

Preparations for a Brexit III: views from Bulgaria, Cyprus, Luxembourg, Poland, and Portugal

*If Britain votes to leave the EU it will have to negotiate its exit and a new post-withdrawal relationship with the EU, one that will have to be agreed by the remaining 27 EU member states and the European Parliament. What positions might they take in the negotiations? Over the next few weeks the LSE's BrexitVote blog will be running a series of overviews from each member state and the European Parliament setting out what positions they might take. Written by authors based at universities and research institutions across Europe, and compiled by the LSE's **Tim Oliver**, the overviews build on an **introductory piece** in which he set out the various negotiations the EU will undertake in the event of a British exit. This post is the third in the series and gives views from Bulgaria, Cyprus, Luxembourg, Poland and Portugal.*



European Court of Auditors

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

After almost 10 years of EU membership Bulgaria continues to keep a low profile on EU issues and policy making. In Politico's **recent ranking** of Europe's leaders and ambassadors (including the 28 Member States and 5 candidate countries) effectiveness and influence, Bulgaria was ranked 28. Only Luxembourg and Croatia were given a lower ranking.

In the run up to the February EU-UK deal Bulgaria **was not expected** and didn't deliver any strong showings, not even on the potential implications of measures intended to curb social benefit payments for EU migrants in the UK – the hot issue for all Central-Eastern Europeans. Leadership by Poland's Beata Szydlo, Chechia's Bohuslav Sobotka and the four Visegrad countries in general, as well as some coordination with them, meant Bulgaria did not open a front on its own in the difficult negotiations prior to and during the February European Council.

Should British citizens vote to leave the EU on June 23 and the British government trigger the procedure under Article 50 of the Lisbon Treaty on negotiating UK's withdrawal, Bulgaria cannot be expected to come up with any red lines on its own. Instead it will share many other countries'

political concerns about an eventual domino effect of withdrawal referenda elsewhere and a serious weakening of the EU.

Regardless of UK official assurances that the referendum will have no impact on the UK's EU Presidency of July-December 2017, there will be no doubt some impact on the presidencies that follow, including that of Bulgaria who in July-December 2018 will take over the presidency from Estonia (January-June 2018).

With regard to the general framework for future EU-UK relations, Bulgaria can be expected to align its stance with the big and powerful players, foremost Germany. With regard to specific Central-East European concerns it would probably continue coordination with Eastern partners.

Cooperation in security and defence issues, quite central for UK-Bulgarian relations, is organised rather on a bilateral track. From the Bulgarian point of view NATO will continue to provide a framework for strong UK involvement, but would certainly not be enough to compensate for the UK's role in the shaping of a common European foreign and security policy, nor the UK's leverage with regard to the much aspired role for the EU as a global player.

In terms of trade, the UK ranks 12th on the list of Bulgaria's export destinations and 17th on the list of Bulgaria's import partners. In 2011 Bulgaria achieved for the first time since 2000 a trade surplus in its relations with the UK, but given the relative small scale of trade an eventual British withdrawal from the single market cannot be expected to cause a major economic shock. However, even if the number of Bulgarian workers in the UK is rather low in comparison to other Central-East European countries (the UK Office for National Statistics estimates that 65,000 Bulgarian-born immigrants were resident in the UK in 2014 – compared to 170 000 Romanian-born and 790 000 Polish-born), Bulgaria would be interested in keeping the UK as part of the Single Market with its freedom of movement. Furthermore, 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.

Continued UK membership remains the preferred scenario for Bulgaria. To conclude on a playful note, as Minister of Foreign Affairs Mitov at a discussion on "The Future of the United Kingdom in the EU" on 9 February 2016 in Sofia: "A European Union without the UK would be like the UEFA European Championship without England's national team and Wayne Rooney's goals."

Antoinette Primatarova is Director of the European program of the Center for Liberal Strategies in Sofia, Bulgaria.

CYPRUS: A sensitive approach

The Republic of Cyprus's long-standing pro-European stance means that the Government, as a matter of principle, does not favour any development (such as the withdrawal of a member state) that might entail the weakening of the EU.

