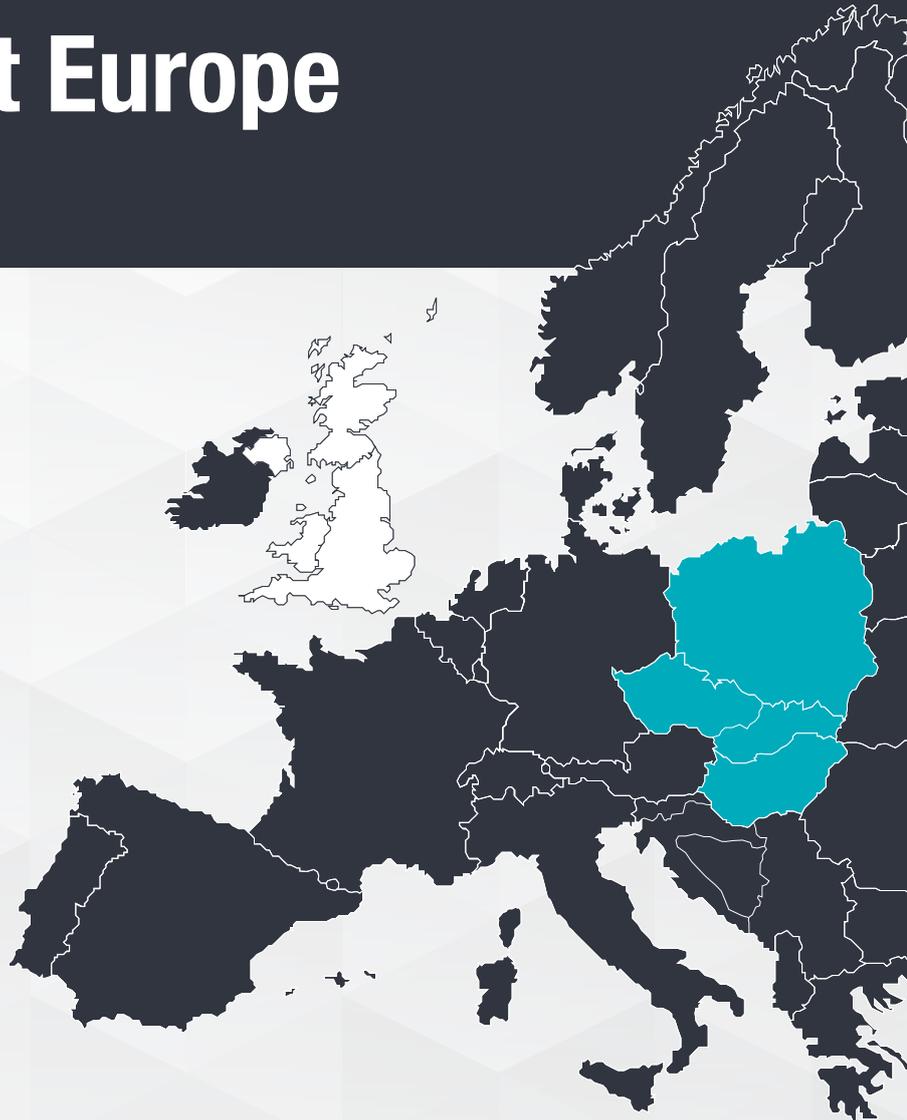


# Brexit, Post-Brexit Europe and the **V4**

Potential Impacts,  
Interests, and  
Perceptions



February 2018

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This publication has been funded by the International Visegrad Fund, Visegrad Grant number 21640265



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With special thanks to Patrycja Rozbicka and Monika Brusenbauch Meislová

All links were checked on 1 February 2018.

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## Abbreviations

CEE	Central and Eastern Europe
CETA	Comprehensive Economic and Trade Agreement
CFSP	Common Foreign and Security Policy
ECJ	European Court of Justice
EEA	European Economic Area
EFTA	European Free Trade Association
EMU	economic and monetary union
EU	European Union
EU27	EU member states without the UK
FDI	Foreign Direct Investment
FTA	free trade agreement
GDP	gross domestic product
MFA	Ministry of Foreign Affairs
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
PiS	Law and Justice Party
SIS	Schengen Information System
UK	United Kingdom
V4	Visegrad Four
WTO	World Trade Organization

## Executive Summary

The purpose of this report is to map the interests of the Visegrad 4 countries (V4; the Czech Republic, Hungary, Poland and Slovakia) towards Brexit and post-Brexit Europe, and identify similarities in the views of the four countries where they can work together. Specifically, the report examines V4 interests towards three aspects of Brexit and post-Brexit Europe: interests towards the EU-UK deal itself; interests related to Brexit-induced changes in the UK; and interests on EU level changes caused by Brexit. All three aspects are analysed with a focus on economic, security and institutional issues.

The report identifies a number of similarities between the V4's interests, especially regarding the EU-UK deal: they are all interested in developing a relationship with the UK which is as close to the current one as possible. The first phase of Brexit negotiations covered two issues which were of key importance for the V4: the rights of citizens and the UK's financial contribution, both of which were settled to the satisfaction of the V4. However, the second phase of negotiations, focusing on future trade and transition arrangements, is likely to lead to greater confrontation, and can potentially be even more divisive. The UK is a significant trading partner for all V4 (with the possible exception of Slovakia), and ensuring continued access to the British market for goods and services is a strong V4 interest. The V4 would like to see Britain remain a part of the single market, and if that is not possible, they would prefer a deep free trade deal which also covers services. Mechanisms which ensure that there is no long term divergence between the single market and the UK would also be welcomed by the V4. Furthermore, the V4 have strong interests in not letting the UK leave without a deal, which would mean that the agreement on citizen's rights reached in the first phase of negotiations would become void. The V4 have so far subscribed to the EU's joint negotiating position and have not made attempts to undermine it, but the second phase can test this unity. However, unity has paid off in the first phase, and thus it is in the best interest of the V4, and the EU as a whole, to remain united during the second phase as well.

The UK has been a strong ally on many policy fronts for the V4 since their accession, including EU foreign and security policy, relations with the Eastern neighbours, the balance of power between eurozone members and non-members, or policies related to regulation and competition. The UK's departure is therefore a great blow to these countries. If there is political will, some EU policies could be opened up for participation of outside countries, and such participation may be in the long term interest of the UK as well. The V4 countries need to analyse and judge which policy areas are of vital importance for them in terms involving the UK, and could initiate efforts to develop EU-level frameworks for cooperation after Brexit. Ensuring that the UK remains close to the EU is especially important in terms of security, including military aspects, but also cooperation on intelligence gathering and information sharing. While the UK has not questioned its commitments towards the continent's security in the framework of NATO, the V4 must make sure that any deeper European cooperation in defence does not become a competitor to NATO.

V4 interests seem to diverge when it comes to the specifics of post-Brexit Europe. The V4 are divided on how to approach EU-level changes post-Brexit, and it is unclear whether these differences can be reconciled. Slovakia has adopted the euro, and has expressed a desire to belong to the core of the EU, while the Czech population is highly Eurosceptic, as are the current Polish and Hungarian governments. The deepening of the integration, perhaps in a multispeed fashion, will become a reality after Brexit, something which the V4 have generally opposed, due to a fear of being left behind. With the V4 not fully united, building coalitions will be difficult, and without the UK, it is unclear who exactly the natural allies of the V4 will be. Implementing V4 interests in post-Brexit EU will require much stronger efforts and highly skilled diplomacy.

# 1. Introduction

On the 23<sup>rd</sup> of June 2016 the electorate of the United Kingdom voted to leave the European Union (EU). The withdrawal of one of its largest member states poses unprecedented challenges for the EU, and will have long term impacts on the future of the integration. While in December 2017 the UK and the EU agreed on the outlines of three key issues (the “divorce bill”, citizen’s rights, and the Irish border), it is still unclear how Brexit will play out, and what exact shape political and economic relations between the EU and the UK will take after the negotiations. In the time since the referendum, a widely shared perception has emerged that nothing is certain, and positions can evolve rapidly. A key interest of the EU is to ensure its own survival, and perhaps use the upheaval caused by Brexit to change the course of integration. A close and constructive relationship between the EU and the UK is in the best interest of all, but it is clear that the EU is prioritizing its own stability and survival during the negotiations, and has not been accommodative towards the UK’s interests.

