



BREXIT: WHAT HAPPENS NEXT?

TIM OLIVER

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A British withdrawal from the EU would be a process not an event. This Strategic Update sets out the nine overlapping series of negotiations that would be triggered and the positions the 27 remaining EU countries and the EU's institutions would take, gathered from a network of researchers across the continent.

THE AUTHOR

Dr Tim Oliver is a Dahrendorf Fellow on Europe-North American relations at LSE IDEAS. He took his PhD from the London School of Economics. He spent several years as a lecturer in defence and international affairs at the British Army's Royal Military Academy Sandhurst. He has also taught at LSE and UCL. He has worked at the German Institute for International and Security Affairs (SWP) in Berlin, the Center for Transatlantic Relations in John Hopkins University's School of Advanced International Studies, and the RAND Corporation (both Washington D.C.). His political experience includes several years working in the European Parliament and the House of Lords.

INTRODUCTION

A vote by the British people to leave the European Union will confront the EU with an unprecedented challenge. While the referendum campaign has seen much speculation as to what might happen to the UK in the event of a vote to leave, there has been less analysis of how the remaining EU might react. To explore how the EU might react this Strategic Update explores two sets of issues.

First, it explains the nine overlapping negotiations – in the UK, between the UK and the EU, within the EU, and internationally – that will be triggered by a vote to leave and some of the challenges the EU will face in each.

Second, it sets out what positions each of the twenty-seven remaining EU member states and the EU's institutions might take in negotiations with the UK and amongst themselves as they deal with a changing EU. This is based on analysis provided by a network of researchers based in each of the other twenty-seven EU member states.

PART 1: THE NINE BREXIT NEGOTIATIONS

Britain's 40-year membership means it already signs up to the EU's *acquis*, meaning withdrawal could in some respects be an enlargement in reverse. However, a UK-EU divorce will be a complex one involving twenty seven member states, the European Parliament and a host of other interested parties and be about changes in UK-EU and internal EU relations. A British withdrawal from the EU would be a process not an event. What happens after a vote to leave on 23 June will be shaped by nine overlapping negotiations. The first are UK focused, and mentioned here in order to provide context for the wider negotiations at the European level.

NEGOTIATION 1: UK Political

It seems unlikely that David Cameron will immediately resign as prime minister if he loses the referendum. HM the Queen cannot accept his resignation until he can perform every prime minister's final duty: to recommend to the sovereign who they should send for to be her new prime minister. Cameron's most immediate successor, the Chancellor of the Exchequer George Osborne, has also campaigned for Britain to remain in the EU, meaning he may no longer command the support of Conservative MPs. With no clear successor Cameron will resign as Conservative leader but remain as a caretaker prime minister for the several months it takes the Conservative party to elect a new leader. Unless the Fixed-term Parliaments Act 2011 is repealed, or a deal done with the opposition parties to dissolve parliament early, the next general election will not be until May 2020.

NEGOTIATION 2: UK Governance

While UK political leadership will likely be in flux for several months, the prime minister and cabinet will at least be in a position to instruct civil servants and diplomats to explore various options for the UK's withdrawal. The British government has stated it has not prepared contingency plans for a withdrawal, meaning such plans would need to be drawn up quickly.¹ However, which positions the UK intends to pursue will not be clear until the leadership race is over. Any attempt by the UK government to use the leave vote as leverage to attempt another renegotiated relationship inside the EU – an idea Boris Johnson toyed with at the beginning of the campaign – risks a hostile responses from the EU and the British public and leave campaigners.²

The official Leave campaign, involving leadership contenders Boris Johnson and Michael Gove, have argued that they would like the UK government to seek a deal that places the UK outside the EEA.³ This can be put down to the need to find agreement within a leave campaign where there has traditionally been little consensus as to what new relationship the UK should seek. Although it can also be put down to a desire to see a Brexit produce a sizeable shift in the UK's political economy, or a genuine belief amongst some leave supporters that UK participation in the single market is not as important as often argued. If the latter belief proved true then a Brexit would test some of the core ideas that underpin the EU's unity. However, getting such a deal through the House of Commons is not guaranteed given the Conservative party's slim majority and that an overall majority of

MPs have campaigned for the UK to remain in the EU.⁴ UK politicians will therefore struggle to interpret what a vote to leave actually means in practice. The referendum will have seen popular sovereignty assert itself over parliamentary sovereignty (the right of Parliament to do what it wants) with a majority in the Commons at odds with what the British people have voted for. The Commons could insist on the UK remaining in the EEA, but it could not be sure of doing this with popular support and could not easily call a general election to try and settle the matter. Whatever the deal the new prime minister decides to push for, the British government will have to regularly consult parliament during the negotiations. The slim Conservative majority, divisions within that party and the opportunity for opposition parties to cause trouble means the possibility of a House of Commons vote to reject some part of the UK-EU negotiation will be a very real one. A final possibility cannot be ruled out, which is that the UK government – or the House of Commons – calls a referendum on the eventual exit deal or new UK-EU relationship.⁵

Agreement would also need to be reached over the role played by the devolved administrations and regions such as London. Because of the transfer of powers entailed in a UK withdrawal from the EU, the permission of the Scottish Parliament will be required (known as the Sewell Convention) to repeal the European Communities Act 1972 because this would touch on matters that are devolved ones.⁶ Given the UK government showed little interest during the UK-EU renegotiation in consulting with the devolved assemblies and other interested parties, it is likely that difficulties will arise in any exit negotiations.

There is also the possibility of a Brexit triggering another Scottish independence referendum if the Scots vote to remain while the rest of the UK votes to leave the EU, with Scotland seeking to remain or rejoin the EU. While this is a possibility (although the SNP winning a second referendum, even in the context of a UK exit from the EU is not guaranteed), the SNP lack a majority in the Scottish Parliament to trigger a referendum (although it is conceivable that a majority could be found) and the timeframe for such a vote, formal independence to happen and (re)securing EU membership could be a complex one. Whatever unfolds, it would add to the complexity of the negotiations that would follow a Brexit. The EU's priority is more likely to be Northern Ireland because of Irish concerns discussed below, not least of which will be the UK-Irish/EU border.

