

Berlin to the rescue? A closer look at Germany's position on Brexit

By Sophia Besch and Christian Odendahl



Berlin to the rescue? A closer look at Germany's position on Brexit

By Sophia Besch and Christian Odendahl

- ★ Many Brexiters hope that Germany will soften the EU-27's position in the forthcoming negotiations with the UK. After all, they say, Berlin is under pressure from its industrial lobby to keep the British market open for German goods, and will find Europe's security challenges too hard to manage without London at its side. Such hopes are misplaced.
- ★ Politically, nothing is more important to Germany than the stability and integrity of the EU – a project it considers central to its national interest. European integration was at the core of Germany's post-war policies. And while there is an element of fair weather Europeanism in Berlin, Germany's major political parties are all various shades of pro-European.
- ★ Despite its trade deficit with Germany, Britain is as economically dependent on Germany as vice versa – and a lot more dependent on the EU as a whole. Even German businesses, which are deeply linked to the EU via supply chains and investment, value the integrity of the single market and the EU more than tariff-free access to the UK market.
- ★ Geopolitically, Germany considers Brexit an act of vandalism – and of self-harm. In Berlin's view, Britain has undermined its own value as a security partner, and must be prevented from further dividing the EU. Turning Britain's security and defence contributions into a bargaining chip in the Brexit negotiations would backfire on London.
- ★ To get Germany on its side, Britain needs to show support for the EU and its institutions, and make clear that London is willing to contribute to European stability, prosperity and security.
- ★ In turn, Berlin should be pragmatic about keeping the UK close – the principles of multilateralism and EU cohesion are not irreconcilable with a good post-Brexit agreement for the UK.
- ★ In order to keep the EU-27 united, Germany should reflect carefully on how it can prevent the EU from being seen as an instrument of German power; and Berlin should reassure the UK's traditional European allies that their interests will be protected in a post-Brexit EU.
- ★ Unless both London and Berlin set realistic goals and create a co-operative spirit for the negotiations, the EU and Britain are headed for a hard, acrimonious Brexit.

Those in Britain hoping for a soft EU stance in the Brexit negotiations sooner or later mention the carmaker BMW, one of Germany's biggest exporters. Surely BMW would like to continue to sell cars in the UK unhindered, and will use its considerable political influence, together with that of the rest of the German car industry, to sway Chancellor Angela Merkel to adopt an accommodating stance? Why should Germany be emotional about Brexit and risk damaging its commercial interests? Germany, which often bases its influence on its economic power, would surely prioritise economics over politics?

Similar arguments are also made about Germany's security interests. Germany may be the most powerful country on the continent in economic terms; but it is less willing to use military force than other European countries. After the election of Donald Trump, and faced with authoritarian governments in Europe's vicinity, Berlin depends on Britain as a partner. After all, the UK and France are the only two credible military powers in the EU. Surely, the argument goes, Germany would consider the risks of alienating the UK to be too high?

“Germany is no selfless European, of course. But in the Brexit negotiations Germany's and the EU's interests are closely aligned.”

Such views of Germany's position are misguided, for three reasons. First, for no other country in Europe is the European project more important than it is to Germany. European integration is, to most Germans, a decades-long project that has become part of Germany's political DNA. Germany's leading politicians, including Angela Merkel and her challenger, Martin Schulz, think that European integration and co-operation are central to Germany's interests, and are staunch supporters of the EU. The relatively young and eurosceptic Alternative für Deutschland (AfD) is a nuisance to Germany's main parties, but is now in decline, after having surged in the polls on the back of the refugee crisis. Germany is no selfless European, of course, and has in the past put Germany's interests first, and European interests second. But in the Brexit negotiations Germany's and the EU's interests are closely aligned.

Second, while Germany's economy is deeply connected to Britain's, this is not a one-way street. Britain's economy is as dependent on Germany as vice versa – and a lot more dependent on the entire EU. Nor does economics always trump politics in Germany: when its core national interests are at stake, business interests take a back seat – as was apparent during the Ukraine conflict, when Germany pushed for sanctions on Russia that hurt German businesses. Moreover, Germany's commercial interests on Brexit are largely aligned with its politics: German businesses are deeply connected to the EU through a network of supply chains, and rely on Europe and the rest of the world for their exports. They have more interest in preserving the EU's single market and the EU's clout in international trade negotiations than they have in tariff-free access to the British market.

Third, in Germany's view, Brexit is geopolitical vandalism. Brexit undermines and distracts the EU at a time of internal and external crisis. Any attempt by the UK to use its security contributions as a bargaining chip will be seen by Berlin as a further threat to EU cohesion and will lose Theresa May political goodwill in the negotiations. Berlin will not be swayed by British security capabilities – Germans are likely to prioritise political principle over pragmatism in Brexit negotiations. And Brexit is also seen in Berlin as an act of geopolitical self-harm: Britain is now less influential and effective and hence a less attractive partner.

The first three sections of this policy brief analyse the three main issues that will inform Germany's position on Brexit: Germany's political view of the European project; German-British economic ties and interests; and the geopolitical dimension of Brexit. The brief concludes with a look at Germany's likely position in the Brexit talks.

Why the EU is a core German national interest

In post-war Germany, European integration has always been considered a core national interest. The German constitution starts with a strong commitment to a united Europe:¹

Conscious of their responsibility before God and man, inspired by the determination to promote world peace as

an equal partner in a united Europe, the German people ... have adopted this Basic Law.

Article 23 of the German Basic Law further specifies that:

With a view to establishing a united Europe, the Federal Republic of Germany shall participate in the development of

¹: Deutscher Bundestag, 'Basic Law for the Federal Republic of Germany', November 2012.

the European Union that is committed to democratic, social and federal principles, to the rule of law, and to the principle of subsidiarity.

European integration was the key element of West Germany's post-war policies. The European project allowed West Germany to demonstrate to its western neighbours that it was ready to co-operate and to constrain its own power through supra-national institutions. It is no coincidence that the journey towards the EU started with pooling control over coal and steel, the raw materials of military power.

“Politically, the European project became a means to regain international respectability for Germany.”

What is more, West Germany's post-war *Wirtschaftswunder* (economic miracle) is simply unthinkable without European integration. Devastated by the war, and heavily indebted, West Germany needed debt forgiveness and reintegration into the international trading system to recover economically.² The only way to achieve this was through European co-operation. The US Marshall Plan was made conditional on European countries working together, and encouraged the UK and France – the largest recipients of Marshall funds – to bring Germany back into the Western trading system and, crucially, to grant it debt relief.³ Moreover, only political integration could convince France that a German economic recovery would not be a threat.

Over the following decades, Germany invested in deeper European integration for both political and economic reasons. Politically, the European project became a means to regain international respectability: to demonstrate to Europe and the world that the *Bonner Republik* was substantially different from the Germany of the past. Economically, Germany's industry benefitted strongly from a larger, more integrated market for its goods, and from an open, market-oriented approach in western Europe.