Different member states of the EU have different interests towards the Brexit process. Some countries have stronger economic relations with the UK than others, and some have relied on the UK as a predictable ally in the EU’s decision making processes. There are also countries with highly specific interests: the Republic of Ireland for example is the only member state to have a land border with the UK, and has a key interest in keeping that border open. There is increasing talk about closer integration among remaining EU members, which some countries oppose. How the Brexit negotiations, now in their second phase, evolve, what shape post-Brexit UK-EU relations take, and what kind of EU emerges from the process are therefore clearly vital issues for the member states.

While it is the European Commission (EC) which leads the negotiations, its mandate comes from the member states. Member states have informal influence throughout the process, and all of them will need to agree to and ratify any new trade agreement with the UK. Understanding the interests of specific member states, as well as groups of member states is therefore important in getting insight into how the final deal with the UK, as well as the EU’s future may evolve. Smaller member states may need to work together to be able to influence the final outcome of the negotiations in their favour. For such alliances to be possible, members need to identify their areas of common interest, and work together to make these visible during the negotiation process.

Given this context, the report focuses on investigating the interests of the Visegrad Four (V4, i.e. the Czech Republic, Hungary, Poland and Slovakia) towards Brexit and post-Brexit Europe. Specifically, the report addresses two main questions:

1. What kind of post-Brexit Europe are the V4 countries interested in?
2. Are there similarities in the views of the four countries, and can they work together to achieve their goals?

The report therefore provides a comparative mapping of V4 interests towards Brexit. Specifically, it examines V4 interests towards three aspects of Brexit and post-Brexit Europe: interests towards the EU-UK deal itself; interests related to Brexit-induced changes in the UK; and interests on EU level changes caused by Brexit. All three aspects are analysed with a focus on economic, security and institutional issues.

Overall, the report finds that there are strong similarities between how the V4 approach Brexit and post-Brexit Europe, but also some key differences. Due to interests related to trade, the rights of their citizens living in the UK, and the fact that they have seen the UK as a major ally in EU decision making, all V4 countries favour maintaining a close relationship, preferably keeping the UK in the single market. The V4 are also open to involving the UK in certain EU policies. However, they have also valued the unity of the remaining 27 member states, and neither of the V4 have given any

indications that they would be willing to break it. V4 interests however seem to diverge regarding the future of the EU after Brexit.

Although the report does not aim to study Brexit itself, Section 2 nonetheless briefly discusses potential scenarios for Brexit in order to provide context. Section 3 presents the methodology used in the report, including the approach to the analysis and details on how data was collected. Section 4 presents the findings for each of the four Visegrad countries, and Section 5 discusses the main themes and provides recommendations on areas where joint actions would be possible.

## 2. What kind of Brexit?

The exit negotiations between the UK and the EU officially began on the 19<sup>th</sup> of June 2017, and the final exit deal needs to be agreed and ratified by March 2019, as per article 50 of the Treaty on European Union, which sets a two year deadline. Despite the tight deadline, the UK government has been extremely vague in formally setting out the exact kind of relationship it wants with the EU. The vote in favour of leaving the EU most likely took the political establishment, and even those campaigning for Brexit, by surprise. Many of the leading figures promoting Brexit clearly did not grasp, or choose to ignore, the complexity of unravelling more than 40 years of integration, and how this could impact the UK. Divisions within the governing Conservative Party have remained after the referendum. The government, and especially the Prime Minister Theresa May, was significantly weakened after the snap election she had called for the 8<sup>th</sup> of June 2017 to strengthen her position spectacularly backfired, stripping the party of its parliamentary majority. Many have also questioned the capacities of the civil service to plan and prepare for Brexit. Years of austerity, especially under David Cameron's governments, have hit the civil service hard, and it has clearly lacked the sufficient number of well-trained experts to deal with the monumental task of Brexit. Many policy areas vital for negotiating Brexit, especially international trade, have found themselves short of British expertise, given that the policy area was EU competence.

These factors all impeded the government in forming a clear position on its exact preferences relating to the terms of Brexit, and the relations it would like with the EU afterwards. A lack of clear British positions was one of the key inhibitors during the first phase of negotiations, which focused on the financial liabilities of the UK towards the EU (the "divorce bill"); the future position and rights of EU citizens living in the UK and UK citizens living in the EU; and the border between Northern Ireland and the Republic of Ireland. The EU's common negotiating position for this first phase on the other hand was clear, and accepted by all member states in a resolution of the Council of the EU.<sup>1</sup> Due to the lack of clarity on the British side, the negotiations in the first phase lasted longer than expected, and were only closed in December 2017. A relatively specific agreement was reached regarding the future rights of EU nationals, which basically allows them to stay in the UK after Brexit. The UK's offer on how it will meet its financial liabilities has also been accepted, however the details on the Irish border remain vague and specifying them in legal terms can still lead to confrontation later on.

Nonetheless, as of January 2018, negotiations have progressed into their second phase, focusing on the future trade relation between the EU and the UK, as well as details of any transition/implementation periods. Several scenarios have been put forward in the past years on the types of trade relationships the UK might develop with the EU post-Brexit, mostly modelled on the EU's currently existing relationships with third countries. The most important of these are the following:<sup>2</sup>

- **EFTA/Norway model:** Three of the members of the European Free Trade Association (EFTA), Norway, Liechtenstein and Iceland, participate in the European Economic Area (EEA). This mechanism allows them generous access to the EU's single market, although with some restrictions. They must accept all the rules of the single market; however, they have no formal influence in making these rules. They must also accept the four freedoms of the EU, including the free movement of people. EEA members must also pay into the EU budget.

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<sup>1</sup> Council of the EU (2017): *Annex 1 to the Council decision authorising the opening of negotiations with the United Kingdom of Great Britain and Northern Ireland for an agreement setting out the arrangements for its withdrawal from the European Union*. 21009/17 BXT 16 ADD 1.

<sup>2</sup> For more details, see Borońska-Hryniewiecka, K. et al. (2016): *Probable EU-UK Relationship after Brexit. Perspectives of Germany, France, Italy, Spain and Poland*. Warsaw: Polish Institute of International Affairs

Simply put, the EFTA/Norway model is the closest to EU membership among the models the UK could choose from, but without the benefit of being able to directly influence EU decision making.

- **Switzerland model:** Switzerland also enjoys the benefits of being able to access the single market, although with even more restrictions than in case of the other EFTA countries. Some services for example are excluded, and there are limitations for agricultural products as well. Access is based on about 120 standalone treaties, each regulating relationships in specific sectors. Switzerland also contributes to the EU budget and has generally respected the free movement of people. While the sectoral treaties are static in nature, Switzerland has generally tended to implement EU rules into its own laws, which has been seen as necessary to ensure seamless access to the single market. Needless to say, just like the other EFTA countries, it has no influence on making these rules.
- **Turkey model:** Turkey forms a customs union with the EU, but it is not in the single market. It has access to the single market for manufacturing products, but not for unprocessed agricultural products or services. It can enter into trade agreements with third countries, but needs to keep its external tariffs on the same level as the EU. There are no requirements for the free movement of people.
- **Canada model:** Canada has negotiated a new generation free trade deal with the EU, the Comprehensive Economic and Trade Agreement (CETA), which entered into force provisionally in September 2017. This provides access for Canada to the EU's single market, but there are many limitations in case of agriculture and services, as well as some other industries. There are no requirements for the free movement of people. It is worth noting that the EU has similar free trade agreements in place with a number of other countries as well, and is negotiating many further ones.
- **WTO model:** Third countries which do not have any agreement with the EU trade with the community according to the rules of the World Trade Organization (WTO). This means tariffs for all products, which are relatively small in case of manufactured goods and higher for agricultural ones. Access for services is very limited under these rules. It is possible that the UK exits the EU without any kind of agreement, and WTO rules would thus be the fall-back option for regulating UK-EU trade.