Though on the one hand, one might expect pro-European states such as Cyprus to opt for harsh terms on those deciding to leave the EU, so that a favourable precedent is not created for states potentially wanting to exit in the future, in the case of a UK exit the Government of Cyprus will likely be more sensitive and flexible. Given the special relationship between Cyprus (a former British colony and member of the Commonwealth) and the UK, the Government will definitely 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 number of Cypriot nationals living in the UK (and vice versa) is significantly high. As a result, Cyprus will want to see the UK remain within a European free trading area that also includes free movement of people, so that

existing ties that have been further strengthened after Cyprus's EU entry, will not be jeopardised in any way. Such an arrangement will secure that Britons and Cypriots will be able to move freely between the two countries while also the provision of financial, commercial and other services will continue to develop seamlessly. Furthermore, a smooth exit will guarantee, at least to some extent, the stability of the exchange rate (Euro-Sterling), a vital variable in maintaining the high level of economic transactions taking place between the two countries.

At a political level, the 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.

Dr Adonis Pegasiou is an adjunct lecturer at the University of Cyprus.

LUXEMBOURG: Protecting European Integration and Financial Services

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. Luxembourg would insist that the UK would keep most of the EU acquis in order to maintain the free access to the single market for its goods and 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 accepting a certain degree of regulatory cooperation to be able to continue trading.

A Brexit would open the door to great uncertainty about **how cross border investments could continue with the EU**. "A Brexit would potentially mean that the right to distribute and sell financial products in the European Union for firms regulated in the U.K. – so-called passporting – would be lost. The EU may enact legislation to force all euro transactions, including derivatives, to be settled in a euro zone country where the European Central Bank has daily monitoring powers. An ECB attempt to impose this was rebuffed by the European Court of Justice [in 2015], but it's possible the European Commission would be more sympathetic if Britain were to leave. Some of the City of London's finance specialist jobs would move to the U.S., **while others might relocate to European capitals**." Luxembourg is a strong contender, along with Ireland and Frankfurt. This might become an opportunity to strengthen its position in asset management. Clearly, Luxembourg has an important bargaining chip here: it can insist on the UK respecting the acquis and EU financial regulations, or else threaten with lobbying the rEU and the Commission that all euro transactions be settled within a euro zone country.

Luxembourg governments are almost instinctively pro-integration and pro-free trade due to the small size of the country. The current government is very concerned about the possible ripple effects of a UK withdrawal from the EU, and sees the EU endangered on many fronts, with the euro crisis, the Schengen crisis and the migration crisis. Damage limitation and adaptation are therefore the key words. The government has realised that there are countries who do not want to proceed with EU integration and is willing to accommodate those within the EU framework. However, talks have been held in parallel on a "core EU". Luxembourg participated in the meeting with Belgium, the Netherlands, Germany and Austria to have exploratory talks on a mini-Schengen in **November 2015**. In February 2016, the foreign ministers of the founding six member states came together to discuss the **current and future state of the EU**.

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 respecting the acquis. EEA membership would possibly be the preferred option.

Currently, 6000 UK citizens live and work in Luxembourg. It is highly doubtful that visas would be required for them. However, and especially if the UK were to be difficult on reaching agreement with the EU over movement of people, UK citizens could find themselves treated as third country nationals and be subjected to the same procedures to get a residence permit and a work permit. The “preference rule” would not apply to UK citizens anymore, and employers would first have to demonstrate that no EU citizen could be found to do that job. This is a significant disadvantage for UK citizens, as their competition from French, Belgian and German commuters would be stiff. That said, financial service regulations would probably be the most important issue for Luxembourg. If the proposal on the table were unsatisfactory for the government, it would probably draw a red line over this issue.

Dr. Martine Huberty, IASGP Coordinator, ECFR Associate Researcher

POLAND: Going the extra mile for Britain but not at all costs

The Polish government, formed by the Law and Justice party following a landslide electoral victory last autumn, sees London – rather than Berlin or Paris – as its key ally in the European Union. This does not come as a surprise: Law and Justice and the Tories belong to the same political group in the European Parliament: the European Conservatives and Reformists. Just like the British government, the new Polish leadership wants the EU to focus on completing the single market rather than on transforming European integration into a fully-fledged political union.

A Brexit would be a blow to the Polish government and its vision for Europe. The Law and Justice party needs friends who would defend its domestic **reforms** in Brussels. It pushed through legislative changes, among other things, to media law and picked fights with the Constitutional Court; Brussels has worried that this could weaken democratic checks and balances and opened a rule of law procedure against Poland. When in March 2016 the European Parliament's President, Martin Schulz lectured the Polish prime minister on the rule of law at the European Council meeting, it was reportedly Britain's David Cameron and Hungary's Viktor Orbán who stood up against Schulz' intervention.

