Ukraine. In the same year, there was a signed convention on the avoidance of double taxation and the prevention of fiscal evasion. In the realms of defence and foreign policy, there was the 1994 Budapest Memorandum on Security Assurances signed by Ukraine, Britain, America and the Russian Federation, and in 2001, a Memorandum of Understanding on co-operation between Ukraine and Britain in the defence sphere. Following an escalation in the conflict a similar understanding was signed in 2016.

Following on from the ratified Association Agreement with the EU (drafted in 2012), in 2014, Ukraine entered into the DCFTA (Deep and Comprehensive Free Trade Agreement) with the EU. In the same year, UK exports amounted to £354.817 million. The Department of International Trade has an active campaign to attract UK investment into Ukraine¹⁹. In addition, Ukraine has received a yearly assistance package from the British Government, consisting of several projects and funds. For example, in 2016–2017 this assistance came in the form of the Conflict, Stability and Safety Fund, support for the Special Monitoring Missions (SMM) undertaken by the OSCE, the Good Governance Fund, the Bilateral Programme Budget and the Magna Carta Fund²⁰. In light of Brexit, this will not be affected, but a trade agreement may likely need to be negotiated between the two parties outwith the EU.

Though Britain is not involved in the Normandy Four Minsk discussions, from a far, it has supported Ukraine in this conflict through diplomatic

¹⁹ <https://www.gov.uk/government/world/organisations/uk-trade-investment-ukraine>

²⁰ <https://www.gov.uk/government/world-location-news/uk-programme-assistance-to-ukraine-2016-2017>

aid, the gifting of non-lethal military equipment and training. That said, Britain is sensitive not to upset Russian relations itself, so has limited its response in this regard to economic sanctions. However, it does want a peaceful resolution to the conflict, as articulated by the British Ambassador to Ukraine, Judith Gough, during her new appointment to the country in 2015: “The United Kingdom has been strong in support of Ukraine’s democratic, prosperous and secure future, and determined in its efforts to help promote reform, peace and stability throughout Ukraine²¹.”

The inclusion of Britain into the Normandy Format would strengthen the diplomatic clout of discussions by virtue of Britain’s permanent position in the United Nations Security Council, being a founding member of NATO and that it enjoys existing relations with all parties involved. Furthermore, as previously outlined there remains a political and diplomatic commitment to finding a peaceful settlement to the Ukrainian Crisis. That said, the inclusion of Britain into Normandy seems remote, given the desire to retain workable relations with Russia given the considerable Russian business ties in the British property market and concerns over military capabilities; the fact that the Format has already been in existence for a number of years and there is a lack of interest in reforming this format and the possibility that British or, indeed, greater Western involvement, may inadvertently escalate conflict and render the possibility of a settlement an impossibility. Finally, the fact that Britain is undertaking the process of uncoupling from the European Union plays a significant part, as it involves the resources of multiple governmental departments, not least the Foreign Office itself.

²¹ <https://www.gov.uk/government/news/change-of-her-majestys-ambassador-to-ukraine-2>

CONCLUSION

Britain's exit from the European Union has thrown up a multitude of unanswered questions given its unprecedented nature. It is worth remembering that when Article 50 was drafted it was deemed unlikely that one member would pursue the avenue of leaving, given this perspective, the political, legal and diplomatic ambiguity which exists in some quarters is unsurprising. Nevertheless, there exists some possible positions which Britain could take during key negotiations which would be both unambiguous in manner and outcome. These positions have been examined in consideration with the areas of policy which are considered to have the most significance or areas of conflict: trade, settlement of people and the internal politics of European member states.

Although there are multiple previous trading models which Britain could adopt, it seems highly likely that Britain will trade through WTO guidelines, given the relative ease this would bring, and foster closer ties with the Commonwealth.

Of greater difficulty is the protection of rights of both British and EU citizens. Despite the desire for a reciprocal deal to be struck, there is tension between this desire and the institutional aims of the EU: those being homogenised rights for all member states citizens and freedom of movement. The four freedoms of people, labour, capital and goods are integral to the EU and it seems highly unlikely that negotiators will 'hand' Britain access to this. The current proposal of contributing towards five years' residence for 'settled status' goes someway to bridge this gap between the aims held by the two parties involved in negotiations.

The tone and outcome of negotiations will be governed not only by the internal politics of Britain, but also those of the EU. Each member state has its own bilateral relationship with Britain, and thus has areas it'll wish to safeguard but also concerns. Concerns mostly like to manifest throughout negotiations are agriculture, trade, political support and migration.

Whilst the European Union has lost a member state, it could be suggested that Brexit will enable the EU to craft a Union of its own making. Whilst Britain was a key player in the Union and a willing partner, it did hold several reservations – be it the Eurozone, the social charter of Maastricht, or the 2011 British veto on budget rules and Lisbon Treaty change. A future Union faces several possibilities: centralism, federalism or fragmentation. It seems likely that federalism may be the most appealing option for member states and the Union as a whole, however this will require treaty change which will have to be agreed by all member states.

Of course, like the Brexit result itself, the political reality may bear no resemblance to prior academic enquiry, especially given the new political landscape which Britain finds itself in. Despite the new political landscape, Brexit will continued to be pursued – it is just a matter of how vigorously. Brexit is a highly complex issue given the level of cooperation and reciprocity the European Union relationship has fostered. Nevertheless, Brexit enables Britain significant scope to overhaul its global presence, image, aspirations and influence. Such an overhaul starts with how Britain will approach the Brexit negotiations.



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