NEGOTIATION 3: UK and non-EU Countries

The UK will need to undertake negotiations with non-EU countries such as the USA to discuss any changes a UK withdrawal would mean for bilateral relations. In the case of the USA this could entail discussion of what a Brexit could mean for UK and EU relations with NATO, and also over the future of the Transatlantic Trade and Investment Partnership (TTIP).⁷ Depending on the nature of the withdrawal agreement, the UK may need to discuss new trade agreements with non-EU countries where the EU's own deals may no longer apply to the UK. Having not negotiated a trade deal since it joined the EU, the UK may find itself in a vulnerable position as it begins such negotiations. While the emphasis here will be on the UK to renegotiate with third parties, the EU will

watch carefully for any possible changes to the relationships the EU has with the third countries concerned. Having opted for a course that the leaders of every British ally have advised against, the British government would be faced with an immediate need to tackle any narrative in the international media and political debates that portrays the UK as a country that has opted to isolate itself in European and international affairs.

NEGOTIATION 4: UK and the EU

The UK and EU will need to reach agreement over the withdrawal terms, the nature of the UK's future relationship with the EU, and, as noted above, potentially over Britain's place in the EU's international trade deals. As anybody who watched the January 2016 Open Europe Brexit war-game will have noted, the scenario that played out a UK-EU withdrawal became a to and fro about the offer of a withdrawal deal put forward by the UK representative.⁸ This failed to reflect that having presented such a deal, the EU would then have discussed the deal itself without the UK. The EU is notorious for presenting offers with little room for compromise because the offer is in itself a compromise worked out between 28 member states - with attention also paid to the opinions of the European Parliament - which the EU is then loathe to unpick. Whether the EU can reach such a compromise on what to offer a departing UK will be the focus of a great deal of the negotiations and play a significant part in deciding what form of deal the UK can expect.

From the EU's perspective there is only one option for considering a UK exit: Article 50 TEU.

Article 50

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.
5. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.
6. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

The Article 50 route is one that some British Eurosceptics appear determined to avoid, seeing in it a process that strengthens the hand of the EU by putting the UK under pressure in terms of timing and where an agreement would depend on the EU – all 27 remaining member states, parliaments and publics, and the European Parliament – agreeing. Unless agreement is reached within two years the UK would find itself leaving the EU with no choice but to trade with the EU under the World Trade Organisation rules.⁹

The nature of the agreement sought could also make reaching agreement more difficult. Opinion is divided as to whether the UK and EU should seek a deal that involves both the exit agreement and a new post-withdrawal relationship.¹⁰ An attempt to reach a comprehensive deal that encapsulates both

would make the deal a ‘mixed’ one: it would cover policy areas where both the EU and the member-states have competence.¹¹ Such a deal would require ratification by all member states, with some potentially required by law (or forced by their parliament or through public petitions) to ratify the deal through a referendum.

Whatever route is taken, without a well-drafted withdrawal agreement there would be the possibility of endless legal arguments and doubts as to the legal status of British and EU persons, legal entities in both the UK and the EU, and agreements and treaties entered into by the EU and UK. Agreement with the UK would need to be reached over the large number of shared projects and commitments. If we take the Swiss-EU relationship as a working model, then the UK and EU would

need to reach agreement over: the free movement of persons, civil aviation, overland transport, agriculture, technical barriers to trade, public procurement, scientific research, Schengen, fraud, education, statistics, environment, media, taxation of savings, pensions, Europol and Eurojust.¹² For the UK such a list is likely to be far longer, reflecting the UK's forty years of membership which have led to a far more comprehensive relationship.

NEGOTIATION 5: Within the EU

Article 50 states that the UK remains a member state until a withdrawal has been agreed. Until then it is entitled to partake in all EU business and meetings except those that relate to its withdrawal. This does not mean the UK is banished entirely from the EU's negotiations about a Brexit. It does, however, mean that the EU will have the right to discuss the UK exit without the UK's presence. As it did with the renegotiation, the UK will put on a concerted diplomatic effort to shape the positions of various member states and EU institutions. Unlike the renegotiation, the UK cannot assume it will automatically have the right to sit in on all EU level meetings on the matter.

How the EU – collectively or as individual member states and EU institutions – responds to a Brexit will depend on five Is: Ideas, Interests, Institutions, International and Individuals.¹³ The biggest tensions within the EU will be in balancing ideas (e.g. protecting political ideas such as 'ever closer union') and interests (e.g. limiting the economic, social and security costs). Institutional limits such as WTO rules and the EU's own rules limit what the EU can and cannot do to punish Britain or offer it in terms of a new

relationship. International pressures may convince some EU member states to seek a quick agreement with a country that still packs a punch internationally. What will individual leaders such as Merkel or Hollande be able to offer given they face domestic elections in 2017? Some individual leaders will note their state faces little costs from a Brexit, so may seek deals on other matters from states that do.

The EU will face three problems in reaching agreement. First, as noted above, the article 50 process would require the EU to reach agreement on a new deal not only with the UK but amongst itself. Both the UK and the EU could be frustrated by, for example, a member state holding a referendum on the withdrawal agreement. As becomes clear in the section setting out national views, the potential economic, social and political implications of a Brexit vary across the EU. Securing a deal would therefore be of higher importance for some states than others, creating the possibility of some EU member states that are more pro-UK resenting certain other states delaying or complicating an agreement.

Second, this raises the broader question of whether the EU can maintain a united front in facing a withdrawing UK or if disagreement amongst themselves and lobbying by the UK will prevent any EU solidarity. While the UK's ability to divide and rule should not be overplayed, the EU has long struggled to create unity in the face of other powers such as the USA, Russia or Israel. In the case of the UK it would face a state with a long record of working the corridors of Brussels.

Third, due to the aforementioned UK political negotiations, for the first few months the EU may find it cannot negotiate much with the UK as the UK government will be in no position to move forward with negotiations.

The EU could try to take advantage of the lack of UK leadership so as to push the UK towards a certain form of deal. However, this could provoke a backlash in the UK – and not least within the Conservative leadership race – adding to the difficulties in reaching an eventual deal. This also means that negotiations could drag on and not be as quick as some would like.

