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Germany on Brexit: the dispute over a two-speed Europe is back

Kamil Frymark, Konrad Popławski

Brexit has triggered a significant dispute inside the government coalition in Germany over the policy they should adopt in the EU. The Social Democrats, motivated by the needs of the campaign in the run up to next year's election to the Bundestag want to build a 'hard core' and to enhance EU integration in the areas of security, migration policy and currency union. However, the person who will have the biggest say will be Chancellor Angela Merkel, and she wants the EU to stand united in negotiations on future co-operation with the United Kingdom, and also has adopted a wait-and-see stance until the new British government launches the procedure for leaving the EU under Article 50 of the Treaty on European Union. Merkel will most likely aim for Britain to be presented tough conditions, worse than the ones they have as an EU member state. At the same time, she will make efforts to maintain strong economic bonds between the United Kingdom and the EU in order to reduce the losses the German economy may sustain due to its strong links with Britain.

Divides inside the federal government

Politicians from the SPD reacted very quickly to the outcome of the referendum in the United Kingdom, putting forward a plan for reforming the EU and enhancing integration. In turn, Chancellor Angela Merkel has taken a wait-and-see stance until the British government launches the process of leaving the EU.

The SPD's pro-active stance in European policy is aimed at strengthening its otherwise weak position on the domestic political scene, and it wants to use the crisis provoked by Brexit in its campaign ahead of the parliamentary election in 2017. The Social Democrats, whose support levels are their lowest since 1990 (around 20%) treat foreign policy as one of those few areas in which they clearly differ from the Christian Democrats. The two parties have different stances on issues such as sanctions on Russia and intensifying NATO's engagement on its Eastern flank. The SPD's goals run parallel to the interests of French Socialists, who are making preparations for the presidential election in France in 2017, and also with those of some politicians in Brussels who view Brexit as an opportunity to enhance integration inside the EU. From the Central European point of view, one dangerous element of these proposals is that the debate on the future of the European Union could be locked into the narrow circle of the founding member states, possibly extending to the other eurozone member states. One of the main points of the proposals is the introduction of the compulsory distribution of migrants among member states, something Central European states will not accept.

Chancellor Merkel's goals are completely different. Following numerous unsuccessful attempts to conduct thorough reforms in the eurozone, she is far from convinced there is a need to make great leap towards deeper integration, preferring the method of small steps and intergovernmental agreements to new treaties. From the point of view of the Chancellor's Office, Southern European states which might support the concept of enhancing integration do not seem to be convenient partners for Germany since they expect financial transfers from it, due to the still unstable budget situation. Building a European 'hard core' might cut Germany off from such rapidly developing regions as Central Europe, Scandinavia and the United Kingdom which have strong links with the German economy and which support the model of the EU as a free market.

Reactions in Germany

The outcome of the British referendum has been interpreted in various ways in the German press (as a manifestation of constructive criticism, a symbol of opposition to the elites and the triumph of populism). However, the predominant opinion is that it is symptomatic of a crisis inside the EU and that it is important to keep the EU united in the face of that crisis. There is a clear expectation that Germany will play the role of a leader in overcoming the crisis, manifesting more empathy to the United Kingdom and the other EU member states.

All factions in the Bundestag have appealed for changes in the EU, but they differ as to the direction in which they should go. On the one hand, Christian Democrat politicians are insisting on putting an end to Brussels' 'centralism' and on conducting reforms to stimulate economic growth. On the other hand, left-wing parties and the Greens want the prerogatives of the European Parliament to be reinforced and for citizens' social rights to be strengthened. Disillusionment with the decision of the British people and concern that a Europe of 'national states' might return are predominant among German politicians, regardless of the party they belong to (for example, Volker Kauder from the CDU and Dietmar Bartsch from the Left Party). However, polls reveal that there is a high level of support for the EU among Germans (82% of them want to remain in the EU, Forsa Institute, 27 June).