Maintaining a close relationship with the EU, for example by staying in the single market, has been labelled a 'soft Brexit'. Any solution which involves leaving the single market has been classified as 'hard Brexit', although many pro-Brexit politicians and commentators have preferred the term 'clean Brexit' instead. Others have differentiated between an 'orderly' and a 'chaotic' Brexit, with the former referring to the UK leaving the EU with a deal regulating the exit and their future relationship in place, while the latter meaning that the UK leaves with no deal.

By September 2017, the British government has made it clear that neither of these models is appropriate and it aims to develop a new, unique kind of partnership with the EU. Some key elements of this new partnership, at least according to the UK's position, have emerged by January 2018, although specifics are still lacking. Theresa May's government has been prioritizing the reduction of EU immigration to the UK,<sup>3</sup> which is clearly incompatible with any form of soft Brexit. The European institutions, as well as a number of leading EU politicians have made it clear that a country cannot have full access to the single market if it does not allow the free movement of EU citizens. According to the UK government, any new relationship will have to allow the UK to take back control over who it allows into the country. Proposals put forward by the UK for a new immigration regime have been seen as highly restrictive, although many have questioned whether it can really work in practice, given the chronic skills shortages of the British economy.<sup>4</sup>

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<sup>3</sup> *The Telegraph* (2017): Theresa May commits Tories to cutting net migration to the UK to the tens of thousands. 20 April.

<sup>4</sup> *The Guardian* (2017): Theresa May defends new EU immigration controls after Brexit leak. 6 September.

A second priority for the Conservative government is ending the jurisdiction of the ECJ, which has been seen as intruding on the UK's legal system.<sup>5</sup> This priority is also incompatible with single market membership, given the ECJ's role as the ultimate arbiter of the rules governing the single market. However, the ECJ does not have jurisdiction in the EFTA countries either, and a separate court, the EFTA court, has been created to supervise the EEA agreement. There is thus room for a compromise on this issue. A third priority is to allow the government to negotiate trade deals on its own without any kind of restrictions. Brexit-backing politicians have emphasized the UK's need to diversify its trade relationships, including building stronger relationships with emerging economies.<sup>6</sup> This interest is again incompatible with staying in the single market, although the EU itself is in the process of building a global network of free trade agreements.

These three red lines aside, the government has generally been clear on the fact that it wants as favourable access to the single market as possible. This would, ideally, not only include frictionless trade in goods, but also continued access in terms of services, especially financial and business services, in which the UK is a world leader. The border between the Republic of Ireland and Northern Ireland should also be kept as free and open as possible. This model of future relationship preferred by the UK has been labelled by David Davis, the Secretary of State for Exiting the European Union, as the "CETA+++".<sup>7</sup> The UK government acknowledges that negotiating such a complex deal will not be easy, and that a transition period will be necessary. In her Florence speech in September 2017, Theresa May asked for a transition period of up to two years. She also acknowledged that the UK will continue paying into the EU budget until the end of this period.<sup>8</sup> Beyond these key issues, a number of questions emerge for each policy area, ranging from internal security to fisheries policy. The UK government has put forward details on some of these, but has been vague on others. For example, in January 2018 it has confirmed a willingness to participate in the planned European Intervention Initiative promoted by French President Emmanuel Macron.<sup>9</sup>

The government's preference towards a CETA+++ arrangement can, however, change, given the weakness of May's government, which does not have an absolute majority in Parliament, and relies on the support of a Northern Irish party, the Democratic Unionist Party. May's authority has also been challenged on several occasions by politicians preferring a hard Brexit within her own party, and even her own cabinet. The main opposition party, the Labour Party, officially also supports leaving the single market and the need to prioritize immigration, although it emphasizes that jobs need to be protected.<sup>10</sup> There however seems to be rising popular sentiment for staying in the single market, and a number of influential voices have called for this, and even for the full reversal of Brexit. A large number of Members of Parliament (MP), both in the Conservative and especially the Labour Party, have voted for remaining in the EU. A change in the position of the Labour party is therefore not impossible.

It is also unclear how realistic the UK's aspirations towards a CETA+++ deal are. The EU has emphasized that it does not want to develop new partnership frameworks, and the UK must choose from the existing models. EU politicians have insisted that the UK cannot "cherry pick", or "have its cake and eat it."<sup>11</sup> The EU clearly wants to avoid a situation in which an exiting state achieves a better position in its relations with the community than it had as a member.

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<sup>5</sup> *Politico.eu* (2017a): Continued EU court oversight means no Brexit, says former UK minister. <https://www.politico.eu/article/continued-eu-court-oversight-means-no-brex-it-says-former-uk-minister/>

<sup>6</sup> Yueh, L. (2017): 'Global Britain': the trade strategies the UK could pursue after Brexit. *LSE Blog*, <http://blogs.lse.ac.uk/brexit/2017/10/02/global-britain-the-trade-strategies-the-uk-could-pursue-after-brex-it/>

<sup>7</sup> *The Telegraph* (2017): Britain should sign a 'Canada-plus plus plus' trade deal with the EU after Brexit. 10 December.

<sup>8</sup> *The Guardian* (2017): Brexit transition period should end on 31 December 2020, says EU. 20 December.

<sup>9</sup> UK Government (2017a): UK and France commit to new defence cooperation. *Press Release*, 18 January. <https://www.gov.uk/government/news/uk-and-france-commit-to-new-defence-cooperation>

<sup>10</sup> Mandelson, P. (2017): Single market and customs union essential for a Labour Brexit. *Financial Times*, 16 December.

<sup>11</sup> *The Guardian* (2017): Britain's cake-and-eat-it Brexit routine wears thin with Barnier. 31 August.

### 3. Methodology

In order to identify the interests and preferences of the V4 countries towards Brexit and post-Brexit Europe, the report uses a two-dimensional matrix framework. The first dimension of the matrix refers to the impact areas of Brexit, and breaks down V4 country interests into three groups: interests towards the Brexit deal itself, interests related to Brexit-induced changes in the UK, and interests towards Brexit-induced changes in the EU. The second dimension of the matrix differentiates the economic, security-related and institutional aspects of the three groups in the first dimension (see Table 1).

The columns in Table 1 refer to three impact areas of Brexit. First, the UK will leave the EU, and this divorce will have specific terms. Three of these divorce issues have now been settled in the first phase of negotiations (citizen's rights, the Irish border and the size of the UK's financial commitments), but many further issues remain, especially regarding trade and future relations. It is hoped that the UK will be able to conclude a formal agreement with the EU regulating their relationship in these policy areas. The V4 countries will have specific interests towards this agreement and any further agreements that are to follow it. Second, Brexit will induce (and has already induced) a number of changes in the UK, which will have international implications. British politicians have stated their intentions to orientate the trade relations of their country away from Europe. Brexit can also provoke constitutional crises in the UK, with Scotland expressing a renewed push towards independence and the potential re-ignition of the 'troubles' in Northern Ireland. While less direct, these changes in the UK's foreign and domestic politics all have potential impacts on the V4 countries. Third, the EU itself will undergo a number of changes due to Brexit. With the loss of a large and influential member, power dynamics will shift in several areas: resistance to further integration may weaken, calls for a multispeed EU strengthen, greater pressures may arise for tighter cooperation in the field of defence, and the Economic and Monetary Union will become more influential, among others. Formal decision making processes will also need to be altered, and such changes have always been controversial in the past. Indeed, many such processes have already become visible, for example French President Emmanuel Macron's push for a greater degree of federalism within the EU. The V4 countries need to be prepared for these changes.