There are seven possible new relationships the EU could reach with the UK, each with pros and cons for the EU.¹⁴

1. A customised special deal for the UK would see the EU agree to the UK picking and choosing which bits of EU membership it likes. This would see the UK opt out of any costly parts of EU membership such as free movement or budgetary contributions, while retaining access to the single market. This could create a type of relationship with the EU that is less costly than traditional membership, leading to understandable concerns within the rest of the EU that other member states would try to replicate it.
2. An EEA model would see the UK adopt a similar relationship to that of Norway. For the EU this would mean the UK remains in the single market, allows free movement of labour, contributes to the EU budget, upholds EU law, is not part of some policy areas such as the CAP or CFP, and Britain exercises some limited influence over EU decision making. The UK government could apply safeguard measures (sometimes referred to as an 'emergency break') of the EEA agreement that would allow it to restrict free-movement from the rest of the EEA and EU.
3. The EEA model is also a possible transitional arrangement, one the UK could enter into to allow it and the rest of the EU the time and a stable relationship to reach a longer-term agreement over a post-withdrawal relationship. This transitional period could last several years. During that time the UK government could apply the 'emergency break'.
4. The UK and EU could agree for the UK to rejoin the European Free Trade Agreement, but the agreement connecting EFTA and the EU is out-dated, with the main Swiss-EU relationship long having developed into something unique.
5. A Swiss model would entail a series of bilateral agreements negotiated by the UK and EU (see the aforementioned list of Swiss-EU agreements). For the UK and EU this would ensure the continued free movement of goods, but not necessarily of services or people. The Swiss option has been a long-running irritation to the EU, with the 2014 Swiss referendum to restrict free movement leading the EU to demand reforms to the relationship.
6. A UK that is part of the EU's customs union, like Turkey, would mean the UK accepts the EU's external tariffs without having any say over the setting of those tariffs. The UK would have access to the EU single market in goods if it signed up to all relevant EU rules. The UK would not be part of the FTAs the EU agrees with other countries around the world.

7. The EU agrees to a free trade agreement with the UK. This would lower tariffs below WTO levels, but largely in goods and not services. The UK runs a trade deficit with the rest of the EU, this being mainly as a result of a deficit in goods. The UK runs a trade surplus in services. As a result, under an FTA deal EU goods would still enter the UK without difficulty and vice versa for UK goods, but UK services could face difficulties gaining entry to the EU market. As Jean-Claude Piris of the CER makes clear in reviewing this option: "If Britain sought to negotiate a more substantive FTA than any existing template – giving it good access to the EU's single market – the other member-states would insist on mechanisms for ensuring that it automatically adopted new EU rules, and for policing the agreement. They would also demand payments into the EU budget and free movement of labour."
8. If no agreement were reached over the course of the two-year article 50 negotiating period then the EU-UK relationship would automatically switch to trading under WTO rules. This is widely considered the least good deal for UK trade, with the EU's external tariff now applying to trade with the UK. A customs border would need to be introduced to the EU/Irish-UK border. The UK would also find itself excluded from the FTAs the EU has negotiated with countries around the world.

NEGOTIATION 6: EU Reform

Negotiations over a British exit will take place at the same time as the EU is negotiating how to change itself internally to reflect the disappearance of the UK. The clearest changes will be over allocation of votes under QMV, national distribution of MEPs, changes to the EU's budget and spending (which will depend to some extent on whether as part of an exit deal the UK agrees to contribute in a similar way to Norway), and staffing changes. We can expect these changes to be fought over because of the wider change to the EU's balance of power and direction that a British exit would trigger.¹⁵ These are changes that will add to a Union already in a state of flux thanks to the continuing fallout from the crises in the Eurozone and Schengen. There exist numerous scenarios over how the EU will be changed. The position of the Eurozone would be strengthened to the detriment of non-Eurozone members. There has been some speculation that in the face of a UK vote to leave countries such as France and Germany may make a renewed push for integration.¹⁶ As becomes clear when we turn to the different national perspectives on Brexit, a push towards further integration risks provoking Eurosceptic feelings elsewhere in the EU. The EU could see further differentiated integration, but again it is not clear where this would be headed overall as such integration would respond to different aspects of the various pressures facing the EU, one of which would be a British exit. Proposals such as the 'Five Presidents' Report' offer a range of ideas, but it remains unclear what overall direction will emerge to shape the EU.¹⁷

NEGOTIATION 7: The EU and the rest of Europe

A seventh series of negotiations may be necessary if a British exit changes the relationships the EU has with other non-EU states such as Norway, Switzerland, Iceland, Lichtenstein, or Turkey. Should the new UK-EU relationship involve the European Economic Area (EEA) or European Free Trade Area (EFTA) then there will be discussions primarily with Norway (EEA) and Switzerland (EFTA) about how the new UK-EU deal affects relationships that have become largely tailored to their needs. Should the UK secure some new form of relationship then these other states may be minded to request changes to their own relationships to replicate the UK deal.

NEGOTIATION 8: The EU and the rest of the World

A British leave vote will damage the EU's image around the world. It will reinforce an image of European division and weakness, especially amongst states such as Russia. The rest of the world will also know from previous EU crises that the EU is now likely to spend a period of time naval gazing as it comes to terms with the fallout from a Brexit. One immediate concern will be the future of TTIP. The future of TTIP is already deeply uncertain, in large part because of public opposition from across the EU. While representatives of both the USA and the EU have made clear TTIP could take place without the UK, the loss of as large an economy – and one with large trading links with the USA – could easily be a fatal blow to negotiations.

NEGOTIATION 9: Ongoing EU business

While all this is going on the UK will be excluded from discussions and decisions relating to its withdrawal, but will remain a member of the EU and therefore able to vote and conduct business on all other matters in the way any member state is entitled to do. There will be some unease within the EU as to whether the UK should vote or make decisions on matters that will shape the EU's policies post-UK exit. There may be some pressure for the UK to withdraw from such discussions and some in the UK have called on the UK to use its remaining powers to disrupt EU business as a way of leveraging a good exit deal for the UK. The UK is due to hold the rotating presidency in the latter half of 2017, a position many would deem untenable in the event of a vote to leave.