The Polish government would likely go the extra mile to help the British prime minister negotiate a good deal on its future relations with the EU. The Law and Justice party may also think that if it offers the UK a helping hand in the withdrawal negotiations, ‘post-Brexit’ Britain would subsequently return the favour. Warsaw has repetitively called for the permanent presence of NATO troops in Central Europe; would a ‘post-Brexit’ UK be willing to support these calls? But Poland also has an economic interest to keep Britain in the EU's single market. In 2015 Polish exports to Britain amounted to around EUR 12 billion, making Britain the second largest importer of Polish goods and services. A Brexit would put it at risk.

But Britain should not expect a free ride from Warsaw either. Poland is the largest beneficiary of EU funds whereas Britain pays more to the EU budget than it gets back. Were Britain to leave the EU, other net contributors could be reluctant to share among themselves the amount that Britain puts today into EU's purse. The Polish government would most likely expect Britain to carry on with payments into the EU budget, albeit perhaps at lower levels, in return for the access to single market.

But the single market is not only composed of free movement of goods, capital or services but also of free movement of workers. Unlike Britain, Poland sees the latter 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. Poles make up the largest group of EU nationals living in the UK, with estimates surpassing 853,000 people. Some of them, those who have been in Britain for five years or more, would be eligible to apply for permanent residence if they wished to stay in ‘post-Brexit’ Britain. It is unclear, however, what would happen with the rest of the Polish citizens or their families should they want to come to the UK too. Warsaw would surely attempt to mitigate this 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. Here,

the EU-27 would hold strong cards: around 1.2 million British citizens live elsewhere in Europe. Britain would struggle to obtain any legal protection for them if it did not offer the same for EU citizens residing in the UK.

Agata Gostyńska-Jakubowska is a Research fellow at the Centre for European Reform, London.

PORTUGAL: balancing a centuries-old alliance with a modern commitment to the EU

As politicians and diplomats like to point out, for more than six centuries Portugal and Britain have been allies and have more recently been close partners within the EU. It was after the UK first applied to be a member of the European Communities in the 1960s that Portugal decided to tone-down a bit of its historical Atlanticism and start moving closer to Europe. While Portugal has followed a more integrationist path than its old 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.

The economic and social ties between the two countries have been significant over the years. The UK is one of Portugal's top trading partners, accounting for around 8% of its total exports (equivalent to 2.6% of GDP in 2013) and although Portuguese investments in the UK are small, more than 2,600 Portuguese companies operate in the country. Moreover, financial links between the two countries have traditionally been important. In recent years, the UK has even become the main destination of Portugal's large emigration flows, with estimates pointing to between 120,000 and 350,000 Portuguese living currently in the country. In turn, around 2 million British nationals visit Portugal every year and more than 70,000 British citizens have their principal or secondary residences in Portugal.

While a British exit could potentially favour greater EU (economic, social, political) integration and external coherence in line with Portuguese preferences, it would also entail significant costs and risks for the Iberian country. 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. More generally, Portugal would be affected by the damage that Brexit would do to the standing and prestige of the EU globally.

Although this is highly speculative, in the context of a UK-EU exit negotiation Lisbon is likely to adopt a broadly positive and facilitating stance. Portugal would most probably push for close ties between the remaining 27 and the UK, namely allowing British access to the single market and freedom of movement to continue. In fact, economic and social aspects were key issues for Lisbon during the renegotiation of Britain's membership of the EU, with freedom of movement of people and non discrimination presented as questions of principle. In that sense, Portugal would possibly want to see minimal disruption for those areas and so push for a European Economic Area (EEA) style of arrangement with the UK. Moreover, Portugal would most likely seek substantial British involvement in the foreign and security policy of the EU, while continuing to emphasize the importance of a good relationship between the Union and NATO.

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 have remained marginal, the Troika years have produced a more attentive and critical public opinion towards the EU. Moreover, there were some signs of irritation in the national media directed both at London and Brussels, in view of the "special status" granted to the UK earlier this year. Finally, it should be emphasised that a negotiation under the current Portuguese centre-left minority government (supported in Parliament by smaller parties on its left) would probably lead to a more vocal stance than usual on any social issues.

Dr António Raimundo is a postdoctoral researcher at the University of Minho and an Assistant Professor at ISCTE-University Institute of Lisbon.

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Dr Tim Oliver is a Dahrendorf Postdoctoral Fellow on Europe-North American relations at LSE IDEAS

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