Portland

MEET THE NEIGHBOURS
THE EU 27

MEET THE NEIGHBOURS

Brexit represents a huge shift in the tectonic plates of power across Europe. As a result, the UK's relationship with its trading partners will inevitably change forever.

The European Union has sought to talk up its unity in negotiations, with each member state squarely behind the Commission's negotiating team. This was best highlighted by the fact that the negotiating guidelines took eight minutes, a symbolically short time, to approve. But this is far too simplistic, and only time will tell if this unity will remain intact over the next two years.

Nations that previously did not work hand in hand with the UK could now become important strategic and trade allies, while once-close partners could become more distant.

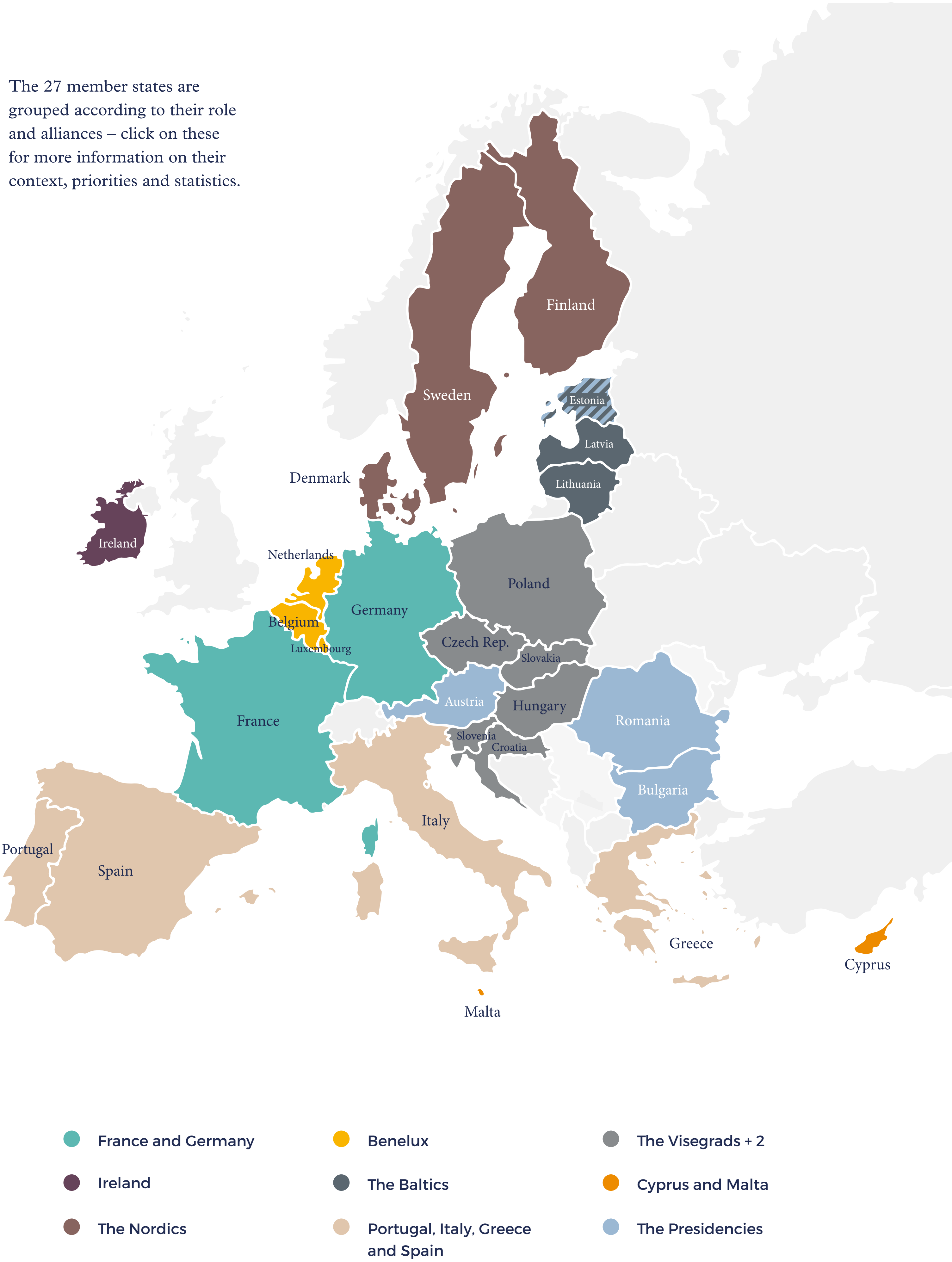
And of course, there are many unforeseen consequences and repercussions for other states as a result of Brexit. The value of sterling will have an impact on some countries more than others, some could feel less secure with the loss of a major EU defence player, and the bloc as a whole will lose the UK's impetus behind an economic liberalisation agenda.