PART 2: EU POSITIONS ON BREXIT

As the 23 June referendum has approached, the author in cooperation with the LSE's BrexitVote blog put together a series in which researchers based in each EU member state (and one for the EU's institutions) outlined what they felt their member state's negotiating positions would be in the event of a vote by the British people to leave the EU. What follows are brief summaries of each of the positions given.¹⁸ Many confirm the tension noted in the previous section between ideas such as political union and interests such as economic links with the UK.

Austria: Making use of UK-EU tensions for domestic purposes.¹⁹

Austria has so far paid little attention to the UK's referendum and the possibility of Brexit. When it came to the UK-EU renegotiation earlier this year, the official Austrian position was to support whatever might improve the quality of the European integration process without changing its core pillars. For this reason Austria supported efforts to curb benefit tourism and improve the EU's economic governance. In economic relations the impact of a Brexit would be much higher for the UK than for Austria due to the low levels of trade between the two countries. The strongest support for Brexit comes from Eurosceptic and anti-European parties who have used the referendum debate as they did the UK-EU renegotiation: to support their argument that the European integration process needs to be re-adjusted and that more power should be given back to Austria and other Member States. This would not necessarily lead to an exit debate about Austria, but would help redefine Austria's position within the EU. At the same time, the pro-European government and pro-European parties view the possibility of Brexit as a chance to re-adjust certain policy areas in the EU and in Austrian-EU relations as a means to tackle rising popularity and support for populist and Eurosceptic opposition parties.

Belgium: Support for the UK staying in the EU, but European integration has priority.²⁰

In historically pro-European Belgium, part of the population is concerned about a possible Brexit, while others seize the UK referendum as an opportunity to appeal for reform of the EU. As seen during the renegotiations earlier this year, Belgium is a strong partisan for a more integrated EU. In the event of a Brexit, one of Belgium's priorities will be to continue on the path to greater integration. Belgium will not accept any 'Plan B' for the relationship between the EU and the UK. For the Belgian government, the UK has to be either out or in, it cannot choose any 'third way' envisaged by some. This is because of a fear of triggering a domino effect that sees other EU Member States demand similar privileges. Article 50 should be employed to negotiate an exit, with the Belgian position being to simplify proceedings by negotiating an exit first and a new trade deal second. It is important for Belgium that any withdrawal negotiation undertaken with the UK does not block deeper integration. Indeed, the Belgian Government would see a Brexit as a possible opportunity to clarify the

design and the finality of the European Union, possibly through ideas developed amongst the group of six founding Members States. This is despite the fact that if the UK decides to leave the EU, Belgium will be one of most exposed EU Member States in economic terms. Belgium has one of the largest trade surpluses with the UK, equal to 1.8% of GDP in 2013.

Bulgaria: Brexit would be like UEFA without England's national team and Wayne Rooney's goals.²¹

Bulgaria plays a low-profile role in the EU, with a policy of shadowing the position of other governments – Poland and Visegrad countries especially. This was the approach taken during the UK's renegotiation and it is therefore unlikely that in the event of a UK exit Bulgaria will come up with any red lines on its own. Instead it will share many other countries' political concerns – especially Germany on big issues - about an eventual domino effect of withdrawal referenda elsewhere and a serious weakening of the EU. One concern the Bulgarian government does have is whether a Brexit will weigh on Bulgaria's EU presidency in July-December 2018. On security, relations with the UK through NATO will be important, and the UK's absence will likely weaken EU efforts at cooperation on foreign, security and defence matters. While trade and population links with the UK are not as big as they are for other Eastern European countries, Bulgaria would still be keen for the UK to remain in the EEA to ensure free movement of goods and people. As the poorest country in the EU, Bulgaria would be interested in a Norwegian type settlement for the UK that sees a full financial contribution to the EU budget.

Croatia: a strong desire to see the UK stay.²²

Croatia is banking on the UK voting to stay with little discussion of a Brexit. As the newest member of the EU, the preservation of the EU is very important to Croatia. It sends a message that the effort invested in the accession process was worthwhile, that membership pays off despite ongoing difficulties, and that closing the ranks among partners make each stronger. The Croatian view is, therefore, more symbolic and normative than issue-based. The total of Croatian exports to the UK is just 2%. The UK extended restrictions on the mobility of Croatian workers until 2018, with a possible further extension for another two years after that. Short of a thick bilateral agenda between the two countries, Croatia has little incentive to discuss any red-lines in EU negotiations over a UK exit. It is hoped that bilateral relations will adapt to any new situation and that cooperation within NATO will remain unaffected. However, a British exit will further undermine the already weakened EU enlargement policy to which Croatia subscribes and it will open discussion in Croatia about its realignments within (and outside) the EU.

Cyprus: A sensitive approach.²³

While pro-European states such as Cyprus might be expected to push for harsh terms for those deciding to leave the EU, so that a favourable precedent is not created for states wanting to exit in future, in the case of a UK exit the Government of Cyprus will likely be more sensitive and flexible. Given the special relationship with the UK, the Government will seek to control any adverse effects stemming from a possible British exit and try to make this development as smooth as possible. This desire stems in no small part from the fact that commercial and financial ties between the two countries are of vital importance to the economy of Cyprus, and the large number of Cypriot nationals living in the UK and vice versa. Cyprus will therefore be keen to see the UK remain in the EEA. At a political level, close relations between the two countries will not be affected extensively. The UK retains two sovereign military bases on the island and is also one of the three countries responsible for guaranteeing the independence of Cyprus. Consequently, it has a direct involvement in the ongoing negotiation process and the attempts to reach a peaceful settlement that will reunify the island. This direct relationship is not dependent on the European position of either of the two countries.