German reunification also hinged on European integration. In 1990, Chancellor Helmut Kohl aimed to mitigate European fears that a reunited Germany could upset the balance of power in Europe once again. He committed Germany to even deeper European integration, including a single currency, to reassure France in particular. Kohl and his second-in-command, Wolfgang Schäuble, failed to see, however, that a common currency would eventually be dominated by its strongest economy, whose political leadership would by then be reluctant to enter into a true political union to underpin the euro.

In foreign and security policy, Germany was comfortable following the US's lead and enjoying its security guarantees. Donald Trump is just the latest in a long line of US presidents determined to end German free-riding. While German politicians have signalled recently that they are ready to take on greater foreign policy responsibility, that does not mean that Germany wants to go it alone. Instead, Germany wants the EU, and France in particular, to give shape to its foreign policy. A recent poll found that 78 per cent of Germans say that Germany can assert its interests only in the framework of a common European foreign policy (see Chart 1).

Chart 1:
Being part of alliances is important to Germans (in per cent)

Only within the framework of a common European foreign policy can Germany assert its interests internationally.	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree
	45	33	16	5

Source: Körber-Stiftung, 'Zweifel oder Zuversicht? Was die Deutschen von Europa halten', Survey, November 2016.

The EU's system of governance – a mix of federal and intergovernmental co-operation – is not alien to Germany either. Germany's federal structure, messy though it seems to many, has been a good training ground for navigating EU politics. As the EU's largest country, in the middle of Europe – both geographically and on many policy issues – Germany has often been successful in shaping EU policies in its favour, without having to take

on what many Germans accept only reluctantly: a true leadership role in Europe that also includes the financial and political pressures that such a role inevitably entails.

Yet the euro, Ukraine and refugee crises have pushed Germany into precisely such a leadership position. This has changed both how Germany sees its role in Europe, and how others see it.

2: Barry Eichengreen, 'The European economy since 1945', Princeton University Press, 2007.

3: Albrecht Ritschl, 'The Marshall Plan, 1948-1951', EH.Net Encyclopedia, February 10, 2008.

The euro crisis has put a dent into Germany's European ambitions, and undermined the appeal of the European project in key countries such as France and Italy. Germany is now warier of granting more power to European institutions such as the European Commission and the European Central Bank, after they deviated from what many Germans consider to be prudent economic policy. And Paris and Rome argue that Berlin controlled the European response to the crisis to an unwarranted degree. Germany will be wary about being seen to dominate the EU's response to Brexit, and will want to closely co-ordinate its policies with France in particular.

Under Merkel's lead, Europe's response to the Ukraine crisis was distinctly 'German': it relied heavily on multilateral organisations, and prioritised diplomatic and economic means of influence over military measures. The

reception has been mixed: Europeans praised Germany's active role in responding to the crisis, but Berlin's refusal to support permanent NATO troop deployments was seen by many as weak and the Minsk process is largely considered a failure. Today, Britain's choice to leave and the rise of pro-Russian politicians in Europe threatens Germany's success in fostering a coherent EU sanctions policy.

In the refugee crisis, Germany took the lead but the rest of Europe did not follow. Germans felt abandoned by their fellow Europeans, and Europeans felt that Germany pushed ahead without consulting them. As a result, Germany eventually had to (tacitly) agree to close off Europe's borders. Germany's deviation from its traditional, consensus-building approach in Europe was painful and politically costly, and once more showed the limits of German leadership in Europe.

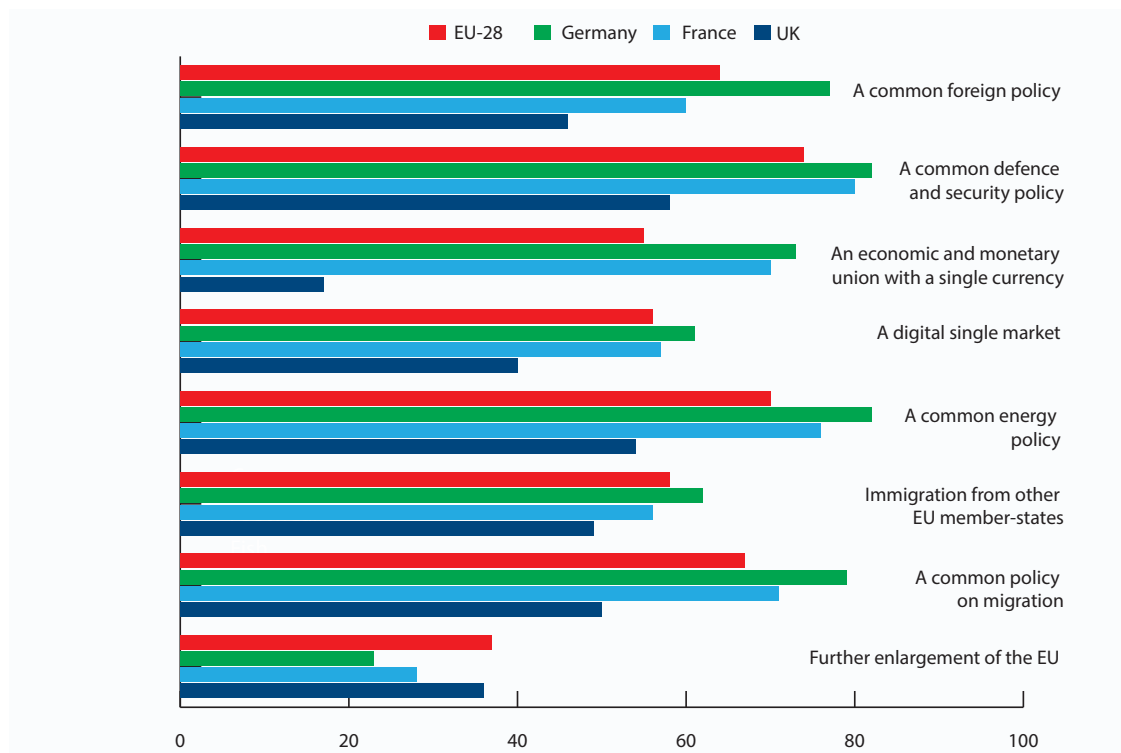
Germans and their politicians are different shades of pro-European

Given the importance of the European project for Germany, it is little wonder that many Germans express favourable views of further EU integration – more so than citizens in most other member-states (see Chart 2). But there is an element of fair weather Europeanism: on further EU enlargement, for example, Germans are

more opposed than the British or the French. Germany, as a large net contributor to the EU budget, is wary of increasing the size of the EU budget; nor does Berlin want to make EU decisions more complex by adding new members.

Chart 2:
European attitudes to European integration (in per cent of those in favour)

Source: Eurobarometer.



Politicians and commentators in Germany largely reflect and reinforce pro-European public attitudes. There is no powerful eurosceptic press like Britain's, nor a sovereignty movement like that of France. Only the AfD, which has shifted the focus of its antipathy from eurozone bailouts onto Muslim immigrants, calls for shifting competences from the EU back to national governments and an orderly

break-up of the euro. Unilaterally withdrawing Germany from both is only considered as a measure of last resort.