Some of these countries and the issues that matter within their borders are familiar to us. France has been friend or foe going back hundreds of years, for instance, while others are relative strangers.

The European Commission will lead negotiations, but all 27 member states have vested interests and will approach the talks from different angles. Portland has put together this guide to help you understand the many different perspectives at play.

CLICK HERE TO EXPLORE THE INTERACTIVE MAP

The 27 member states are grouped according to their role and alliances – click on these for more information on their context, priorities and statistics.



FRANCE

GDP
€2.184 trillion (2nd)*

Population
66,415,161

Number of MEPs
74

GERMANY

GDP
€3.026 trillion (1st)

Population
81,197,537

Number of MEPs
96

France and Germany

France and Germany were two of the six signatories of the Treaty of Rome, which founded the European Economic Community in 1957. The treaty itself came about through a desire for Franco-German peace on the continent and ever since this point the two have been the key drivers of European integration.

In the negotiations, the two must balance this wholehearted commitment to the 'project' with their own national domestic interests. For example, a number of prominent British 'Leave' politicians have argued that German car manufacturers will be able to persuade their Government to pursue a generous deal with the UK in order to support their export market. However, to date Germany has been vehement in its defence of the founding principles of the EU. Angela Merkel has held a consistent line ever since David Cameron's failed renegotiations, arguing (along with other European leaders) that the four freedoms that underpin the Single Market are non-negotiable for membership. This stance is a key reason the UK Government set out its ambition to withdraw the UK from the Single Market.

Further to this, the Head of the BDI, the German business federation, Dieter Kempf, was quoted in no uncertain terms about his support for a hard-line negotiating strategy: "In the European family we must now share a bitter reality after the Brexit referendum. For politicians in Brussels and Berlin there should be only one motto — keep Europe together and make it stronger."

In an attempt to rattle British negotiators, Germany has suggested that the UK exit bill may reach up to €100bn and has also countered suggestions coming from London that the UK could continue to have EU market access on its existing terms.

France, the second largest economy in the Eurozone, has stuck to a hard line on Brexit negotiations. The election of Emmanuel Macron as President is a boost for the EU as he is a staunch supporter of the Union and its four key freedoms. He has pledged with Angela Merkel to draw up a 'common road map' for Europe, which includes reforms and possible Treaty change.

Macron spoke of his intent to encourage banks to relocate from London to Paris during his campaign. Previous finance minister Michel Sapin has warned that London-based banks will lose Euro-denominated trading operations after Brexit.

The French are concerned about the rights of the French diaspora in the UK, particularly seeking to ensure they retain access to healthcare. There are over 350,000 French citizens living in the UK, with 250,000 of these in London. That makes London the 9th largest 'French' city by population.

Macron has also brought into question the Le Touquet agreement between France and the UK that allows British immigration officials to carry out passport checks in France. He wants the UK to take a more active role and take on more responsibility in managing the issue of refugees and migrants in Calais.

There is growing belief that Brexit may have an impact on the direction France and Germany decide to take the EU. Without Britain acting as a 'roadblock' to ever-closer union, they can pursue deeper integration on issues such as structural defence co-operation – a so-called 'EU army'.

France and Germany will drive Europe's response to Brexit, although they will be mindful to ensure the EU27 remain united throughout negotiations. As we explain throughout Meet the Neighbours, many will be attempted to use Brexit negotiations to further their own domestic agendas.