Czech Republic: A United Europe is the Priority.²⁴

The Czech government fears that Brexit could open a Pandora's box of similar developments in other EU member states, including the Czech Republic itself. That said, while the Czech government will seek to protect European integration from the fallout from a Brexit, it will also be conscious

of several other factors linking the UK to the EU and Czech Republic. The British export market was the fourth most important for the Czech Republic in 2015, meaning the Czech Government would be keen to minimise disruption to economic links. As a net beneficiary of EU money from structural funds, it would be important for the Czech Republic that the EU-UK agreement be similar to the arrangement with other non-EU members in the EEA. Strong links in security and defence will also be sought. Guarantees would be sought for the estimated 45,000 Czech citizens living in the UK.

Denmark: Quiet but clear support for a close UK-EU arrangement.²⁵

While relations with the UK are deemed close, there are no signs that post-withdrawal the present Danish government would seek more opt-outs than Denmark already has, and thus follow the path of Cameron's renegotiation. There are no plans for an in/out referendum (even if the left-wing Unity List and the right-wing Danish People's Party would like to see one). That said, growing skepticism in Denmark means there is some sympathy for the UK, meaning the maintenance of strong links with a non-EU UK would be sought, especially in security and defence. But at the same time this would need to be balanced with the long-standing desire by Danish governments for close relations with the core of the EU. The dominant Danish view is still that the EU is essential for Denmark for economic and political reasons even if little European mythology is expressed. So the general attempts to keep the UK as closely involved with the EU as possible will be balanced against concerns for keeping the EU as a

working political and economic structure in Europe. The Danish support for a close UK association with the EU if the UK leaves the EU is therefore likely to be clear but low profile – not unlike the Danish stance in the UK renegotiation process up until now.

Estonia: Practical questions for the Estonian EU Presidency.²⁶

For Estonia the withdrawal of the UK from the EU would have an immediate practical question in the form of the EU's rotating presidency. The UK is due to fill the EU Presidency in the second half of 2017. Estonia is supposed to be presiding over the EU just after the UK in the first half of 2018. Whatever happens with the presidency (if the UK retains it or another member state steps in), it may be that Estonia and Malta (who hold the presidency in the first half of 2017) will have to step in to informally lead on many issues. The Estonian government has so far avoided making any comment on what a Brexit would mean. A vote for Brexit means Estonia would find itself faced with some difficult questions which it will need to make its position clear on, not least because holding the EU's Presidency means it will need to lead on such matters. These will include whether it would agree to an EU-UK deal that allows the UK continued access to the Single Market, whether it would expect freedom of movement as part of some UK membership of the EEA, and whether (and how) the UK could be involved in EU cooperation on security matters relating to Russia.

Finland: Seeking good EU-UK relations, but the EU is the first priority.²⁷

Viewed from Helsinki, a Brexit would result in substantial economic and political costs which are difficult to quantify. The UK's traditional support for reducing intra-EU trade barriers and promoting free trade arrangements with third countries have made the UK a natural ally of Finland. Finland also values the UK's emphasis on pragmatic EU decision-making in Brussels. No gains for Finland or the EU have therefore been identified in the political and expert discussions in Finland about Brexit. A constructive and pragmatic approach towards Brexit negotiations would probably emerge in Helsinki. Avoiding disruption to social, trade and economic links more broadly will be a Finnish priority. Finnish positions would also reflect an assessment of the broader economic and political implications of a major member state leaving the EU. In this regard, Finland would most likely attempt to strike a balance between a good and well-functioning EU-UK relationship, and unity and cohesion among the remaining EU27. Finland has invested a lot politically and economically in the EU. This includes stabilization of the single currency of which Finland is a member, unlike the UK and other Nordic EU members. The EU is also seen to have positive (yet largely in-direct) security implications for Finland in an increasingly challenging security environment. Thus the viability of European integration will more than likely be the first priority for Finland in the event of UK exit.

France: Brexit or not, the EU shall not recede.²⁸

The Franco-British relationship within the EU is marred with difficulties and only rare glimpses of intense cooperation. Bilateral relations have been mostly defined outside the EU, as illustrated by recent agreements, such as the Touquet agreement in 2003 on the issue of migration and the Lancaster House treaties in 2010 on strategic affairs, both of which will likely survive a Brexit. France has become increasingly uninterested in the UK's role in the EU. When France thinks about the future of the EU, its focus is entirely on the Eurozone. Nevertheless, France does not support Brexit and would prefer the UK to remain. There is fear of contagion, and a boost for the Front National, although the idea of France voting to leave the EU remains one many consider remains far-fetched. France remains committed to seeing further integration, with further cooperation with Germany over defence seen as a possible way forward whatever the result of the UK referendum. It is very likely that France will take a hard line in exit negotiations. An area of particular attention for the French will be access to the single market, especially in the services sector. Some in France hope that a Brexit could lead to firms moving to Paris – instead of Frankfurt or other places in Europe.

Germany: Thinking less about the UK and EU-UK relations, and more about the EU as a whole.²⁹

Decision makers in Berlin know that a vote for Brexit would be yet another blow to an already fragile EU, and the risk of contagion is seen as a real danger. At this point in time there are discussions about the right balance between a signal towards a constructive

future engagement should the third largest member leave, and a signal that discourages others to push their luck with concessions in the months ahead. Germany will therefore respond to a possible Brexit vote in a way that communicates with the British government and people and to other EU members. As is the norm, Germany will turn first to France to discuss ideas about how to respond, albeit with some caution given there are limits to what further Franco-German led integration can achieve at this time. There is a risk that a Franco-German initiative would only contribute to more rifts within the rest of the Union. The German government is likely to push for the use of Article 50 to structure a withdrawal, so as to enforce this procedure in case in future another EU member embarks on a similar path.

Greece: Concerns about the unity of the EU and Eurozone.³⁰

Athens' worries that a Brexit will completely change the structures of the EU, with more countries either wanting to leave or being expelled from the EU or the Eurozone. Although the successful completion of the first review of the third Greek bailout in May 2016 ended renewed fears of a Grexit, a Brexit could open the 'Aeolus bag'. Greece played no active role in negotiations between the EU and the UK that led to the compromise and renegotiation of February 2016. The country is not expected to significantly influence any exit negotiations after 23 June. Its main priority would be to push for guarantees that Greek nationals in a non-EU UK are not disadvantaged. Meanwhile Greece will continue with painful reforms to show it is committed to the Eurozone and ever closer union.