The rows in Table 1 refer to the fact that all three Brexit impact areas have economic, security-related, and institutional aspects. Economic issues include aspects related to the four freedoms of the EU, and how Brexit and its consequences will impact these. They also include financial issues. Security-related aspects focus on how the European security architecture (both in terms of internal security and external, military security) will change due to Brexit. Institutional aspects include a broad range of issues relating to how the EU engages with the UK in the future, and how the EU's internal workings and dynamics will transform. The individual cells in the matrix feature specific impacts and policy developments towards which the V4 countries may have interests.

The importance of these specific impacts will be analyzed individually for each of the V4 countries in Section 4, with the goal of identifying which areas have been seen as crucial for each of the countries, and whether there are commonalities and differences. Table 1 includes a large number of potential issues towards which the V4 countries can have interests. This of course does not mean that the political establishments in the four countries have given equal weight to these. Indeed, some issues may be seen as more important than others, and some may not have received much attention at all. The relative importance of the impacts for the V4 will differ, and thus how they

Table 1. Analytical framework

	V4 interests on the EU-UK deal	V4 interests on Brexit-induced changes in the UK	V4 interests on EU level changes caused by Brexit
Economic	<ul style="list-style-type: none"> <li>Trade (access to the UK market for goods and services)</li> <li>Investment (UK outward FDI)</li> <li>Free movement and the rights of V4 citizens in the UK</li> <li>The UK's contribution to the EU budget</li> </ul>	<ul style="list-style-type: none"> <li>Longer term divergence of UK rules, product standards, etc. from those of the Single Market</li> <li>The UK's immigration system for future migrants from the V4</li> </ul>	<ul style="list-style-type: none"> <li>Changes in the EU's rules on free movement (e.g., restrictions on benefits to EU migrants in remaining members)</li> </ul>
Security	<ul style="list-style-type: none"> <li>The UK's contribution to EU missions</li> <li>British participation in internal security (SIS, Eurojust, Europol intelligence sharing)</li> </ul>	<ul style="list-style-type: none"> <li>The UK's willingness to contribute to European security through NATO</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining EU military capabilities</li> <li>Pressures towards more intense EU cooperation on defence</li> </ul>
Institutional	<ul style="list-style-type: none"> <li>Mechanisms for arbitration (if the UK leaves the ECJ)</li> <li>British participation in certain policy areas (beyond economic and security issues) and ad hoc institutions that could ensure this</li> </ul>	<ul style="list-style-type: none"> <li>Greater devolution within the UK</li> <li>Scottish independence</li> <li>Renewal of conflict in Northern Ireland</li> </ul>	<ul style="list-style-type: none"> <li>Balance of power in EU institutions, and changes in the Council votes/EP seats</li> <li>Balance between eurozone/non-eurozone countries</li> <li>Pressures for multispeed Europe</li> <li>Deterring other member states from exiting</li> </ul>

prioritize interests clearly matters. This is especially important in terms of identifying common interests and areas for cooperation.

Data from a number of different sources has been used to identify the interests of the V4 countries along the lines of Table 1. Detailed statistics have mainly been used on economic interests, including trade, investments and migration, which can show the relative importance of the UK for each of the V4 in these fields. Statistics have been collected from the OECD's databases, unless otherwise noted. A large portion of V4 interests towards Brexit however cannot be quantified, and thus a number of different qualitative data sources were also used. First, these include written sources like government statements, speeches, position papers, media reports, and any existing analysis on the topic. These documents have been analyzed with the view of identifying government positions and discourses on the specific impacts of Brexit. Second, qualitative interviews have been carried out in all four Visegrad countries. Interviewees have included senior civil servants, mainly in the Ministries of Foreign Affairs of the four countries, but also economic and political experts. The purpose of the interviews was twofold. First, to collect data on any aspects of the impact areas on which qualitative and quantitative data were not readily available; and second, to gauge the perceptions these decision makers have about the relative importance of the various issues identified. Interviews were conducted between mid-October 2017 and early-January 2018. Due to this timing, which coincided with the final stretch of the first phase of Brexit negotiations, most respondents were understandably focused on the topics covered during this phase, although significant efforts were made to elicit responses on the wider impacts of Brexit. Due to reasons of confidentiality, all interviewees remain anonymous.

## 4. Findings

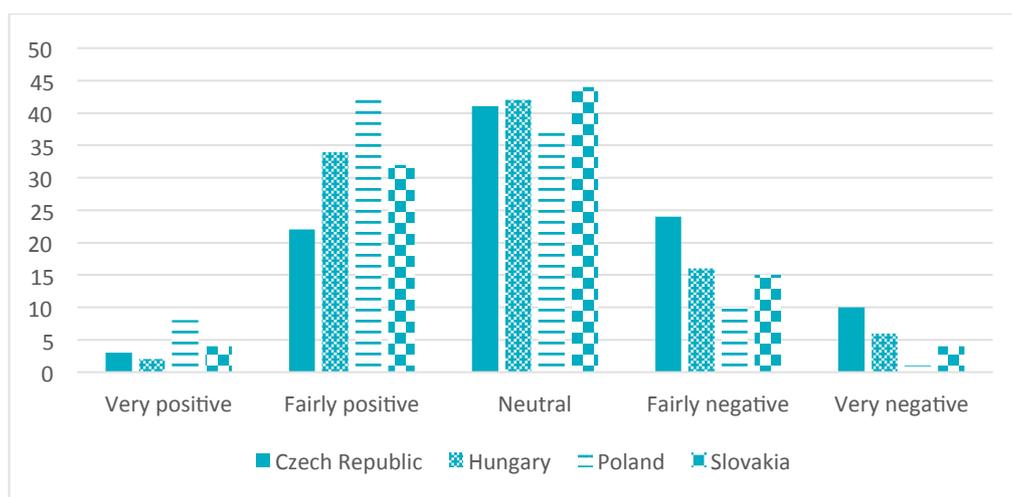
### 4.1. Czech Republic

#### 4.1.1. The Czech Republic and the EU

The European policy of the Czech Republic is at a crossroads and under pressure from contradicting factors. The country has an open economy, situated at the geographical centre of the European Union, yet the rising Euroscepticism of the Czech population prevents the country from making the next step in economic integration: joining the third phase of the EMU, i.e. adopting the euro. The Czech Republic joined the EU with the expectation of “returning to Europe” and becoming a full, normal member of the European family of nations. However, at the moment, it seems that the country does not know whether it wants to adopt the euro and become a part of the “integration core”. The Czech Republic has been maintaining a perpetual “wait-and-see” policy vis-à-vis the euro and other euro-related initiatives like the fiscal union or the banking union.

The widening gap between “Western” and “Eastern” EU member states represents another, albeit related challenge for the Czech Republic. The Eastern EU enlargement in 2004 was meant to symbolize the end to the Cold War division between Western and Eastern Europe. However, the backsliding of democratic standards among the V4 member states revived the negative connotations traditionally associated with the “Eastern bloc”: autocratic government and closed society. The Czech Republic has tried to play a moderating role within the V4 and serve as a bridge between the more Eurosceptic governments of Poland and Hungary on the one hand and the EU mainstream (mainly Germany) on the other hand. The recent push for deeper European security cooperation, enthusiastically supported by the Czech government, is an attempt to bridge the East-West divide by deepening the integration in an area of common interest. But the Czech government’s mediating efforts are complicated by the fact that the Czech population is far more Eurosceptic than publics in the other V4 countries (see Figure 1).

Figure 1. Public image of the EU in the V4 countries, 2017 (percentage of respondents)<sup>12</sup>



Brexit adds another layer of uncertainty. The UK is not only the second largest economy in the EU and a net contributor to the EU budget, but also the biggest non-eurozone member state. Brexit may leave the remaining non-eurozone countries marginalized. The UK also acted as an ideological ally of

<sup>12</sup> European Commission (2017): *Standard Eurobarometer 87*, May. Brussels: EC.

the CEE countries, promoting the deepening of the internal market and voicing scepticism about further deeper of the EU integration. The UK was an awkward and Eurosceptic member state, but its positions were acknowledged and respected. On several occasions, the UK provided a shield for other, more reluctant or Eurosceptic EU member states from Central and Eastern Europe. In this sense, Brexit may expose the Czech Republic as an increasingly Eurosceptic member state. Being a liberal Western democracy, the UK provided some “geopolitical balance” to the political debate about the future of the EU. With the UK gone, there is a danger that the most Eurosceptic countries will all be in the “East”, which would reinforce the East-West divide.