*All figures as of 2015

IRELAND

GDP
€214.623 billion (11th)

Population
4,628,949

Number of MEPs
11

Ireland

Our closest neighbour, Ireland has a long complex history with the UK. Brexit presents many challenges for the Anglo-Irish relationship. The biggest concern is the impact Brexit could have on the Northern Ireland peace process. The hard won and ground-breaking Good Friday Agreement that underpins the peace process makes numerous references to the European Union. This has been further complicated by the Conservative-DUP deal in the wake of the General Election result. What happens to the flow of EU structural funds and the EU's role as an arbiter in the peace process remains to be resolved.

Changes to the customs border and Single Market exit also present real challenges. The Republic of Ireland is Northern Ireland's biggest export market, and the border between the two represents the UK's only land border to an EU country. In addition, given the geographical proximity, many products cross the border multiple times during production, the best example of which is food manufacturing.

Brexit impacts on the Common Travel Area. The UK Government has previously sought to ease fears over the status of the Common Travel Area, and is aiming for 'frictionless access' between the two countries, but how this materialises remains to be seen.

According to Irish Government figures, €1.2 billion per week in goods and services is traded between Ireland and the UK and this trade supports 400,000 jobs in total. Ireland is the UK's fifth largest export market. Until recently, total trade with Ireland exceeded the UK's trade with Brazil, Russia, India and China combined. The UK leaving the Single Market and Customs Union without a trade deal or new customs agreement would of course dent these figures. However, there could be advantages for Ireland in Brexit.

As a business-friendly, low-tax enviroment and the only English-speaking EU member after Brexit, Ireland is an sttractive destination for a number of sectors.

It is particularly well-positioned in the financial services sector. Many US banks have announced they are considering Dublin for some partial relocation of services away from London.

Pharmaceuticals is another area where Ireland benefits from large amounts of Foreign Direct Investment. Ireland could be the ideal home for the European Medicines Agency, which will have to move from the UK, post-Brexit.

With all of this considered, it must be said that there remains goodwill on both sides, and Michel Barnier in particular has prioritised resolving these issues as soon as possible.

SWEDEN

GDP
€444.235 billion (6th)

Population
9,747,355

Number of MEPs
20

FINLAND

GDP
€207.220 billion (12th)

Population
5,471,753

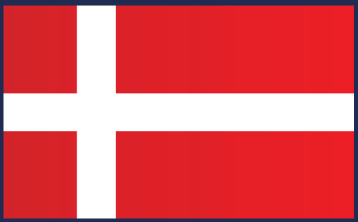
Number of MEPs
13

DENMARK

GDP
€266.244 billion (10th)

Population
5,659,715

Number of MEPs
13



The Nordics

Sweden, Finland and Denmark form the Nordic EU bloc. Migration, and particularly the fallout from the European migration crisis, is a key issue for the Nordics. For example, more refugees per capita arrived in Sweden than any other EU country in 2015. This has become an emotionally charged debate, and risks undermining the mainstream political parties and fuelling the Eurosceptic far-right. With a firmly pro-European political class, these countries will not want to see the EU undermined by the UK achieving overly-rosy Brexit terms. Finland is the only Nordic EU member to use the Euro. It has been less affected by immigration and the negative sentiment associated with it.

Another central area of concern to the Nordics is security. Sweden recently ordered its regional authorities to prepare their civil defence infrastructure and procedures "in terms of war" amid growing concerns about Russian aggression. These countries, and non-EU members Iceland and Norway, however are split on the future of European defence capability and the balance of resources and scope between the EU and NATO.

Earlier this year Ann Linde, the Swedish minister for EU affairs and trade, said she was shocked by the uncertainty and xenophobia experienced by EU nationals in the UK since the referendum. These nations will want the status of their nationals in the UK settled as a priority.

As elsewhere, given the strong trading relationship with the UK, any fall in Sterling as a result of Brexit poses a threat to Denmark, hitting exports including agricultural products.