Germany's major parties are various shades of pro-European. Since the time of post-war Chancellor Konrad Adenauer, the Christian Democrats (CDU) have favoured German membership of NATO and the EU. The centre-

left Social Democrats (SPD) have always been less enthusiastic about NATO, but even more in favour of European integration. That included federalist ideas such as the European Parliament and its *Spitzenkandidaten* process – not coincidentally a German word – by which the European Commission president comes from the largest group in the European Parliament. Martin Schulz, the former president of the European Parliament, is the SPD’s candidate in the race for the chancellorship, and has, at the time of writing, overtaken Merkel in some polls. The most pro-European voters, according to a recent survey, are those of the Greens, a potential coalition partner of Merkel and Schulz.⁴ Whether or not German voters would be comfortable with the reality of deeper European integration is a different question

altogether. But with the important exception of more federal eurozone policies, the call for ‘more Europe’ remains popular with the German public.

It is against this backdrop that Merkel and her potential successor have to come up with a German response to Brexit. For Germany, the EU is far more than a market. Over decades, it has become an integrated part of Germany’s political system, and a means to increase German power and that of all EU member-states. Even after the euro crisis, the German consensus remains in favour of more integration, unless it costs German taxpayers’ money. Both Angela Merkel and Martin Schulz consider the integrity and coherence of the EU a key German interest.

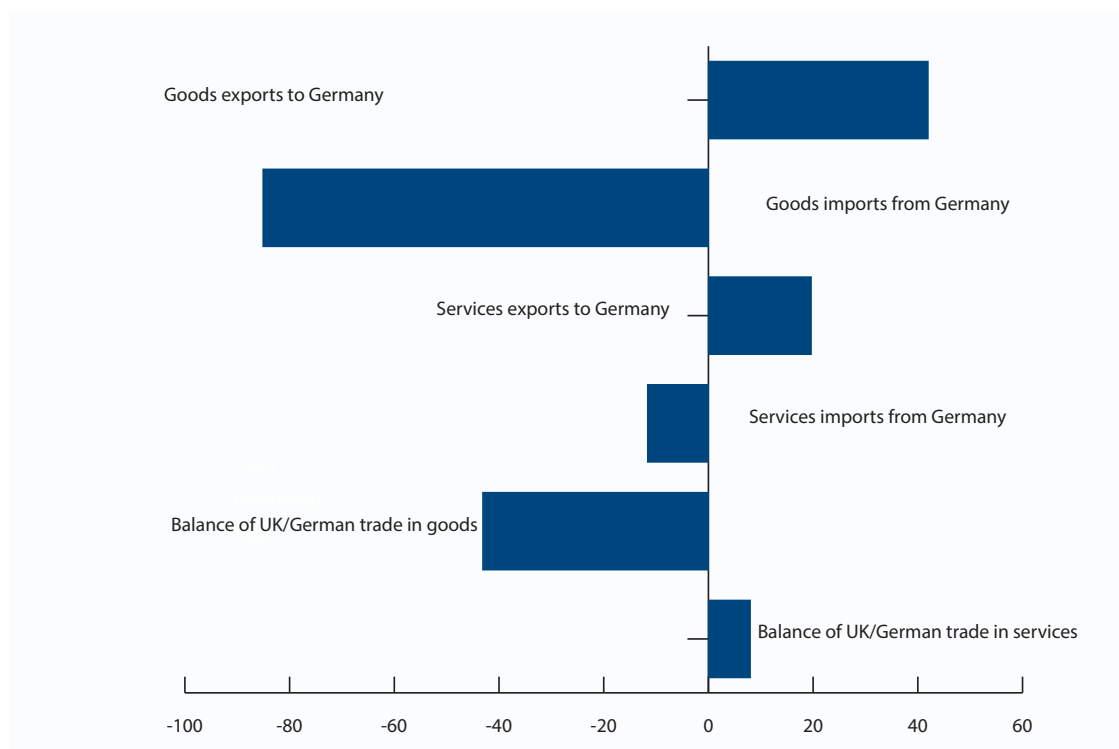
Germany’s economic interests in the Brexit negotiations

The main part of the Brexit negotiation will be about the future economic relationship between Britain and the EU. Germany and the UK have very close economic ties: in 2015, Germany exported goods and services worth almost €100 billion to the UK, and Britain around

€60 billion to Germany. Many Brexiters argue that a trade surplus of around €40 billion with the UK is not something that Germany would jeopardise lightly. But there are three problems with this argument.

Chart 3: Trade in goods and services between Germany and the UK in 2015 (€ billion)

Source: Office of National Statistics.



First, a trade surplus says little about who benefits from a trading relationship. Economically speaking, the main beneficiaries of trade in general are consumers: they get more variety and higher quality at lower prices. The surplus argument could be turned around: a trade deficit means that consumers are more ‘dependent’ on

foreign products, which trade barriers would make more costly. And indeed, the average price of European cars in the UK could increase by £1,500 if tariffs were imposed, according to Britain’s Society of Motor Manufacturers and Traders.⁵ Higher trade barriers would hurt British consumers as well as German car manufacturers.

4: 93 per cent of Green voters want more rather than fewer common EU policies, compared to an average of 78 per cent. ARD, ‘Deutschlandtrend’, March 2017.

5: SMMT, ‘SMMT President urges government to “make the right decisions” and stay in single market as UK motor industry faces £4.5 billion car tariff threat’, press release, November 29th 2016.

The second problem is that some Brexiters seem to consider Germany's trade surplus to be a profit that its industry lobby will seek to protect. It is not. The flipside of the German trade surplus is a surplus of savings (capital), which is invested abroad. After all, not all the money Germany earns by selling cars is used to purchase imports; some is instead invested outside Germany. Whether that makes the surplus country, Germany, or the deficit country, Britain, more vulnerable to a hard and acrimonious Brexit is difficult to determine.

“A trade deficit does not mean there will be less pain from trade barriers.”

Britain's trade deficit means that it is increasingly indebted abroad, which in the long run could be unsustainable. As a result, some have argued that Brexit could be good news if it reduced the British trade deficit. There are two problems with this argument. Britain's external deficit may not be such a pressing problem, as the UK also has assets abroad. These assets have increased in value when measured in (now lower-valued) sterling – more than UK debt abroad.⁶ As a result, Britain's net international wealth (assets minus liabilities) is now positive, despite having accumulated debt to the outside world over time by running trade deficits. Second, closing a trade deficit can be achieved by reducing imports or increasing exports, and a harsh acrimonious Brexit is unlikely to stimulate exports. Closing the trade deficit via lower incomes (and hence lower imports) inflicts economic pain on all citizens: Britain would become a less attractive place to invest, sterling would lose value, incomes would be squeezed, but exports would not pick up much to compensate.⁷ A trade deficit does not mean there will be less pain from trade barriers.

Germany, for its part, benefits from running a trade surplus when global demand and interest rates are low. By exporting capital that the rest of the world neither wants nor needs (low interest rates are the clue here), it is exporting its own weak demand to the rest of the world. If the UK – as the country with the second largest bilateral trade deficit with Germany – was no longer available to generate the same demand for goods made in Germany,

Europe's export champion would have to either generate more demand at home, or find other countries to fill the UK's role. If Germany were forced to conduct more expansionary policies to boost its domestic demand, the impact on the German economy would probably be minor – and not to the detriment of most Germans.