Hungary: Seeking a quick exit deal.³¹

Hungary, along with the other Visegrad 4 countries (Poland, Slovakia, and the Czech Republic) were strong opponents of the UK's renegotiation demands to limit the free movement of labour, and cut in-work and out-of-work benefits for EU migrants. Any further limitations as part of a new UK-EU relationship would face strong resistance. Hungary's primary aim would be to ensure that the Hungarian community in the UK would not be further discriminated and future job seekers would enjoy the same conditions as far as possible. If an EEA model for UK-EU relations were negotiated then Hungary could be expected to insist that free movement of people and contributions to the EU budget should be part of the deal. Hungary's main export markets are Germany and Austria, with the UK standing at 9th place with 3.6% of total exports. Nevertheless, Hungary would support arrangements that guarantee current trade and a stable monetary environment across the EU.

Ireland: An exercise in damage limitation.³²

Ireland would have more at stake in Brexit negotiations than any other Member State. For Ireland, there are inherent negatives, of varying severity, in every conceivable Brexit scenario, be it on the basis of EEA, EFTA, or a UK-specific free trade arrangement. A protracted negotiation, and a UK outside the EU's customs union, common commercial policy and/or single market would leave Ireland facing severe disruption to investment and trade, and the return of a customs regime between Ireland and Northern Ireland with potential knock-on effects for the fragile Northern Irish peace settlement. The ideal for

Ireland would naturally be an agreement that preserves critical aspects of today's mutually beneficial relationship, mainly the common travel area and limiting disruption to the €1 billion weekly trade flows across the Irish Sea (especially in agri-food business). There is, in general, significant overlap between Irish and British policy priorities, and if this were a bilateral negotiation it would be a short and amicable one. In a European Council setting, however, 26 other Member States would have to be accounted for. In such a situation it is deeply uncertain whether Irish interests could be protected against the disruptive impact of a Brexit.

Italy: Supports EU Integration with or without the UK.³³

For Rome, a Brexit might hamper an already fragile European political and economic stability. Yet, since there is little that can be done to block such an eventuality, Italian input to a potential UK-EU negotiation would be based on Italian national interests to maintain good relations with the UK while also boosting European integration. Indeed, any potential European institutional crisis caused by a British exit could be advantageous for Italy as it might allow a much-needed set of political and economic reforms to revamp the process of EU integration. Italy is the UK's seventh largest supplier and trade relations between the two have been extremely positive, with Italian exports increasing by 7.6% in 2015. Yet, Italy will not overlook how the UK is also interested in maintaining positive economic relations with the single market. In this situation, Italy might ask to trade British access to the single market with concessions from the UK in the fields of security and migration.

Latvia: Safeguarding the EU project.³⁴

Latvia considers the UK to be one of its most important security guarantors and would therefore be worried – especially vis-à-vis Russia - about the loss of one of the EU’s major foreign, security and defence players. Free movement is among the most popular advantages of the EU in Latvia, and there is a fear that Brexit might result in considerable limitations to this. The same applies to the economic benefits for intra-European trade, although the UK is not among Latvia’s main trading partners. There is considerable fear that Brexit might trigger a domino effect in other Eurosceptic countries. This reflects back on the Latvian security perception, with Latvia seeing EU membership (in addition to NATO) as a crucial security guarantee against potential Russian aggression. Latvia would therefore not oppose a role for the UK in the EU on some individual matters of mutual concern for both the EU and UK. However, the Latvian government insists that any changes to the current structures of cooperation should be done in accordance with EU legislation and should be based on mutual interests and ways that safeguard the EU project.

Lithuania: Brexit could have a hazardous impact on “ever closer union”.³⁵

Although the question of the UK’s EU membership is very sensitive, it has not been widely discussed in Lithuania. It is, however, clear that despite criticism of the UK’s EU renegotiation, Lithuania supports keeping the UK in the EU. The UK’s membership of the EU is of a great importance for Lithuania. Both countries have long-standing economic ties. Furthermore, with more than 100,000

Lithuanian citizens living in Britain the country remains among the top emigration destinations for Lithuanians. Their rights and standing in a non-EU UK would be a central concern for Lithuania. Lithuania also views Brexit in terms of the dividing lines that have opened up across the EU because of the migration crisis, the terrorist attacks in Brussels and Paris, and ongoing problems in the Eurozone. The likelihood of the necessary cohesion being found amongst the EU would be thrown into doubt by a Brexit, a development Lithuania would not welcome.

Luxembourg: Protecting European Integration and Financial Services.³⁶

Luxembourg’s foreign policy is based on multilateral international cooperation. If the EU becomes weaker internally and as a global player, Luxembourg becomes weaker too. The Luxembourg government is therefore concerned on almost all fronts with the implications of a UK withdrawal from the EU (except perhaps immigration). The most sensitive issue is financial services. It would be worrying for Luxembourg if the UK were to establish more competitive/less regulated rules in financial services. On financial services, especially the fund industry, Luxembourg would expect the UK to show equivalence of the rules and potentially accept a certain degree of regulatory cooperation to be able to continue trading. Luxembourg has an important bargaining chip here: it can insist on the UK respecting the EU’s *acquis* and financial regulations, or else threaten with lobbying the EU and the Commission that all euro transactions be settled within a euro zone country. Luxembourg could be rather accommodating on most other fronts if the UK wanted the maximum option of free

trade. It would try to work out the most comprehensive trade deal with the UK, but would insist on the UK respecting the *acquis*. EEA membership would possibly be the preferred option.

Malta: One of the Countries Likely to be most affected by Brexit.³⁷

A Fitch Report of May 2016 named Malta as one of a group of EU member states which are most likely to be negatively affected by Brexit because their exports of goods and services to the UK are at least 8% of GDP. Any volatility in the value of Sterling could hit Malta hard, in part because of the impact it would have on the tourist industry (the UK being Malta's single largest source of tourists) and because of the impact it could have on the value of Maltese investments in the UK. A British exit would also make it easier for others in the EU to push for tax harmonisation, something Malta has been able to resist thanks in large part to UK opposition. There are also worries that Malta's derogation from the EU's VAT Directive would be exposed by the loss of the UK, which has a similar derogation. Concerns also revolve around Maltese students in the UK and reciprocal health care arrangements.