On matters of budget, Finland has been clear that, even though Brexit could leave a sizable hole in EU finances, it will not increase its payments to cover the bill and savings must be found in the overall budget. Denmark had attempted to take a softer line on budget discussions with the UK, but was overruled by France and Germany.

These countries have often stood beside the UK to form a cluster of like-minded northern Europeans, who act as a bulwark against German and French influence. Throughout David Cameron's renegotiations, they proved his strongest allies by a significant distance. As we now move to the terms of the UK's exit, it is unlikely that Britain can expect such support to continue.

NETHERLANDS

GDP
€678.572 billion (5th)

Population
16,900,726

Number of MEPs
26

LUXEMBOURG

GDP
€52.112 billion (19th)

Population
562,958

Number of MEPs
6

BELGIUM

GDP
€409.407 billion (8th)

Population
11,258,434

Number of MEPs
21

Benelux

The Benelux countries make up three of the six signatories of the Treaty of Rome, so have been tightly intertwined with European integration from the outset.Belgian Prime Minister, Charles Michel, has warned other EU countries not to be “naïve” as they embark on Brexit negotiations, and said they must resist the temptation to engage in parallel trade talks with the UK, saying: “It will not be easy, and I know the UK will certainly try in these negotiations to have parallel negotiations and bilateral negotiations with a few countries. But you have to be strong and convince the 27 countries that our interests are to have a common negotiation.”

The UK is Belgium’s fourth largest export country, with 8.8% of Belgian exports amounting to €31.9 billion going to the UK.

The UK is the Netherlands’ third-biggest export market, but growing Euroscepticism may mean that the current centre-right, pro-EU Prime Minister Mark Rutte may want to pressure the UK during negotiations. This will be a break from the past, where David Cameron trusted Rutte so much that the Dutchman stood in for him at an EU summit last year.

While the Netherlands remains in favour of EU membership, the political parties are acutely aware of growing Euroscepticism. The recent election saw populist Geert Wilders’ PVV party fail to make the gains expected. This was in part due to the mainstream parties accepting some of his ideas, suggesting the sentiment he espouses remains under the surface.

There are three areas where the Dutch will particularly miss UK influence within Europe: migration, military defence cooperation and economic liberalisation. The Dutch Deputy Prime Minister has said that the Netherlands will block any EU trade deal with the UK unless it signs up to tough tax avoidance regulations preventing it from becoming an attractive offshore tax haven. The balancing act between Dutch Euroscepticism and economic interest poses a difficult dilemma for the country as negotiations unfold.

Luxembourg is the richest country per capita in the EU. Its main export partners are Germany, France and Belgium, with 84 per cent of exports going to EU countries.

Luxembourg will expect its former Prime Minister, Jean Claude Juncker – who is now the President of the European Commission – to have an eye out for them as negotiations unfold.

Its priority is to maintain the stability of the EU bloc, a project which has strong support internally. The current Luxembourg PM Xavier Bettel is one of the most vocal opponents of a transition deal for the UK, saying “either you’re a member or you’re not – there is no in-between status”.

The country has a strong financial sector, particularly in insurance, and will hope that Brexit can bolster this. There were reports that Lloyds of London, home to London’s specialist insurance market, was eyeing a presence in Luxembourg post-Brexit, although it eventually chose to relocate some jobs to Brussels. Luxembourg could suffer fall-out in other respects. The UK is the second largest importer of services from Luxembourg, and the top investor in the country. Any barriers to capital or services post-Brexit would undoubtedly harm the Luxembourg economy.

PORTUGAL

GDP
€179.379 billion (13th)

Population
10,474,822

Number of MEPs
21

ITALY

GDP
€1.636 trillion (3rd)

Population
60,795,612

Number of MEPs
73

GREECE

GDP
€176.023 billion (14th)

Population
10,858,018

Number of MEPs
21

SPAIN

GDP
€1.081 trillion (4th)

Population
46,449,565

Number of MEPs
54

Portugal, Italy, Greece and Spain

Portugal, Italy, Greece and Spain are among the EU's most indebted economies, which will likely influence their approach to negotiations.