#### 4.1.2. Czech interests on the EU-UK deal

**Economy.** The United Kingdom is an important trading partner of the Czech Republic. In 2016, the UK was the country’s fourth most important export partner (after Germany, Slovakia and Poland) and exports of goods to the country represent 5.2 per cent of total exports (Table 2). More importantly, since 2001, the Czech Republic has had a noticeably positive trade balance with the United Kingdom – imports from the UK reach only around 45 per cent of Czech Exports to the UK. Czech exports to the UK are dominated by technologically advanced products (machinery and transport equipment), which adds to the importance of the British market for the Czech economy. The Czech Republic has an interest in maintaining trade relations with the United Kingdom which has been reflected in numerous public declarations by Czech politicians and in interviews with officials.<sup>13</sup>

Table 2. Trade in goods between the UK and the V4, 2016<sup>14</sup>

	Share of the UK in total export of goods (%)	UK's rank among export destinations	Share of the UK in total import of goods (%)	UK's rank among import partners	Imports as a percentage of exports
Czech Rep.	5.2	4 <sup>th</sup>	2.7	8 <sup>th</sup>	44.6
Hungary	3.9	9 <sup>th</sup>	1.9	14 <sup>th</sup>	43.9
Poland	6.6	2 <sup>nd</sup>	2.6	10 <sup>th</sup>	37.1
Slovakia	5.9	5 <sup>th</sup>	1.8	12 <sup>th</sup>	29.5

More recent reports however indicate a slowdown in the expansion of trade relations between the Czech Republic and the UK. According to the analysis by the Association of Small and Medium-Sized Enterprises and Crafts CZ, the growth of Czech exports to the UK has significantly slowed down. While in 2015 Czech exports rose by 12 per cent, the growth of exports in 2016 stood at one per cent and the trend continued in the first half of 2017 with an anaemic growth of one per cent year-on-year.<sup>15</sup> The slowdown is evident in a comparative perspective: during the first half of 2017 the overall exports of the Czech Republic grew by 5.7 per cent. Exports to Germany grew by seven and

<sup>13</sup> Czech Government (2017): Vláda schválila pozici České republiky k vyjednávání o vystoupení Velké Británie z EU, <https://www.vlada.cz/cz/media-centrum/aktualne/vlada-schvalila-pozici-ceske-republiky-k-vyjednavani-o-vystoupeni-velke-britanie-z-eu--155204/>.

<sup>14</sup> OECD (2017a): International Trade and Balance of Payments Statistics, <http://www.oecd.org/trade/its/>.

<sup>15</sup> ASMP (2017a): Obchod s Velkou Británií zpomaluje. Praha: Asociace malých a středních podniků a živnostníků ČR, <http://amsp.cz/wp-content/uploads/2017/10/TZ-2017-10-03-Obchod-s-Velkou-Brit%C3%A1ni%C3%AD-zpomaluje.docx>; ASMP (2017b): Analýza ASMP ČR. Obchodní a investiční aktivity mezi ČR a Velkou Británií. Praha: Asociace malých a středních podniků a živnostníků ČR, [http://amsp.cz/wp-content/uploads/2017/10/TZ-2017-10-03-p%C5%99%C3%ADloha\\_Anal%C3%BDza-obchodu-a-investic-%C4%8CR-V.Brit.-10-2017.pdf](http://amsp.cz/wp-content/uploads/2017/10/TZ-2017-10-03-p%C5%99%C3%ADloha_Anal%C3%BDza-obchodu-a-investic-%C4%8CR-V.Brit.-10-2017.pdf).

to France by four per cent. The slowdown has been attributed to the “psychological effect of Brexit”.<sup>16</sup>

Trade in services between the Czech Republic and the UK is less important than trade in goods. Czech service exports to the UK in 2016 made up only 14 per cent of total exports to the UK. The share of services in total imports is somewhat higher at 33 per cent.<sup>17</sup> Even though the UK is an overall net exporter of services, the Czech Republic maintains a positive balance in service trade with the UK, although the gap between exports and imports is not as large as in case of goods (see Table 3). Most important components are transport services and tourism. Trade in services could be hit significantly by a clean/hard Brexit, however it is far less important for the Czech Republic than trade in goods.

Table 3. Trade in services between the UK and the V4, 2015<sup>18</sup>

	Share of the UK in total export of services (%)	UK's rank among export destinations	Share of the UK in total import of services (%)	UK's rank among import partners	Imports as a percentage of exports
Czech Rep.	5.9	3 <sup>rd</sup>	4.9	5 <sup>th</sup>	72.7
Hungary	7.9	3 <sup>rd</sup>	9.7	3 <sup>rd</sup>	89.9
Poland	7.0	3 <sup>rd</sup>	8.7	2 <sup>nd</sup>	91.5
Slovakia	2.9	12 <sup>th</sup>	2.8	8 <sup>th</sup>	97.0

Source: OECD, International Trade and Balance of Payments Statistics, 2017

Flows of foreign direct investments are highly asymmetrical both in absolute and relative terms. While the historical total of all British FDI in the Czech Republic stands at 115.6 billion CZK, Czech FDI in the UK is only 7.5 billion CZK. In relative terms, the British FDI stock in the Czech Republic makes up about 4 per cent of all investments in the country (Figure 2), while Czech investments in the UK represent only 1.3 per cent of all FDI made by Czech subjects abroad.<sup>19</sup> One can argue that the asymmetry is caused by the competitiveness of the British market. Another interpretation is that the UK is simply perceived as a less attractive destination for Czech capital (in contrast to countries such as the Netherlands, Slovakia, Cyprus, Germany or Greece).<sup>20</sup> The data also suggests that the UK and British offshore centres are less attractive for Czech capital than other low tax European jurisdictions such as Cyprus or the Netherlands.

The movement of Czech workers to the UK has been the lowest among the V4 countries (Figure 3). The Czech interests in the four freedoms are thus not balanced. Trade in goods dominates over trade in services, investments or labour movement. Despite the slowdown after Brexit, the UK is still an important market for Czech goods with a positive trade balance. On the other side, the share of trade in services in total transactions is relatively low, especially if one takes into account that the UK is a service-oriented economy. FDI from the UK is important (the UK is the seventh largest investor in the Czech Republic), but the stakes of Czech investors in the UK are extremely low in both absolute and in relative terms. The salience of trade in goods is reflected in public declarations of Czech

<sup>16</sup> ASMP (2017a): op. cit.

<sup>17</sup> ASMP (2017b): op. cit.

<sup>18</sup> OECD (2017a): op. cit.

<sup>19</sup> ASMP (2017b): op. cit.

