

EU unity on Brexit not guaranteed

European countries' interests will start to diverge

by John Nugée in London

Thu 8 Feb 2018

The second phase of talks on Britain's exit from the European Union must address, over a matter of only months, manifold issues on the framework for the future UK-EU relationship.

A probable change in the stance of individual EU countries will further complicate matters. In the first phase of negotiations they showed impressive unity. This was partly political, and partly due to a genuine alignment of interests. This mutuality will not, however, be as strong in the second phase of talks, as different patterns of trade and interaction with the UK emerge.

Broadly speaking, the EU states may develop into three groups. They will be overlapping, and no member will be completely in one or other group. But there is likely to be a group that tends to prioritise economic links with the UK, most obviously the Republic of Ireland, but also the Netherlands, Belgium and Denmark. There will be those – mostly eastern European states – who prioritise security links. And there will be those who prioritise due process and coherence of the EU. The European Commission and European Parliament will be in this group, probably supported by France and Germany.

On the surface this seems like the Brexiteers' dream of 'divide and conquer', splitting the EU into separate camps and playing them off against each other. But this is unlikely to happen. Indeed it is more likely to be to the UK's disadvantage, as individual countries may feel more empowered to pursue their interests and hold agreement up for their own ends. It was to the UK's advantage in the first phase that the EU27 all agreed to delegate the Brexit talks to chief negotiator Michel Barnier and his team.

A second complication is a somewhat unusual and unexpected role reversal between the EU and the UK. Traditionally the EU has had a clear idea of where it wants to be in the long run, but has been less certain about the administrative details of how to get there. Meanwhile the UK has been characterised by an impressive attention to mechanical details, but usually a lack of any overarching vision of its long-term goals.

But the positions seem to have almost completely reversed. The UK has the grand vision, of a close and special relationship, but without any consensus on what exactly this entails or how to achieve it. The EU, conversely, has no specific vision for the future relationship while knowing exactly the legal details of what can and cannot be contemplated.

It is because of this that Barnier repeats there can be 'no agreement on free trade in services without membership of the single market'. What he means is there is no precedent for a country having the right to free trade in services without being a member of the single market, and the EU isn't prepared to consider creating one. Not even Switzerland has free trade with the EU in financial services, and it is specifically excluded from the EU-Canada free trade agreement.

In effect, the EU is in a position of a shopkeeper with different items for sale, ranging from 'membership' to 'full access to the internal market' all the way down to 'no deal and application of World Trade Organisation terms'. The EU is content for Britain to choose whichever of these it wishes, provided it pays the stated price.

Another point remains in the background of the negotiations: that it is not in the EU's interest for the UK to be too successful in these talks. The EU cannot afford for a flourishing UK to be an example for any other malcontents who imagine leaving the union.

The UK faces a complex set of discussions in a compressed timescale, against a negotiating partner for whom resolution of the issues is not a major priority and whose main interest is to preserve its own rules and processes while conceding as little as possible, and without the usual assumption that if a mutually beneficial solution can be found then both sides will embrace it.

The negotiations in phase two are likely to make those in phase one look simple by comparison.

John Nugée, a former Chief Manager of Reserves at the Bank of England, is a Director of OMFIF. This is the second article in a two-part series on Brexit. [The first was published on 7 February](#).