Greece's economic problems are well-documented. Following the 2008 financial crash, Greece has been in state of almost permanent financial crisis, undergoing two bailouts and a recapitalisation of its four biggest banks.

Italy is the EU's second most-indebted country after Greece, with debt at 132% of GDP, but is the EU's third largest economy. It is also in the midst of a banking crisis, with bad loans in Italian banks totalling €360 billion in 2016. Italy's proximity to Africa and Turkey has meant it has been severely affected by the migrant crisis, as a first port of call for refugees arriving via the Mediterranean Sea.

Portugal too has faced economic hardship. Following a recession, in November 2011 the EU and International Monetary Fund agreed a €78 billion bailout for Portugal, on condition of sweeping spending cuts. Although Portugal's economic prospects are looking up, all these countries remain indebted to the European Union (and particularly Germany) for past bailouts. This means that they will be unlikely to make any bold demands during the negotiating process, and instead will have to bow down to other member states desires.

Spain has similar historic economic issues, with its banking system having faced near-collapse in 2012, forcing the Government to request financial aid from its EU partners. However, they have another hand to play in the negotiations which is of course Gibraltar.

While Spain has made positive overtures to London since the Brexit vote and warned Europe against seeking a punitive deal, it has also signalled it would block UK access to the EU's single aviation market unless the terms exclude Gibraltar's international airport. Furthermore, the UK was surprised to see explicit reference to Gibraltar in the EU negotiating guidelines, causing a strong reaction at home, particularly amongst the press. While this may be posturing from the EU, and could be construed as deliberately provocative, this issue could prove to be an interesting bargaining chip as negotiations unfold.

LATVIA

GDP
€24.378 billion (24th)

Population
1,986,096

Number of MEPs
8

LITHUANIA

GDP
€37.124 billion (23rd)

Population
2,921,262

Number of MEPs
11

ESTONIA

GDP
€20.461 billion (25th)

Population
1,313,271

Number of MEPs
6

The Baltics

The Baltics – Latvia, Lithuania and Estonia (the last of which is also covered in the Presidencies section) view their relationship with the United Kingdom through the prism of security concerns. The UK is one of their most important security guarantors. Given the context of their status as former Soviet states faced with an increasingly bellicose Russia, this is a foreign policy priority. They are therefore likely to be concerned about the loss from the EU of one of its major foreign, security and defence players. The Baltic leaders will remain keen on keeping the UK militarily involved in the region (through NATO) as well as by keeping economic ties open. As a result, the Baltic States could be favourably disposed towards the UK.

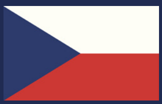
However, trade is also an issue. The UK lags behind Germany and the Nordic states as a major Baltic trading partner, but all Baltic States export large amounts of wood to the UK. Many Balts came to the UK under Freedom of Movement to seek employment and have since settled here. For these expatriate communities in the UK, the fall in the value of sterling will reduce the value of remittance transfers from the UK.

Baltic governments have also expressed fears about a potential loss of revenue from EU structural funds, which are vital toinfrastructure investment projects in all three countries, so they want to see the UK commit to its obligations under the EU budget.

All the Baltic states are strongly pro-European and concerned Brexit will trigger a domino effect in other Eurosceptic countries. This reflects back on the security perception, with the Baltics seeing EU membership as a crucial security guarantee against potential Russian aggression.

A number of senior posts within the European Commission and other EU institutions will have to be filled post-Brexit. This could prove good news for the Baltic states, which remain under-represented at the most senior levels. Valdis Dombrovskis, the Latvian European Commissioner and a former Prime Minister, has already taken over the important financial services portfolio of the British Commissioner, Lord Hill, who resigned shortly after the UK's vote to leave.