But even if one ignores the subtleties of the trade balance, and simply looks at export numbers, there is a problem with the argument that Germany will suffer more from the imposition of trade barriers: export figures alone tell us little about how dependent the exporting economy is on the trading relationship with the other. Rather than looking at export figures, it is more useful to think in terms of domestic 'value-added' that is contained in exports to a specific country, and compare that to the total amount of value-added in the domestic economy.⁸ This measure shows what share of domestic economic activity went into exports to that country, and may suffer should these exports take a hit.

Over the whole economy, a quarter of the value of German exports was added outside its borders (see Chart 4). For the UK, the figure is slightly lower. Germany is more plugged in to European supply chains than the UK: its imported components from the EU-28 amount to 13 per cent of the economy's total value-added, compared to 9 per cent in the UK.⁹

How does the domestic value-added contained in exports compare to the total value-added in the respective economies? Over all goods and services sectors, Britain exported 2.6 per cent of its total domestic value-added to Germany in 2011, the latest available data; Germany exported 2 per cent of its value-added to the UK in that year (see Chart 5).

The difference is particularly striking in transport equipment: almost 20 per cent of the UK's domestic value-added in that sector is exported to Germany; 10.6 per cent of the value-added of Germany's large transport equipment sector – over €100 billion per year, compared to the UK's €21 billion – goes to Britain. Of the UK's large financial and business services sectors, only a small share is dependent on the German market, but that share is more than twice as high as the corresponding share in Germany. (Two charts containing all sectors can be found in the appendix.)

6: British assets abroad are over 90 per cent in foreign currency, but only around 60 per cent of liabilities. A depreciation of sterling thus increases the value of assets more than of liabilities. See Kristin Forbes, 'The UK current account deficit: risky or risk-sharing?', Bank of England, March 2016.

7: John Springford and Simon Tilford, 'Sterling slump won't rescue the British economy', CER insight, October 21st 2016.

8: 'Value-added' is the basic ingredient of GDP. It measures the value of final output minus intermediate production inputs (which have been counted elsewhere as final output already).

9: The OECD/World Trade Organisation (WTO) database called 'Trade in Value-added' (TIVA) is based on world input-output tables of all sectors, including services. The latest data is from 2011.

Chart 4:
The supply chains of
Germany and
the United
Kingdom
(in 2011)

Source:
TiVA database,
authors'
calculation.

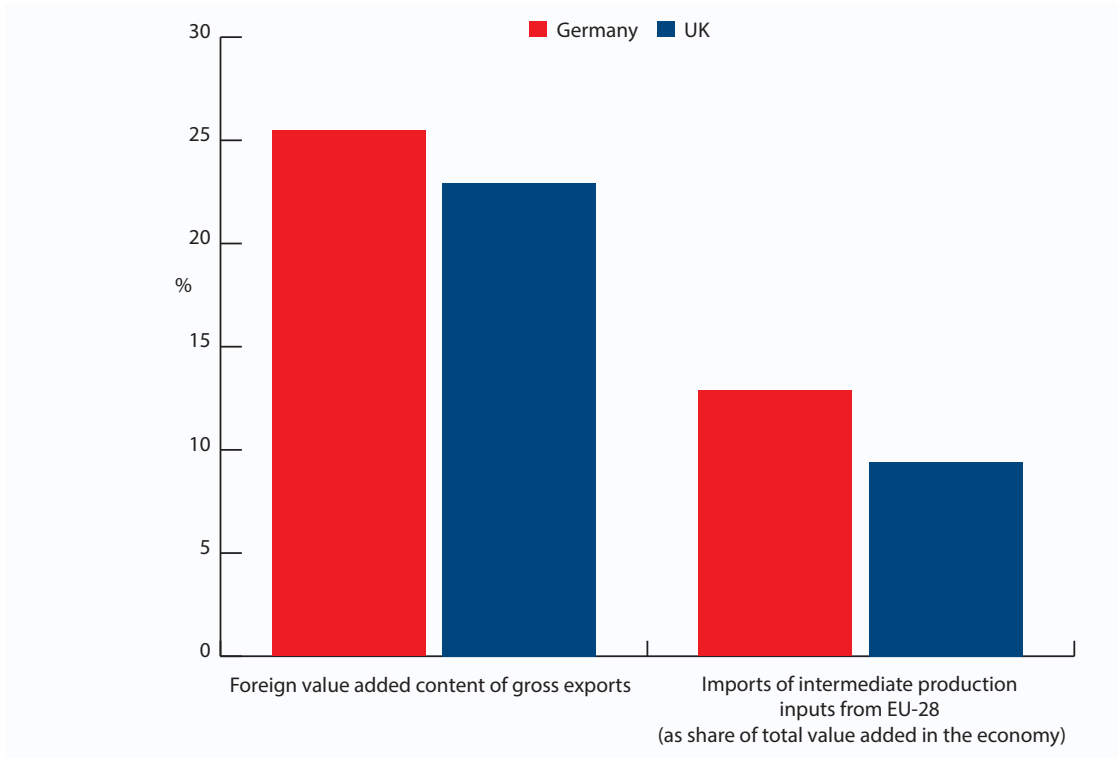
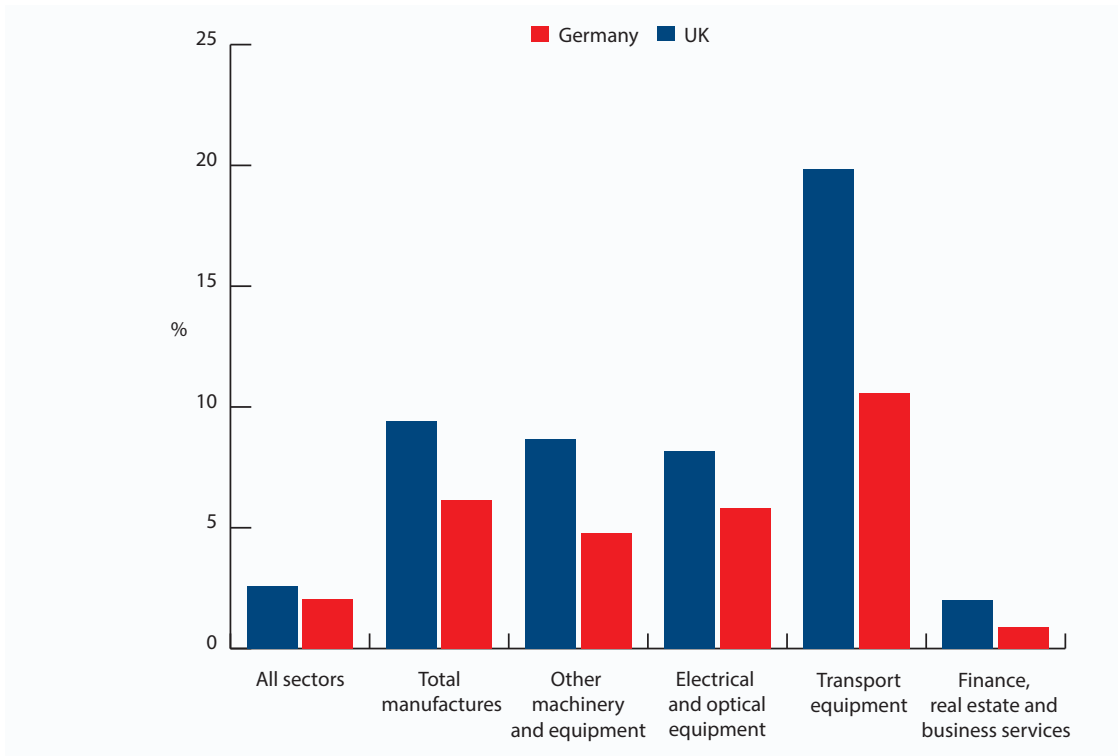


Chart 5:
Domestic
value-added in
exports to the
other country
(in per cent of
total value-
added)

Source:
TiVA database,
authors'
calculation.