Netherlands: Helpful, but no blank check.³⁸

The Netherlands is concerned about the implications of Brexit for economic and political reasons. Not only does the UK run a trade deficit with the Netherlands, but a great deal of UK trade with the EU transits through the Netherlands. Taken together this suggests that The Hague would be interested in offering the UK access to the single market. But this would not be a blank check. The Dutch government would likely demand

Britain pay in to the EU budget in return for market access. Access for the UK service market is also not guaranteed, in part because the Netherlands might try to gain from the UK's departure from the EU's single market in services. Any UK desires for restrictions on freedom of movement would be viewed with some sympathy due to Dutch public unease. Politically, the Dutch government has favoured British EU membership to help check statist or protectionist tendencies in the EU. Ultimately, Brexit would cause EU countries to reposition themselves, and with Britain's withdrawal the Netherlands would start to lean more towards Germany. Berlin, more than London, would shape how the Dutch approach the withdrawal talks.

Poland: Going the extra mile for Britain but not at all costs.³⁹

The current Polish government sees London – rather than Berlin or Paris – as its key ally in the EU. 'Brexit' would therefore be a blow to the government's vision for Europe and its need for friends to defend it in Brussels from criticism of controversial domestic reforms. The Polish government would likely go the extra mile to help a British prime minister negotiate a good deal on its future relations with the EU. The government may seek favours from the UK government in return, not least in terms of NATO commitments in Eastern Europe. Poland also has an economic interest in keeping Britain in the EU's single market, Britain being the second largest importer of Polish goods and services. But Britain should not expect a free ride from Warsaw either. If the UK joins the EEA then Warsaw is likely to push for London to continue paying into the EU's budget in a similar way as Norway does. Poland sees free movement as one of the EU's major successes, and would be reluctant to compromise on

this principle if 'post-Brexit' Britain wanted full access to the common market. This is not least because of the estimated 850,000 Poles in the UK. Warsaw would attempt to mitigate any legal uncertainty for its citizens, and would urge other EU member-states to make the protection of rights of EU citizens living in the UK a priority in the withdrawal negotiations.

Portugal: Balancing a centuries-old alliance with a modern commitment to the EU.⁴⁰

While Portugal has followed a more integrationist path than its oldest ally (with Portugal also the UK's oldest ally) within the EU (embracing both its economic and political dimensions), the two countries share an open and outward-looking attitude. Among Portuguese elites, the UK has often been perceived as key to balancing more continental views and so nurture wider relations across the globe. Despite this, the two countries retain strong economic and demographic links. The UK is one of Portugal's top trading partners, and both are home to large numbers of each others nationals. A recent study identified Portugal as one of the EU member states that would be more exposed in such a scenario. Beyond the possible disruption in economic and social relations, as a net recipient from the EU budget Portugal could suffer from the withdrawal of an important net contributor. Lisbon would also lose a counterweight to balance other European powers and an important partner to promote more liberal and Atlanticist initiatives internationally. Lisbon is therefore likely to adopt a broadly positive and facilitating stance in any exit negotiations with a view to UK membership of the EEA and continued cooperation in

foreign, security and defence matters. At the same time, Lisbon would be reluctant to grant the UK any special privileges, particularly out of fear of feeding greater Euroscepticism and disintegration dynamics in Europe. While Eurosceptic political forces in Portugal remain marginal, the Troika years have produced a more attentive and critical public opinion towards the EU.

Romania: Continued free movement to the UK will be the ultimate redline.⁴¹

Bucharest is very alert to the fact that the consequences of the overlapping economic crisis, migrant flows and protracted conflicts in Europe's Eastern neighbourhood may pave the way for a more inward looking political transformation of the EU. It is this situation - and especially that surrounding migration- that will frame how Romania views a UK vote to withdraw from the EU. So far, official Romanian positions have been limited to supporting Britain's continued EU membership, while conditions envisaged by Bucharest would focus on certain provisions regarding the rights of EU nationals in the UK. From a Romanian perspective, it is very worrying that calls for restrictions of fundamental EU rights have become a core part of the Brexit debate, largely through the discourse of mainstream parties. The conflation of migrants from the Middle East and EU citizens moving inside the EU concerns Romania. Continued free-movement for Romanian citizens as part of some new UK-EU relationship that sees the UK remain in the EEA will be something Romania will push hard for. The Romanian government will also be alert to the potential impact of Brexit on the transatlantic relationship, NATO and sanctions against Russia, with a concern that Britain's departure will weaken EU resolve on relations with Russia.

Slovakia: Quiet anticipation at the helm of the EU Council.⁴²

Slovakia's immediate concerns on Brexit are about the consequences for the Slovak EU Council Presidency that commences on 1 July 2016 and ends on 31 December. Brexit is the one known variable that could seriously derail intra-EU communication, agenda-setting and the overall political calendar. While Slovakia's six-months rotating Council Presidency will inherit most legal dossiers from the current Dutch Presidency, a UK decision to leave the EU would sideline discussion on many issues. Agreement on the EU's forthcoming budget, for example, could be significantly disrupted. Existing divisions on a range of policy questions are unlikely to disappear among an EU of 27 countries. Brexit would be another variable for Slovakia's juggling act in crisis management while chairing the Council.

Slovenia: Hoping for a remain vote.⁴³

Slovenia runs a trade surplus with the UK, and is therefore worried about the economic implications. As a small and open economy, Slovenia would be relatively more exposed than others. Politically, Slovenia has been sympathetic to UK concerns about the EU. The UK's renegotiation was not viewed as creating additional political blockades to further economic and political union. There was even some support in Slovenia for strengthening the powers of national parliaments. A Brexit, on the other hand, could have more significant implications. The Slovene government worries the perceived strength of the EU will be called into question. The negative consequences of the political crises the EU has faced during the past few years are already showing in the loss of the

attractiveness of the EU in the Western Balkans. The credibility of the EU is essential for stability and development of this region that is strategically important for Slovenia, not least from an economic perspective. Due to its relatively small size and asymmetric relationship with the UK and other large EU powers, in the process of resetting EU-UK relations Slovenia would be in a weak position. It would be shaped by the positions of the UK and other large member states. However, negative public opinion of the UK in Slovenia would strengthen. This would put the Slovene government in an unfavourable position towards granting concessions to the UK.