	CZECH REP	HUNGARY	SLOVAKIA	CROATIA	SLOVENIA	POLAND
GDP	€163.947 billion (15th)	€108.748 billion (17th)	€78.071 billion (18th)	€43.897 billion (21st)	€38.543 billion (22nd)	€427.737 billion (7th)
Population	10,538,275	9,855,571	5,421,349	4,225,316	2,062,874	38,005,614
Number of MEPs	21	21	13	11	8	51






The Visegrads + 2

Often called the Visegrad Four, this alliance of four Central European states (Czech Republic, Hungary, Slovakia and Poland) makes up the fifth largest EU economy when grouped together. They have tried to formalise the V4 partnership to make their voice heard more loudly in Brussels. Slovenia sometimes joins the Visegrads, as a 'plus one', as it has issues in common with the other Central European states. Croatia is another often associated with this group.

The Brexit bill the UK will be liable to pay, and future implications for the EU budget will be important to these six countries.

The European Court of Justice ruling that free trade agreements need to be signed by regional EU parliaments as well as national gives additional leverage to these countries – as many of these are located in the Balkans.

These countries are particularly interested in the UK's new relationship with the EU and what it might mean for the free movement of people.

This is most critical for Poland, which has the largest migrant group in the UK, and will wish to confirm the status of Polish nationals already in the UK. Hungary will also prioritise this issue. In contrast, Croatian leaders have spoken of the need to attract young Croatians back home.

These countries also see opportunity in the UK's departure, and over the future direction of the bloc. Poland has seen the UK as a crucial partner against the more integrationist instincts of France and Germany, so could use Brexit to push for a looser union, perhaps based on the Single Market. The Polish Deputy Prime Minister, Mateusz Morawiecki, has said his country will form a middle-ground between the continental Eurosceptics and integrationists, between those looking to punish the UK and those acting pragmatically. Despite their Eurosceptic Government, the Polish public is still heavily in favour of the EU and will support measures to stop other countries leaving.

Like Poland, Hungary too could exploit the Brexit negotiations to push for a looser union. Both are governed by right wing populist parties and are notably more Eurosceptic than Slovakia or the Czech Republic.

Like the rest of the V4, Slovakia will hope Brexit can be a catalyst for reforming the EU. The Slovakian PM has also called for the EU to do more to respect national characteristics as a means of avoiding another Brexit.

Croatia wants to see other Balkan states join the Union, seeing it as key to their future prosperity as well as supporting peace in the region so will work to ensure Brexit does not derail this agenda.

There is some disparity between the V4 states, however. Slovakian PM Robert Fico is more likely to tow the party line when it comes to Brexit negotiations than his more Eurosceptic peers in the V4. Fico has said that any deal for the UK would necessarily have to be worse than EU membership. Fico was also the V4 leader who threatened to veto a Brexit deal should the rights of their citizens to work in the UK be restricted. Expect 'right to remain' to be a major sticking point for Slovakia, as with other V4 countries.

Slovenian Prime Minister, Miro Cerar, has also called for Brexit to be seen as an opportunity to strengthen the Union. Brexit will not impact directly on Slovenia, as it has few migrants in the UK, and no deep trading relationship. But it will have a direct effect on Slovenia's largest trading partners – Germany, Italy and Austria, so Slovenia can be expected to back these countries when it comes to Brexit negotiations.

Looking more closely at these six countries, it is clear that while they have a natural alliance, their priorities for negotiations are diverse. It will be interesting to see if they can maintain this cooperation as negotiations unfold and competing priorities are pitched against one another.

CYPRUS

GDP
€17.421 billion (26th)

Population
847,008

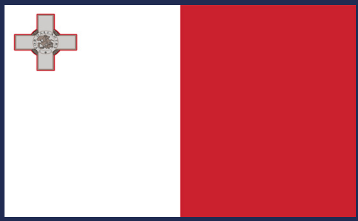
Number of MEPs
6

MALTA

GDP
€8.796 billion (27th)

Population
429,344

Number of MEPs
6



Cyprus and Malta

Cyprus acceded to the EU in 2004 despite remaining partitioned between Turkish and Greek Cypriots (the EU does not officially recognise the northern Turkish part). UN talks aimed at the potential reunification resumed in 2015, after the election of a moderate Turkish Cypriot leader. Some have seen this as a model for 'half in, half out' membership of the EU, and perhaps a model for the future of Scotland's relations with the EU and UK.