And that is just the German market. Britain exported almost 12 per cent of its total value-added to the EU-27, whereas the EU-27 just exported 2 per cent of theirs to the UK. The belief that Germany is more dependent on its exports to the UK than vice versa is not a robust basis for a negotiation. It is true that Britain has signalled

that it is willing to endure some economic pain to achieve its other political goals in the Brexit talks. But so too are the Europeans, to protect the EU. And for the EU-27, a breakdown of the talks would be less painful economically than for Britain.

Chart 6:
German export
of domestic
value-added to
the world
(in per cent of
total value-
added)

Source:
TiVA database,
authors'
calculation.

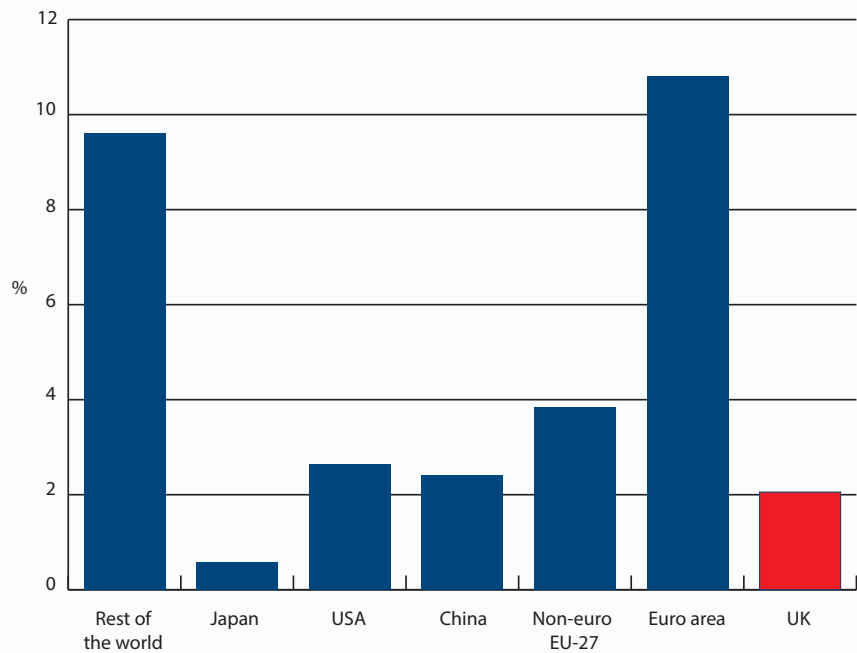
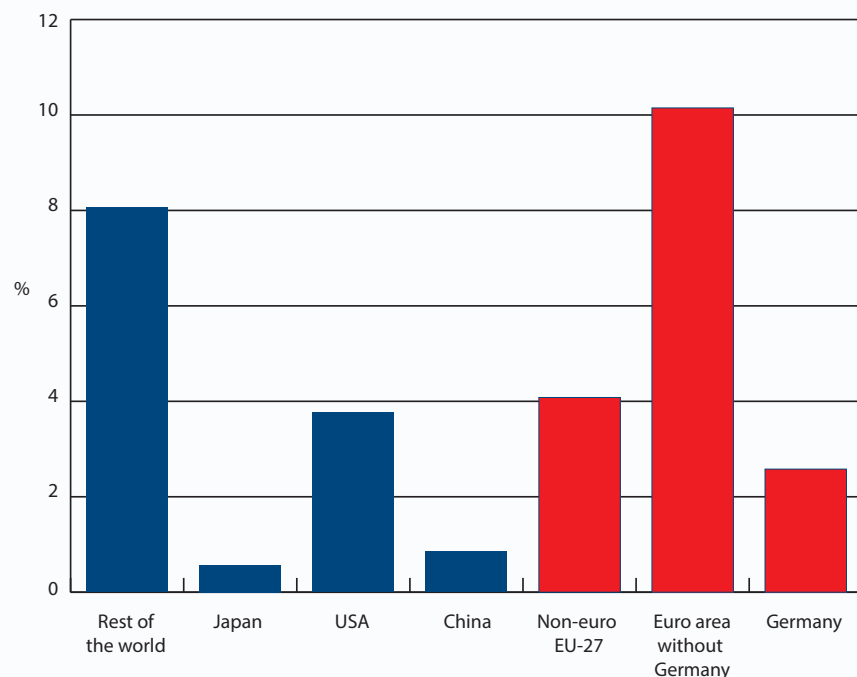


Chart 7:
Britain's export
of domestic
value-added to
the world
(in per cent of
total value-
added)

Source:
TiVA database,
authors'
calculation.



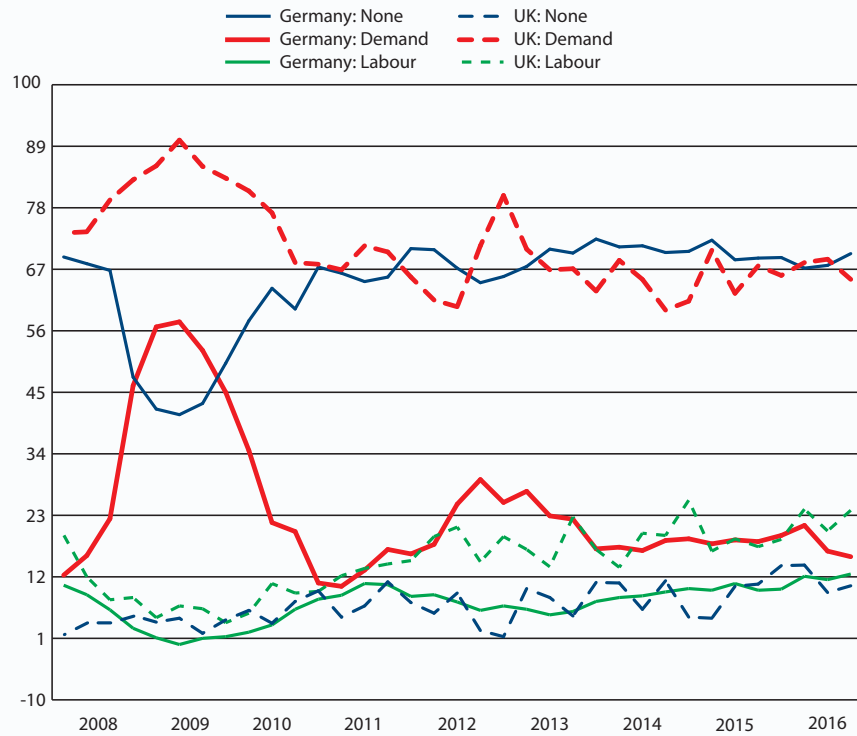
Furthermore, the German economy is in a robust state, which means that it could absorb potential economic costs from an acrimonious Brexit. Germany's unemployment is at a record low, businesses expectations are positive, and the country's fiscal position is the strongest in a generation. When asked which factors currently limit production, the German industry overwhelmingly responds: "none" (see Chart 7). Just as it has shrugged off the cost of sanctions on Russia, the German economy