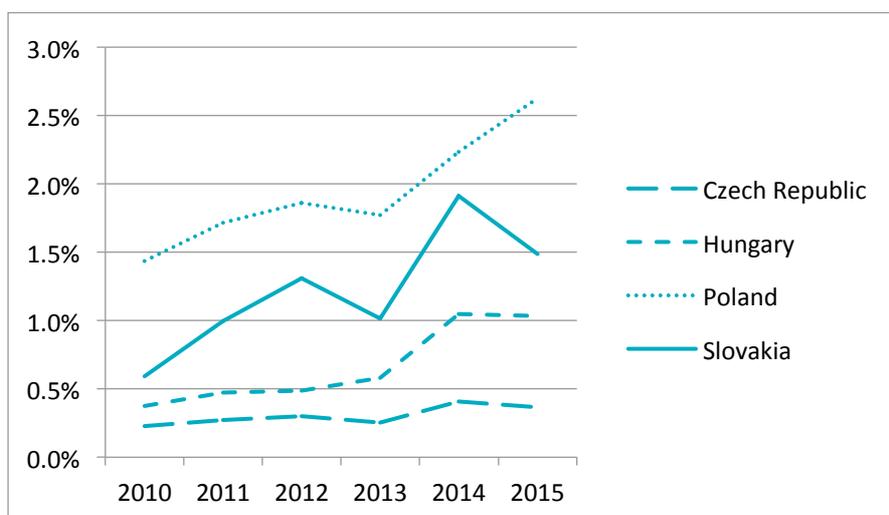
<sup>20</sup> Czech National Bank (2016): Foreign direct investment in 2015. Czech National Bank, [https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/statistics/bop\\_stat/bop\\_publications/pzi\\_books/PZI\\_2015\\_EN.pdf](https://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/statistics/bop_stat/bop_publications/pzi_books/PZI_2015_EN.pdf).

politicians and in interviews with officials.<sup>21</sup> In his reaction to the invocation of Article 50 by the UK, Czech Prime Minister Bohuslav Sobotka vowed to protect Czech exports to the UK and Czech jobs tied to these exports, as well as the “rights of Czech expats” in Britain.<sup>22</sup> The free movement of services and capital has received far less attention in the public discourse.

Figure 2. Inward stock of UK FDI as a share of total FDI stock in the CEE countries, 2007-2015<sup>23</sup>



Figure 3. Stocks of V4 migrants in the UK, 2010-2015 (percentage of sending country population)<sup>24</sup>



**Security.** The Czech Republic’s security depends on collective defence and multilateral mechanisms rather than bilateral security guarantees.<sup>25</sup> In the past, there were attempts by the centre-right government to establish some kind of bilateral security ties with the USA through the installation of a radar base on the Czech soil. But in 2008, this path of bilateral security arrangement has been

<sup>21</sup> Interview with an official from the Czech MFA, European Section, 6 December 2017.

<sup>22</sup> *Radio Prague* (2017): PM Sobotka vows active Czech role in Brexit negotiations, <http://www.radio.cz/en/section/curraffrs/pm-sobotka-vows-active-czech-role-in-brexite-negotiations>.

<sup>23</sup> OECD (2017b): FDI flows by partner country, [https://stats.oecd.org/Index.aspx?DataSetCode=FDI\\_FLOW\\_PARTNER](https://stats.oecd.org/Index.aspx?DataSetCode=FDI_FLOW_PARTNER).

<sup>24</sup> OECD (2017c): International Migration Database, <https://stats.oecd.org/Index.aspx?DataSetCode=MIG>.

<sup>25</sup> Czech Government (2015a): *Security Strategy of the Czech Republic*, [http://www.army.cz/images/id\\_8001\\_9000/8503/Security\\_Strategy\\_2015.pdf](http://www.army.cz/images/id_8001_9000/8503/Security_Strategy_2015.pdf).

abandoned in favour of a more multilateral approach under the NATO framework.<sup>26</sup> Given the negative historical experience with bilateral security agreements with western European powers, there is little appetite to build bilateral security guarantees with the UK or others.

The security relationship between the UK and the Czech Republic is embedded in the wider multilateral framework of NATO and EU membership.<sup>27</sup> According to the Czech Republic's foreign policy concept, the country "ascribes an important role to the United Kingdom especially as far as the EU's Common Foreign and Security Policy is concerned."<sup>28</sup> It is therefore fair to assume that after the withdrawal of the UK from EU's Common Foreign and Security Policy (CFSP), the strategic importance of the UK will decline, even though it remains a "prominent actor". Therefore, there are no incentives to negotiate a bilateral security agreement with the UK after Brexit. None the less, the Czech Republic has shown interest in bilateral projects to strengthen cooperation with the UK. For example, in 2016, 71 such projects were announced with the aim of fostering cooperation on training and education, and improving the fighting readiness of the Czech armed forces.<sup>29</sup> Such forms of cooperation may remain after Brexit.

Most of the day to day security and military cooperation between the UK and the Czech Republic however takes place in the framework of NATO. Since the UK has no intentions to disengage from NATO post-Brexit, it is not expected that practical military cooperation will suffer as a result of Brexit. Even though the British government believes that the UK's role in security and military cooperation gives it an upper hand in the negotiations, Czech officials do not seem concerned about the possible negative impact of Brexit on security cooperation.

**Institutional aspects.** The United Kingdom is widely recognized as not only an important economic and security partner for the Czech Republic, but also as a strategic and ideological ally within the EU. The UK was a key supporter of the EU's eastern enlargement, and after 2004 the Czech Republic and the UK shared interests in several areas of EU policy, especially in terms of completing the single market through more competition and greater openness to services.<sup>30</sup> Therefore, Brexit was not in the Czech national interests. Most Czech politicians reacted to the results of the Brexit referendum correspondingly – the general mood in late June 2016 was that of "gloom and regret."<sup>31</sup> Since Brexit was perceived as "irreversible" by the Czech politicians, the government seems to prefer a second-best institutional model for the future EU-UK relationship which would be as close as possible to the current status quo: the EFTA/Norway model, with the UK remaining in the single market.<sup>32</sup>

Trade relations between the Czech Republic and the UK are asymmetrical in terms of relative importance for both countries. While the UK is the Czech Republic's fourth most important export market, the Czech Republic is UK's 29<sup>th</sup> export market, representing just 0.54 per cent of British exports.<sup>33</sup> The two countries are locked in a relationship of asymmetrical interdependence, which

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<sup>26</sup> Schneider, J. (2014): *The US-Czech Strategic Relationship: A Roadmap for the Future in Security and Defence*. Prague: Centre for Transatlantic Relations, [http://www.cevroinstitut.cz/upload/ck/files/PCTR/Publikace/Policy%20paper\\_Schneider.pdf](http://www.cevroinstitut.cz/upload/ck/files/PCTR/Publikace/Policy%20paper_Schneider.pdf).

<sup>27</sup> Kasáková, Z. (2016): Great Britain in the Czech Foreign policy. In: Kořan, M.I (ed.): *Czech Foreign Policy in 2015: Analysis*. Praha: Ústav mezinárodních vztahů, pp. 258-275.

<sup>28</sup> Czech Government (2015b): *Concept of the Czech Republic's Foreign Policy*, [http://www.mzv.cz/jnp/en/foreign\\_relations/policy\\_planning/concept\\_of\\_the\\_czech\\_republic\\_s\\_foreign.html](http://www.mzv.cz/jnp/en/foreign_relations/policy_planning/concept_of_the_czech_republic_s_foreign.html).

<sup>29</sup> UK Government (2016): Czech and British Armed Forces tighten cooperation, <https://www.gov.uk/government/news/czech-and-british-armed-forces-tighten-cooperation>.

<sup>30</sup> Chromiec, J. J. (2016): *Visegrad Four in Brexit negotiations: Tale of two tables*. Berlin: Jacques Delors Institute.

<sup>31</sup> Radio Prague (2016b): Czech politicians agree that EU needs to reform in wake of Brexit, <http://www.radio.cz/en/section/curaffrs/czech-politicians-agree-that-eu-needs-to-reform-in-wake-of-brexit>.