Spain: Brexit will be seen through domestic politics.⁴⁴

Although a slow and fragile economic recovery seems to be gaining pace, political uncertainty – and an election on 26 June – means Spain's attention is on domestic matters and not the UK. That said, Spanish concerns revolve first around that of Spanish citizens living in the UK and the position of British citizens living in Spain, a group that is understandably more concerned about the referendum than the Spanish population. If Britain leaves, then Britons resident in Spain may not be able to presume that their rights are guaranteed anymore under the same conditions as when the UK was in the EU. The main economic concern also focuses on the issue of Britons in Spain in the form of British tourists who pay more than fifteen million visits a year. In terms of EU integration, Spain will never defend a 'less Europe' strategy for itself, but if Brexit becomes a reality any Spanish government, whatever its political make-up, will have to defend Spaniards' economic and migration interests in a way that considers a range of options.

Sweden: Prioritising geopolitics and cultural proximity with the UK.⁴⁵

Sweden is one of the member states with most to lose from a Brexit. Sweden and the UK tend to agree on issues such as free trade, the further development of the internal market and modernization of the EU budget; they have a large economic relationship; and cooperate as non-Eurozone members of the EU; and work together in the EU on common security concerns. All might be jeopardised by Brexit, with Sweden and other non-Eurozone members left exposed by the loss of a large non-Eurozone member. The Swedish government will therefore play a constructive role in Brexit negotiations, with fear of geopolitical turbulence and perceived cultural proximity likely trumping any fears of Brexit damaging the EU.

EU institutions: EU first and looking forward.⁴⁶

Much of the EU institution's attention after a vote for Brexit would turn to dealing with negotiating a Brexit while also ensuring the Union does not break-up thanks to the range of pressures it faces. The first thing the EU Council would do when it meets the week following the referendum would be to provide some general guidelines for moving forward with the UK and mandating the European Commission to conduct negotiations following those terms. The Commission would proceed as requested but would not hesitate to use its central negotiating role to shape the process. The European Commission is likely to uphold its role of promoter of the general interest of the Union by taking the steps it thinks will keep the rest of the EU together. The Parliament will seek to ensure its voice is heard throughout negotiations, an important consideration given it will have to approve any eventual deal between the EU and a departing UK. There would be questions to answer over the role of British MEPs and the future of British nationals working for EU institutions. The Parliament is likely to look for opportunities to help push forward integration in a new way following a Brexit. Its own internal evolution would facilitate such an attitude, with the loss of British MEPs weakening Eurosceptic voices and supporters of intergovernmentalism in the parliament. Attempts to push forward integration, however, could run into opposition from member states. Whatever proposal is put forward risks creating new tensions and divisions within the EU. The leeway would therefore be minimal, but in front of a chaotic existential crisis, the status quo will not be an option for the EU.

CONCLUSION

A British exit from the EU would lead to a series of nine overlapping negotiations in which will be played out the competing interests (such as economic links between the UK and EU) and ideas (such as 'ever closer union') of political actors in the UK, the twenty seven remaining EU member states, the EU's institutions, and international partners such as the USA. On its own such a development would significantly test the EU, but be one the EU would likely muddle through in the face of as it has so far done with crises in the Eurozone and Schengen.

If, however, a Brexit aligned with another major problem facing the EU such as a fresh crisis in the Eurozone or Schengen, then Brexit negotiations could easily be defined by a collapse in trust between Britain and the EU, an uncertain political situation within Britain, and heightened tensions within the remaining EU member states and institutions as they struggle to maintain solidarity in the face of several crises aligning.⁴⁷ This could create the biggest test the EU has faced to date.

While it is important not to overlook such a development and take a myopic view of European integration, it is worth recalling that the EU has a long history of integrating through facing crises. A Brexit could therefore drive forward integration rather than unravel it. Rid of an often awkward partner and confronted with the need to stop muddling through and overcome a series of crises aligning at once, the EU could find it moves towards a solution that brings a degree of enhanced unity that creates a more stable EU. ■

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- 44 Original view written by Laia Mestres, Institut Barcelona d'Estudis Internacionals. <http://blogs.lse.ac.uk/brexitvote/2016/04/21/preparations-for-a-brexit-views-from-denmark-italy-the-netherlands-slovenia-and-spain/>
- 45 Original view written by Björn Fägersten Swedish Institute of International Affairs. <http://blogs.lse.ac.uk/brexitvote/2016/06/14/preparations-for-a-brexit-v-views-from-belgium-hungary-latvia-slovakia-and-sweden/>
- 46 Original view written by Dr Yann-Sven Rittelmeyer, European Policy Centre, Brussels. <http://blogs.lse.ac.uk/brexitvote/2016/04/13/preparations-for-a-brexit-the-eu-will-shape-what-happens-after-a-vote-to-withdraw/>
- 47 For a more detailed analysis of Brexit that goes wrong see Brown, Stuart A. and Dhingra, Swati and Oliver, Tim (2016) *The Brexit scenarios: towards a new UK-EU relationship*, Documents CIDOB (New era), Morillas, Pol, ed 7. Barcelona Centre for International Affairs, Barcelona, Spain. http://www.cidob.org/en/publications/publication_series/documents_cidob_new_era/the_brexit_scenarios_towards_a_new_uk_eu_relationship

BREXIT: WHAT HAPPENS NEXT?



TIM OLIVER

For general enquiries:
Email: ideas@lse.ac.uk
Phone: +44 (0)20 7849 4918

LSE IDEAS

Houghton Street
9th floor, Towers 1 & 3
Clement's Inn
London, WC2A 2AZ

A British withdrawal from the EU would be a process not an event. This Strategic Update sets out the nine overlapping series of negotiations that would be triggered and the positions the 27 remaining EU countries and the EU's institutions would take, gathered from a network of researchers across the continent.

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