would be able to cope with costlier trade between the UK and the rest of the EU. Indeed, a recent survey by the German employers' institute *IW Köln* showed that German businesses are fairly relaxed about the impact of Brexit on their companies: fewer than 10 per cent expect a severe negative impact, and most of that negative impact is the result of the weaker pound and lower UK demand, that is, the UK's economic weakness, rather than worse access to the British market for German firms.¹⁰

10: *IW Köln*, 'Keine Angst vor dem Brexit', *IW Unternehmensbefragung*, January 2017.

Chart 8:
Survey of
industry firms
on which
factors limit
their current
production
(in per cent)

Source:
Business and
consumer
surveys, European
Commission.



What really threatens German exporters are disruptions to their supply chains, which span the entire EU, as well as less favourable access to their export markets beyond Europe's shores. The integrity of the EU's single market and the economic might that the EU wields in international trade negotiations are of greater importance

to the German industry than potential tariffs with the UK. As the chief lobbyist of the German car industry, Matthias Wissmann, put it: "The UK is an important market for the German car industry, but the cohesion of the EU-27 and the single market are more important for us."¹¹

Germany's assessment of Britain's 'security card'

The UK thinks of its defence and security contributions in Europe as one of its strongest cards in the Brexit negotiations: Britain is one of only two nuclear powers in the EU, and one of only two European countries with a seat on the UN Security Council. Theresa May commands extremely effective intelligence services. And while it is currently far from clear that the British armed forces can afford to stick to their ambitious defence equipment plans, the global outlook of the British, their diplomatic network and the professionalism and training of their military personnel all contribute to European security.¹²

On matters of security policy, Berlin works closely with the United States, France and Britain. All three relationships are different. The US security umbrella over Europe is essential for Germany's own security. The German-French partnership is seen in Berlin as the driving force behind efforts to deepen European integration. Germany knows, of course, that Britain plays an important role in European security and defence: both countries have co-operated closely within NATO and on issues of common interest, such as sanctions against Russia. But in contrast to the

intimate – if at times complicated – political relationship with France, co-operation between Berlin and London has always been more 'bottom-up' and pragmatic.

Germany currently prioritises EU cohesion and credibility over most other foreign policy goals, and rejects any suggestion that London could 'cherry-pick' EU co-operation benefits outside the Union. This has led Berlin to press the pause button on bilateral defence co-operation with London and instead work closely with Paris. In the months following the Brexit referendum, France and Germany have thrown their political weight behind reforms of the Union's Common Security and Defence Policy (CSDP), supporting for example a joint EU military headquarters – plans that the UK has long been sceptical about.

Berlin knows that European security relies on the 'big three', France, Germany and the UK working together. After Britain leaves the EU, Germany has a long-term interest in London acting as a constructive partner on European security. But over the course of the Brexit

11: Reuters, 'German car industry warns UK that 'hard Brexit' could trigger shift south', October 17th 2016

12: Trevor Taylor, 'Brexit and UK defence – put the equipment plan on hold?', RUSI commentary, July 2016.

negotiations, the UK's security and defence capabilities are unlikely to convince Germany to adopt a soft position in the talks with Britain. Two tenets of German foreign policy-making explain why.

First, Britain's 'security card' does not carry much weight in Germany, because Berlin does not consider military might an important currency of influence in Europe. Its own crisis management policy rarely involves a military dimension. Instead, Germany aims to achieve its objectives through economic and diplomatic means. In recent years, traditionally pacifist and occasionally isolationist German policy elites have realised that Germany's economic and political power means that it has a duty to take on more responsibility for Europe's security. But Germany continuously chooses to punch below its weight on defence and security matters.

“The UK government's mantra that Britain is 'leaving the EU but not Europe' does not resonate with Germans.”

Berlin is still far from meeting the NATO defence expenditure target of 2 per cent of GDP; in 2017, German defence spending will come to only 1.2 per cent.¹³ And any deployment of German troops still requires a mandate from the ever-reluctant Bundestag, where parliamentarians continue to be sceptical about the use of military force. From a German perspective it is far from intuitive to think about the strength of the UK's hand in Brexit negotiations as a function of British military might.

Second, German politicians believe that European countries can have a significant impact on international politics only through coalitions and alliances. Germany's own foreign policy and security strategy relies heavily on its membership of both the EU and NATO. The German focus on alliances certainly has its origins in the trauma of the country's 20th century history. But Berlin's commitment to multilateralism today is also a response to the demands of a globalised economy. In this context, the UK's decision to leave the European Union is seen in Berlin not just as geopolitical vandalism but also as an act of self-harm.

The UK government's mantra, often repeated by Boris Johnson, that Britain is 'leaving the EU but not Europe' does not resonate with German officials – in their view, Europe is largely interchangeable with the EU, and the British have diminished their own importance by turning away from the club. This goes beyond diplomatic clout: Germany expects the UK post-Brexit to emerge weaker

than it was as an EU member, poorer, and less effective. For example, on the security front, Germans have doubts that the UK will be able to uphold its military spending commitments in the long term: the UK's public finances will be hit by Brexit, and more cuts in defence spending will have to be made to cope with the costs of an ageing society. And in the short term to medium term, Germans expect the British diplomatic corps to be overwhelmed and distracted by Brexit negotiations.

Looked at through these traditional lenses of German foreign policy, Britain's security card is just not as strong in Germany as London assumes. However, given more recent security challenges, the British do have some leverage in Berlin, if Theresa May plays her cards right. The acute threat of terrorism in Europe, a belligerent Russia, an unstable southern neighbourhood, and the weakening of transatlantic relations and American security guarantees under President Trump are all challenges in response to which Berlin to some degree depends on the UK.

Germany suffered terrorist attacks on its own territory in 2016, which put internal security, intelligence sharing and counter-terrorism policies at the top of the national agenda. Berlin knows that the success of European security co-operation on these issues depends on the UK's contributions: its input to EU information databases, as well as its substantial skill and know-how in the fight against terrorism and organised crime. Thus, on the side-lines of the last EU summit in Malta, Merkel and May focused on discussing co-operation on counter-terrorism. But a potential threat from the UK to withdraw from European co-operation in this field would not be considered credible in Berlin – when it comes to border security and information sharing, every country, including Britain, benefits from more co-operation and suffers when relationships weaken.