<sup>32</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>33</sup> BusinessInfo.cz (2017): Velká Británie: Obchodní a ekonomická spolupráce s ČR. CzechTrade, <http://www.businessinfo.cz/cs/clanky/velka-britanie-obchodni-a-ekonomicka-spoluprace-s-19073.html>.

has important implications for the institutional aspects of the negotiations between the EU and the UK and the future relationship. The fact that the Czech Republic is more dependent on the UK than vice versa means that in case of bilateral negotiations, the Czech Republic would find itself in the weaker position. Therefore, it is in the interest of the country to negotiate through the EU. Even though trade in goods with the UK is more important than other types of transactions, there has been little desire in the Czech Republic to prioritize trade in goods and break with the EU27 consensus that all four freedoms are inseparable. According to Czech officials, the Czech Republic is aware of the fact that any cherry-picking would quickly lead to the collapse of the common negotiating position.<sup>34</sup> Seeing a benefit of strong joint EU position, the Czech Republic refrained from undertaking separate negotiations with the UK.<sup>35</sup>

#### 4.1.3. Czech interests on Brexit-induced changes in the UK

The Czech Republic has little political stakes within British domestic politics, apart from immediate concerns about the wellbeing of Czech citizens living in the country. For example, the Czech government has no stakes in the Northern Ireland peace process, it has no territorial disputes with the UK like Spain. The Czech Republic has no separatist / autonomist movements on its soil and therefore has no stakes in the future of Scottish independence struggles. Czech officials acknowledge, that out of the three issues that were discussed during the first phase of the Brexit negotiations, the Czech Republic had the least interest in the issue of the Irish border.<sup>36</sup>

None the less, given that the UK is an important destination for Czech exports, it is in the interest of the Czech Republic that British rules and product standards do not diverge from European ones in the future. Significant divergence in rules would make market access more difficult for Czech exporters. In the early phases of the negotiations much attention was paid to the fate of Czech citizens living in the EU. However, this attention was more a result of immediate emotions after a surge of attacks against Czech and other Central Europeans in the UK,<sup>37</sup> rather than a cold calculation of national interests. After the end of the first phase of negotiations however, the issue of citizens' rights is considered settled, and it receives far less public and political attention.<sup>38</sup>

#### 4.1.4. Czech interests on EU level changes caused by Brexit

The first tangible impact of Brexit on the EU is the hole it will leave in the EU budget, as the UK was the third largest net contributor. The Czech Republic is a net recipient of EU funds, and thus its interests are directly threatened by Brexit. According to some estimates the Czech Republic could lose up to €4.8 billion due to Brexit.<sup>39</sup> On the one hand, the Czech government is aware of the challenge and insists that Brexit must not threaten EU funding during the current multiannual financial framework (2014-2020).<sup>40</sup> On the other hand, Czech political elites have no strategy for the post-2020 period, and for the moment it seems that the Czech Republic will become a net contributor to the EU budget. Brexit only hastens the arrival of this economic (and political) tipping

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<sup>34</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>35</sup> Brusenbauch Meislová, M. (2017): *Shaped by pragmatism: What the Czechs want to get out of Brexit*. London School of Economics, European Politics and Policy.

<sup>36</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>37</sup> *The Guardian* (2016): Czech PM urges Theresa May to stop attacks on citizens after Brexit vote. 30 September.

<sup>38</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>39</sup> ČT24 (2017): Šlechtová pro ČT: Česko by po brexitu mohlo přijít na eurofondech o 120 miliard korun, <http://www.ceskatelevize.cz/ct24/ekonomika/2163807-slechtova-pro-ct-cesko-po-brexitu-mohlo-prijit-na-eurofondech-o-120-miliard-korun>.

<sup>40</sup> *Euroskop.cz* (2017): Sobotka: Brexit nesmí ovlivnit současné fondy EU, <https://www.euroskop.cz/9002/28920/clanek/sobotka-brexit-nesmi-ovlivnit-soucasne-fondy-eu/>.

point. Czech officials admit that there is no strategy because the country is not expected to become a net contributor before 2023, which is well beyond the current political cycle.<sup>41</sup>

The Czech officials are aware of the possible marginalization of non-eurozone member states in the post-Brexit EU.<sup>42</sup> After the UK's withdrawal, the eurozone will represent 85 per cent of the EU's GDP and 76 per cent of its population, and could easily form a voting bloc within the Council, based on the shared interests of the eurozone member countries. It is in the interests of the Czech Republic to prevent the emergence of such a consolidated voting bloc – the country would find itself in an extremely weak negotiating position if it were to face such a bloc. Even though a number of Czech politicians challenge the idea that the eurozone represents some kind of coherent “core” of the EU,<sup>43</sup> officials within the government see the possible marginalization of non-eurozone member states as real threat. Institutional changes within the EU and further formalization of the eurozone institutions would also weaken the Czech position within the EU. In the aftermath of the economic crisis, the eurozone already formalized and strengthened its institutions.<sup>44</sup> The eurozone already has its own “primary law” in the form of intergovernmental treaties (the Fiscal Compact and the European Stability Mechanism treaty), which are outside of the EU's primary law.<sup>45</sup> The impact of Brexit on the institutional setup of the eurozone is difficult to estimate. On the one hand, Brexit may accelerate the deepening of the eurozone and the strengthening of its separate institutions. On the other hand, with the UK gone and the voting power of remaining non-eurozone member states diminished, the eurozone states may simply use existing EU institutions for promoting the its interests.

Some deeper integration within the eurozone can be supported by the Czech Republic, especially in terms of stricter fiscal rules, however, greater risk sharing mechanisms, such as eurobonds, seem unacceptable. Non-eurozone member states from the V4 always took the threat of separate eurozone institutions seriously. They opposed the establishment of EMU summits, and when they were formalized in the Fiscal Compact, Poland insisted that the participation of non-eurozone countries was guaranteed.<sup>46</sup> Five years later, when the EU renewed plans for strengthening separate eurozone institutions (the eurogroup), the Czech government proposed an observer seat for non-eurozone finance ministers.<sup>47</sup>

The recent push by the Czech government in favour of deeper defence cooperation within the EU, which is largely shared by the new government,<sup>48</sup> illustrates that the EU CFSP plays an increasingly important political role in Czech foreign and defence policy. Brexit did not diminish the appetite of the Czech governments to pursue closer security cooperation within the EU, on the contrary, Brexit is mentioned as one of the pressing foreign policy issues and turbulences behind a push for the creation of a joint European military force.<sup>49</sup>

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<sup>41</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>42</sup> *Euractiv.cz* (2017): Česko po brexitu: studie naznačuje tři možné scénáře, <http://euractiv.cz/clanky/cr-v-evropske-unii/cesko-po-brexitu-studie-naznacuje-tri-mozne-scenare/>.

<sup>43</sup> Zahradil, J. (2017): To, zda být, či nebýt v „tvrdém jádru“ EU, bude klíčovým střetem volebního období. *Parlamentní listy*, <http://zahradil.cz/2017/08/28/to-zda-byt-ci-nebyt-v-tvrdem-jadru-eu-bude-klicovym-stretem-volebniho-obdobi/>.

<sup>44</sup> The eurogroup was formally established by the Lisbon Treaty, even though it is dependent on the Council for its decision-making. Separate euro summits have been formalized in the Fiscal Compact.

<sup>45</sup> Beneš, V. and Braun, M. (2014): An ever-closer eurozone and its consequences for differentiated integration in Europe. In: Blockmans, Steven (ed.): *Differentiated Integration in the EU: From the Inside Looking out*. Brussels: CEPS, pp. 12-25.

<sup>46</sup> *Euinside* (2012): The Polish Amendment in the New Fiscal Treaty, <http://www.euinside.eu/en/news/the-polish-amendment-in-the-new-fiscal-treaty>.

<sup>47</sup> *Reuters* (2017a): Czechs may seek observer seat at beefed-up euro group to keep information flow, <https://www.reuters.com/article/us-czech-eu/czechs-may-look-for-observer-seat-at-beefed-up-euro-group-to-keep-information-flow-idUSKCN1B11LY?il=0>.

<sup>48</sup> Czech Government (2017): Návrh programového prohlášení vlády, <https://www.vlada.cz/cz/jednani-vlady/navrh-programoveho-prohlaseni-vlady-162319/>

<sup>49</sup> *Radio Prague* (2016a): Prime Minister Sobotka calls for creation of EU army to complement NATO, <http://www.radio.cz/en/section/curaffrs/prime-minister-sobotka-calls-for-creation-of-eu-army-to-complement-nato>.