Cyprus was badly hit by its financial crisis in 2012, and remains economically fragile. Cyprus has close ties with the UK, given its status as a former colony, deep economic links, and an ongoing British military presence on the island. A number of Cypriot politicians have voiced their concerns about the impact of Brexit, and particularly the impact of any downturn in tourism from the UK.

A Standard & Poor's study found that Cyprus is the fourth most exposed member state to the UK after Ireland, Malta and Luxembourg. The referendum vote was consequently seen as bad news by Cypriots, although Cyprus's central bank has said it does not believe Brexit will have a "significant impact" on the economy. It instead talked of the potential of trade agreements between the UK and Cyprus. The Director General of the Association of Cyprus Banks, Michalis Kammas, said: "when difficulties emerge, opportunities also arise" – as Cyprus hopes to become an investment destination particularly for financial services.

Malta supports the view that the UK 'cannot have your cake and eat it'. They are pushing for a fair Brexit deal, but on inferior terms. Malta's Prime Minister, Joseph Muscat, has made this position clear on a number of occasions. Malta has been involved closely with the groundwork for negotiations given it has held the rotating Presidency of the European Council for the first half of 2017.

These two countries, as small Mediterranean islands, would not naturally have huge voices in EU affairs. Malta, despite being the smallest of all the member states, has had disproportionately more involvement that it would have done in normal circumstances through its holding of the rotating Presidency. This is a natural quirk of the rotating Presidency system.

ESTONIA

GDP
€20.461 billion (25th)

Population
1,313,271

Number of MEPs
6

BULGARIA

GDP
€44.162 billion (20th)

Population
7,202,198

Number of MEPs
17

AUSTRIA

GDP
€337.162 billion (9th)

Population
8,576,261

Number of MEPs
18

ROMANIA

GDP
€160.353 billion (16th)

Population
19,870,647

Number of MEPs
32

The Presidencies

Estonia, Bulgaria, Austria and Romania in turn will hold the six-month rotating Presidency of the European Council over the course of the Brexit negotiations.

Estonia takes up the baton from Malta in July. Foreign minister, Jurgen Ligi, has so far struck a more moderate tone than other leaders, emphasising that the UK must not be allowed to become “too distant” as a result of Brexit.

Bulgarian Deputy Prime Minister, Tomislav Donchev, has stated his concerns that Brexit will mean “smaller members on the so-called periphery have even less say” in the EU. His hope is that Brexit will “bring a mobilising and consolidating effect”. Donchev has also said that he wishes for a political construction where all EU countries have the same status, “the voice and weight of all EU countries is theoretically equal, but it isn’t so in practice”.

This is likely to remain a dream, however. Bulgaria is heavily invested in both the security and financial impact of Brexit. As one of the poorest countries 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.

With regard to the general framework for future EU-UK relations, Bulgaria can be expected to align with big players, such as Germany.

In terms of trade, Brexit does not significantly affect the country’s economic outlook, as a mere 3% of Bulgarian exports are shipped to the UK.

Bulgaria will join other Eastern European states in insisting that the UK agrees to rules on free movement of labour in return for access to the Single Market for goods and services.

Austria will then take the Presidency from July 2018. There has been domestic pressure for politicians to follow the UK’s lead in dealing with the EU. The far-right Freedom Party only narrowly lost the recent Presidential Election, and while Eurosceptic support appears to be on the wane, politicians will be acutely aware of the politics it represents.

In particular, there has been support for demands to allow Austrian citizens to be favoured over foreign nationals when applying for jobs in areas of high unemployment.

Romania takes over from January 2019, at a point when Brexit will be becoming a reality.

Romania exports very little to the UK, and is keen to establish the status of Romanian nationals in the UK following Brexit.

Foreign Minister, Lazar Comanescu, called Brexit an opportunity to “relaunch” and “upgrade” the EU, making it more flexible and boosting solidarity.

Romania and Bulgaria together are the newest and poorest states, and will be thrust into a position of significance. All of these states find themselves in these roles by luck, and may find their voice amplified.

Estonia’s approach to the Presidency will be informed by the stance explored in ‘The Baltics’ section.

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