Finally, the election of Donald Trump has created an opportunity for the UK to improve its position in the Brexit negotiations: May wants to use the UK's 'special relationship' with the United States to act as a bridge between the US and the EU. On a visit to Washington she managed to wrest a – reluctant – commitment to NATO from Donald Trump, while in Brussels she conveyed Trump's message that Europeans need to invest more in defence spending through NATO. But Merkel does not want the UK to be a go-between in the EU's relations with the Trump administration. She sees Trump's erratic approach to the EU and NATO as a real concern, but she believes that in response the EU should spend more money on defence in order to hedge against the risk of the US reducing its contribution in Europe, not to cosy up to Trump.

Moreover, Merkel's main opposition party, the SPD, has turned defence spending into an election topic. In

¹³: Reuters, 'Germany says boosting defence spending, demands clear US agenda', January 18th 2017.

comments at the 2017 Munich Security Conference, then German Vice-Chancellor, now foreign minister, Sigmar Gabriel criticised what he saw as the US reducing the transatlantic burden sharing question merely to defence spending. He cited Germany's efforts during the refugee crisis as equally valuable.¹⁴ Merkel faces the danger that traditional German left-wing anti-Americanism becomes mixed up with anti-defence spending sentiment. To safeguard both her commitment to increasing defence spending to 2 per cent of GDP and the transatlantic relationship, Merkel must avoid any implication that German defence policy is determined by outsiders.

“Germany does not find it credible that the UK could blackmail Europeans by threatening to withdraw its security contributions.”

In light of Germany's efforts to maintain EU cohesion, Berlin has also criticised both the Trump and the May governments for prioritising bilateral relationships and deals over alliances. Gabriel said recently that Berlin will not abandon its multilateralism “just because they pursue a nationalist policy on the other side of the Atlantic.”¹⁵

The German position on Brexit

What will Germany's negotiating stance be? Germany will be neither a hardliner nor particularly accommodating in the Brexit talks. Its first aim is clear: Berlin wants to preserve the EU and make sure that the EU-27 stick to a unified position; it considers disintegration of the EU the biggest Brexit risk. Second, Germany will strive to achieve a mutually beneficial economic relationship with Britain, but see to it that the EU remains the political forum that sets the rules and regulations of that relationship. Berlin will also insist that free movement of labour remains a cornerstone of the EU's single market, and back demands for preferential access for EU workers to the British labour market in exchange for preferential British access to the EU market for goods and services. Third, Germany will try to make sure that Britain is involved in key European security dossiers, but only after ensuring that consensus is forged within the EU first.

The forthcoming German elections in September 2017 will not change Berlin's position much, and Brexit will not feature heavily in the campaign. Given recent polls that show the CDU and SPD, thanks to the popularity of Martin Schulz, the outcome of the election is more open than many had assumed until very recently. But in the Brexit negotiations, Merkel and Schulz would not differ much in

So can the UK use its security contributions, in light of these new challenges, to influence Germany's negotiating stance on Brexit? With a weaker transatlantic partnership and an unstable European neighbourhood, the UK's security and defence capabilities are more valuable to Europe and Germany. By trying to capitalise on the special relationship with the United States in Brexit negotiations, the UK government is walking a tightrope: the more Britain fails to criticise Trump for his most egregious policies, the more alien Britain will seem to Berlin.¹⁶ But if Britain, in its conversations with the US, promotes European security and the crucial role the EU has played in consolidating a troublesome continent, London will earn goodwill for the forthcoming negotiations. Theresa May should make a serious effort to co-ordinate with Merkel other EU leaders first, before she discusses European security with Trump.

Overall, Germany does not find it credible that the UK could try to blackmail Europeans by threatening to withdraw its security contributions from Europe, because to Germans, British national security is directly linked to European security. And while Berlin depends on London acting as a constructive partner on EU security, over the course of Brexit negotiations it will prioritise the cohesion of the EU over the security relationship with the UK.

their stance. Schulz is the more enthusiastic EU federalist, while Merkel is more pragmatic, but both acknowledge that the EU's cohesion and integrity is at the core of Germany's long-term national interest.

Both would stick to the popular line of ‘no cherry-picking’ for the UK, knowing that a majority of Germans support a firm negotiating position (see Chart 9). Both have announced that – depending on the outcome of the French elections – they would invest in a stronger Franco-German partnership. To get its points across in negotiations, Britain would have to demonstrate to either Chancellor Merkel or Schulz how its own interests further those of the EU.

Rhetorically, the SPD will be slightly tougher on Britain but it too is wary of punishing Britain: the CDU is already arguing that the former European Parliament President Schulz will prioritise the European over the German interest. For her part, Merkel will stick to her ‘no cherry-picking’ mantra to prevent the SPD from owning that issue. She will occasionally signal compromise, given that there is a constituency, albeit smaller, for a more accommodating German stance. But it is unlikely she will say more than that.

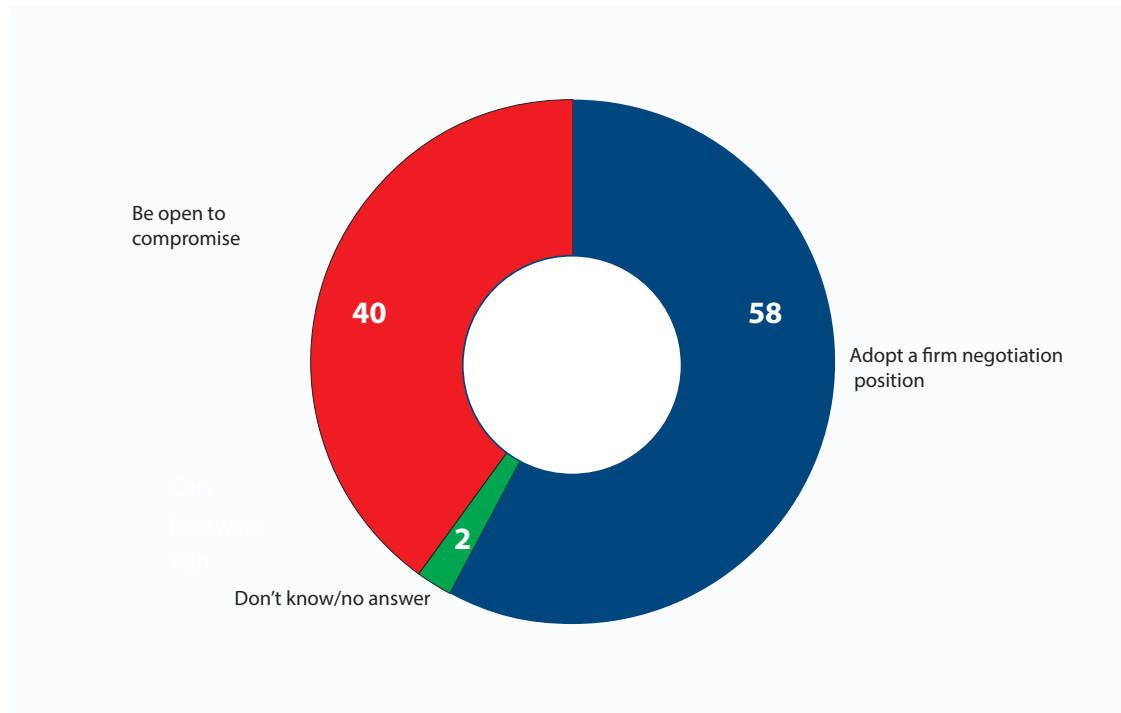
14: Reuters, ‘Germany to boost defence spending, but legacy also important: Gabriel’, February 22nd 2017.