The debate on the future of the EU sparked by the British referendum and the campaign ahead of the election to the Bundestag scheduled for autumn 2017 will be beneficial to the Alternative for Germany (AfD), which is currently polling 11–14% support levels. The party interprets the outcome of the referendum as proof of the soundness of its Eurosceptic rhetoric to date. It is demanding radical reforms in the EU that would be aimed only at reinforcing the economic aspect of integration. However, the AfD has failed to develop a coherent stance on the future of Germany in the EU, and some of its members have suggested they will appeal for Germany to leave the EU (however, initiating a nationwide referendum would require amending the constitution).

Scenarios for further moves by Germany

At present, it is possible to imagine three main courses of actions which Germany may take. The implementation of these scenarios will depend on the economic situation in the EU, sentiments in the most Eurosceptic states and the stance the government in London takes. The Treaty on European Union (TEU) provides that a member state can leave the EU. In this situation, the country must notify the European Council of its intention to leave under Article 50 of the TEU. This is followed by two years of negotiations on future relations (this may be extended if the remaining EU member states agree to extend the negotiations). If the negotiations are unsuccessful, all legal regulations existing so far between the EU and the member state cease to be binding.

This means that when the new British government decides to formally launch the procedure of leaving the EU, it will only have two years to settle the conditions of co-operation with the EU. Chancellor Merkel is likely do adopt a tough but constructive stance on London and will make efforts to conclude an association agreement that would alleviate the economic losses sustained by Germany, which has strong trade and financial links with the United Kingdom. Merkel will also have to face the challenge of limiting the risk of any further decomposition of the EU by proposing reforms of the European Union that would not lead to further divides. Merkel would also like to avoid any major changes in the EU treaties, and to instead suggest only symbolic amendments, for example, by increasing the funds to be granted under the Juncker Plan as aid to the EU's weakest economies, enhancing co-operation in the area of internal and military security, and also (limited) economic reforms. This would allow Berlin to maintain control over the process of bringing the currency union to a healthy condition so that it does not become a transfer union financed by Germany. Merkel, who has to face opposition from the largest eurozone member states and Germany's Social Democrats, would need to be supported in these moves by countries which represent a stronger free market approach, for example, those from Central Europe.

If the United Kingdom were finally to remain in the EU – and this cannot be ruled out, taking into account, for example, statements from some British politicians – this will not only require a conciliatory stance from the new British government but will also mean that Chancellor Merkel will have to convince her partners in the EU to meet London's demands halfway, at least to a limited extent (for example, reducing migration to the United Kingdom). A clear will to remain in the EU would also have to be demonstrated by the British public as a result of a new parliamentary election or a second referendum on leaving the EU.

Merkel could then agree to apply Article 48 of the Treaty on European Union and to renegotiate the EU treaties. Doubtless, Britain would have to pay for such a solution, for example, by giving up the UK rebate and paying higher contributions to the EU. Otherwise it would mean that it had been granted better co-operation conditions as a consequence of the referendum, which might be used as an argument by Eurosceptic groupings in other countries. Merkel might accept these moves, having concluded that the United Kingdom has already paid a sufficient price and that the community will become too weak in the case of Brexit. This scenario would minimise the risk of financial crisis in a eurozone slowly recovering from economic losses.

However, it cannot be ruled out that the political and economic crisis in the EU will significantly deteriorate, thus posing the risk of its gradual decomposition. If this is the case, Brussels and the European Social Democrats from France, Germany and Italy may dictate their own narrative, claiming that the political crisis in the EU and Brexit are the consequence of insufficient integration of its member states and also its eastward expansion. However, this would mean undermining Merkel's political leadership in the EU since she would then be blamed for failing to devise a concept for a more thorough reform of the EU and for plunging Southern Europe into an economic crisis by pushing through the austerity policy. In this scenario, the plan developed by Steinmeier and Ayrault might become a reference point in the process of enhancing integration mainly among the eurozone member states. Germany would most likely have to finance it more heavily under the plan, for example, by creating a separate eurozone budget. The German public would have to be persuaded to accept moves of this kind by use of the argument that this is the only way to prevent the disintegration of the EU.