15: *The Wall Street Journal*, ‘Trump's big gamble: Luring countries into one-on-one trade deals’, January 27th 2017.

16: See also Charles Grant, ‘May is weak in Europe but strong at home’, CER bulletin article, issue 112, February/March 2017.

Chart 9:
 “In its negotiations with the UK, the EU should...”
 (responses in per cent)

Source:
 Körber-Stiftung,
 ‘Zweifel oder Zuversicht? Was die Deutschen von Europa halten’,
 Survey, November 2016.



Britain has already made some serious mistakes since its referendum vote to quit the EU. By setting the negotiations up as a poker game and showing little respect for or understanding of how the EU works, London has already lost much European and indeed German goodwill. May’s speech at Lancaster House in January 2017, in which she said Britain would leave the single market, has helped to clarify the British position. But if the UK wants Germany’s support in the negotiations, London should make clearer what it aims to contribute to European security, prosperity and stability while being outside the EU, rather than make demands.

“An EU that only serves a narrow notion of Germany’s national interest is not in Germany’s national interest.”

For its part, Germany should reflect carefully on why the EU has become so unattractive that Britain decided to leave, and why eurosceptic parties are strong elsewhere. Blaming Brexit on the failure of the British political class or British media will not do if Germany wants to preserve the EU. The causes run deeper, and range from the still unresolved euro crisis and fear of German dominance of the EU to Germany’s handling of the refugee crisis and the sense of a loss of control over domestic policies to distant elites. The nature of Europe means that an EU that only serves a narrow notion of Germany’s national interest is not in Germany’s national interest.

Germany must also reassure the UK’s traditional European allies that they do not need to worry about their future position in the EU. The Scandinavian countries and the Netherlands worry about an illiberal turn in EU economic policy, and, in Sweden’s and Denmark’s case, a loss of influence for EU member-states outside the euro. Central and Eastern European countries fear for their security. Berlin needs to invest political capital in both regions and signal full German support for their concerns.

Germany should also take a pragmatic approach to security co-operation with the UK post-Brexit. European security is at risk without the US security umbrella, and Berlin cannot afford to let the partnership with Britain go sour over the course of the Brexit negotiations. The combined military power of European nations will matter more in the future, when Europe will have to take responsibility for its own security. After Brexit, the British government has stated that it wants to take part in EU military operations and missions, as an associated ‘privileged’ partner in EU foreign and defence policy. Germany should be helpful to the British: Berlin knows that EU defence would benefit from a continued close association with the UK and its military capabilities.

Berlin should also remind its fellow Europeans, including France and the institutions in Brussels, that verbal confrontation from the continent undermines rather than strengthens the EU’s negotiating position, because it causes Britain to harden its stance and increases the likelihood of a hard, unmanaged Brexit. The frustration with the British government notwithstanding, it is still in

the EU's interest to find an acceptable compromise, and keep Britain close.

But unless the Trump administration brings major geopolitical changes to Europe, Berlin will take a rather tough position on Brexit, and not the soft stance many Brexiters still hope for. Economic relations with Britain and broader geopolitical considerations are going to play a role, but they are less compelling than Brexiters believe. Ultimately, they are outweighed by one clear

political position: Germany is a firm believer in the EU, and Germany's main aim will be to keep the EU intact.

Sophia Besch
Research fellow, CER

Christian Odendahl
Chief economist, CER

March 2017

Appendix

Chart i:
Domestic value-added in exports to the other country, selected sectors (in per cent of total value-added)
Source: TiVA database, authors' calculation.

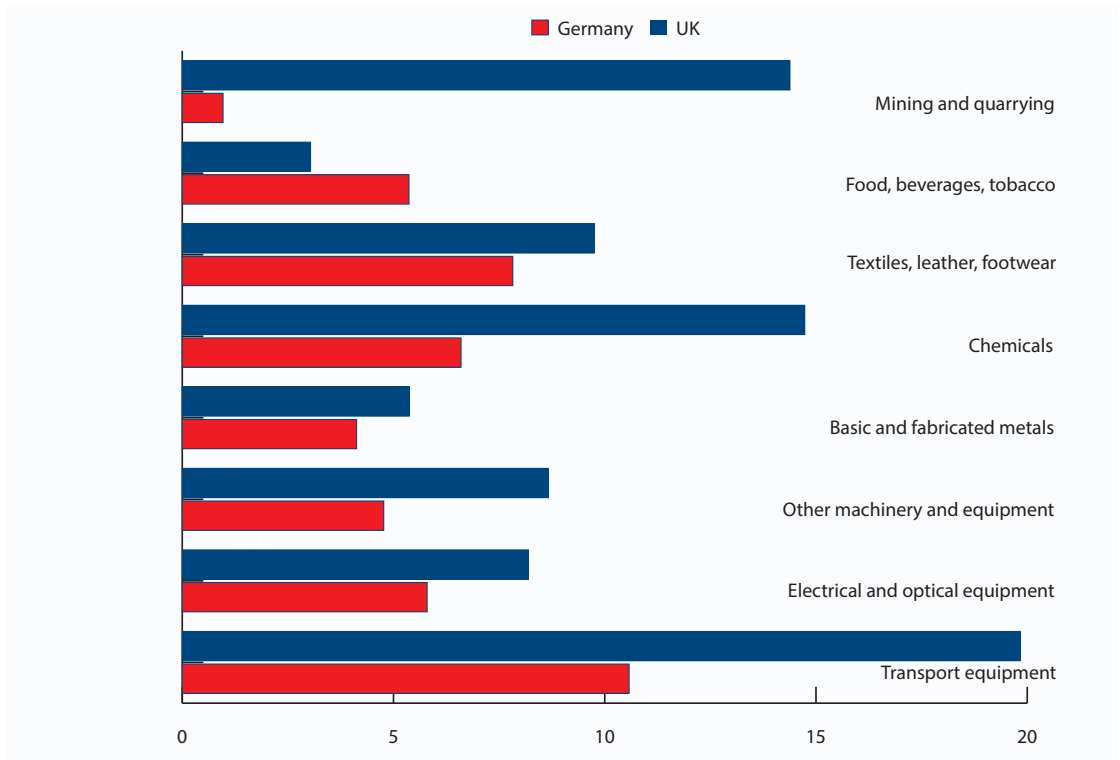


Chart ii:
Domestic value-added in exports to the other country, selected sectors (in per cent of total value-added)
Source: TiVA database, authors' calculation.