The changes to the institutional structure of the EU and other far-reaching reforms promoted by some European politicians would require the re-opening the EU treaties. Virtually all Czech officials and most politicians are vehemently opposed to the idea of re-negotiating EU treaties.<sup>50</sup> Czech officials are aware of the tortuous ratification process of the Lisbon Treaty, and treaty change would be difficult to sell to the Eurosceptic Czech public. A call by Eurosceptic and populist political parties for a ratification of any changes by referendum would be difficult to resist. Times have however changed since the ratification of the Lisbon treaty. While in 2009 the rest of the EU was willing to provide additional reassurances to the Czech Republic, today any threat of a veto by the Czech electorate, or any other non-eurozone country, would prompt the eurozone to go its own way, as it did in reaction to the UK's veto of the Fiscal Compact in December 2011.

#### 4.1.5. Summary of Czech interests

The Czech interests can be summarized as follows:

- The Czech Republic is an increasingly Eurosceptic country, which is likely to be compounded in the medium term by the fact that the country will become a net contributor to the EU budget.
- Ensuring access to the UK market is important for the Czech Republic, mainly in terms of goods, but also, to a lesser degree, in terms of services. It is a key Czech interest that the UK remains aligned with EU rules and product standards
- The issue of citizens living in the UK has not been such an important issue as in the other V4 countries, and it is now seen as settled by the Czech government.
- Not all of the four freedoms are equally important for the Czech Republic in relation to the UK, but it accepts the EU consensus that they are inseparable in the single market. The Czech Republic has a strong interest in negotiating only through the EU, and has been satisfied with how this was conducted during the first phase.
- Brexit weakens the Czech Republic in the EU's decision making procedures. A key Czech interest in the longer term is to avoid the marginalization of non-eurozone member states. Treaty change is not supported by the Czech Republic, but it does support some aspects of closer integration, such as deeper defence cooperation.

## 4.2. Hungary

### 4.2.1. Hungary and the EU

The EU plays a vital role for Hungary, which is observable in many areas. However, two in particular stand out. First, Hungary's economy is very closely integrated in trade terms with other EU member states, which is exemplified by the fact that approximately 80 per cent of Hungarian trade is directed towards EU members.<sup>51</sup> Germany is by far the most important partner for Hungary, accounting for 27.5 per cent of exports and 26 per cent of imports in 2016.<sup>52</sup> Second, Hungary receives significant funding from the EU through the Structural and Cohesion Funds. According to a recent report by KPMG,<sup>53</sup> during the EU funding cycle between 2007 and 2013, Hungarian GDP increased by 4.6 per cent in total, whereas without funds from the EU, it probably would have contracted by 1.8 percent.

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<sup>50</sup> Interview with an official from the Czech MFA, European Section, 4 January 2018.

<sup>51</sup> International Trade Center (2017): International trade in goods, statistics by country, <http://www.intracen.org/itc/market-info-tools/statistics-import-country-product-monthly/>.

<sup>52</sup> OECD (2017a): op cit.

<sup>53</sup> KPMG (2017): *A magyarországi európai uniós források felhasználásának és hatásainak elemzése a 2007-2013-as programozási időszak vonatkozásában*, [https://www.palyazat.gov.hu/magyarorszag\\_i\\_europai\\_unios\\_forrasok\\_elemzese](https://www.palyazat.gov.hu/magyarorszag_i_europai_unios_forrasok_elemzese).

Hungary was also the largest per capita beneficiary of the Structural and Cohesion Funds by far in comparison to other V4 countries: it received on average €437 per capita each year through various EU funds between 2007 and 2015, while the similar data for the Czech Republic, Slovakia and Poland are €363, €350 and €332 respectively. Ensuring continued access to this funding is a key interest for Hungary, otherwise it would need to initiate painful structural reforms to regain the competitive edge which the country had lost in the past decade.<sup>54</sup>

The current Hungarian government, led by Prime Minister Viktor Orbán, has an ambiguous relationship with the EU. On the one hand the EU is frequently criticized, mostly for endangering and decreasing national sovereignty. The Hungarian government has even launched a billboard campaign in 2017 to 'Stop Brussels',<sup>55</sup> which further deteriorated relations between the EU and Hungary. On the other hand, Hungary is very much dependant on the EU both as a trading partner and as a source of funding, as discussed above. While the Hungarian government frequently criticizes the EU, the population is relatively supportive (Figure 1). Despite government rhetoric, there is no intention to leave the EU.

A major challenge for Hungarian decision makers when trying to relate to Brexit was that the situation had been constantly changing and was very difficult to predict.<sup>56</sup> Due to this fluidity, there was no clear Hungarian position on many of the related issues, and Hungary simply accepted the common EU position. In a way, Hungary could be characterized as "reacting to" circumstances, rather than "creating" and influencing policy in the case of Brexit. All officials interviewed have argued that before the negotiation process began, all EU states had unanimously agreed on the priorities, negotiation points, and process of the Brexit talks. This kind of unity was unprecedented, according to one respondent, and drew the remaining 27 EU member states closer together. Hungary was not looking to break this unity. Despite its anti-EU rhetoric, the government seems to have valued the unified EU front and did not press to make its individual voice heard.

#### 4.2.2. Hungarian interests on the EU-UK deal

**Economy.** All respondents agreed that the economic aspects of Brexit are of major interest to Hungary. As visible from Table 2, the UK was the ninth largest goods export partner for Hungary, with almost 4 per cent of Hungary's exports going to Britain. The UK was Hungary's fourteenth largest import partner in 2016. As with the other V4 countries, Hungary has a strong surplus in its goods trade with Britain. Once Brexit occurs it is expected that the UK will become the largest non-EU trading partner of Hungary. While Hungary's trade ties with the UK are the weakest among the V4 countries, they are also rather vulnerable due to their concentration: as pointed out by an interviewee, approximately two thirds of the total value of goods trade between the UK and Hungary is provided by about 70 products, including cars, car engines and flat screen televisions.<sup>57</sup> Some expect the UK to introduce the EU tariff rate on these products after Brexit, which could seriously harm the competitiveness of the Hungarian export sector.

The value of trade in services between the UK and Hungary is about half that of trade in goods, but the UK is a much more important partner here for Hungary than it is in case of goods: it is the third largest destination for services exports, with a close to 8 per cent share of Hungary's service exports, the highest among the V4 countries (Table 3). The balance of trade in services shows a slight surplus for Hungary. Beyond tourism, business services are highly important Hungarian exports to the UK,

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<sup>54</sup> World Economic Forum (2017): *The Global Competitiveness Report 2017–2018*. Geneva: WEF.

<sup>55</sup> *Financial Times* (2017): Defiant Orban encourages Hungarians to say no to Brussels, <https://www.ft.com/content/f60dfd26-34c4-11e7-bce4-9023f8c0fd2e>.

<sup>56</sup> Interviews with two Hungarian governmental officials, 21 November 2017 and 7 December 2017.

<sup>57</sup> International Trade Center (2017): op cit.

and thus the uncertainties of how trade in services will be regulated after Brexit are a big concern for the Hungarian economy.

The UK had the eighth position in terms of FDI stock in Hungary in 2015,<sup>58</sup> which shows that British firms have a rich history in Hungary. They employ approximately 73 000 people in almost 3 000 firms according to one respondent.<sup>59</sup> In September 2016, a Hungarian-British Business Council was established at the Hungarian Embassy in London<sup>60</sup> to make sure that the relationship between the UK and Hungary is not harmed by Brexit. British firms are still weighing the decision on whether to move new capacities to Hungary or the CEE region in general. They see no rush in this respect, as the EU is not planning on creating new barriers to incoming FDI from third countries.<sup>61</sup> As with the other V4 countries, FDI relations are highly asymmetrical, and the Hungarian FDI stock in the UK is minimal, even though Hungary is the most significant outward investor from the region.

Among the economic questions, freedom of movement and citizen's rights have been perhaps the most important issue for Hungary, and officials have followed developments on this topic closely in the first phase of the negotiations. The importance of the question has been pointed out by Prime Minister Orbán to Prime Minister May in November 2016.<sup>62</sup> Official statistics put the number of Hungarians living in the UK around 100 thousand, but most experts agree that this is a highly conservative estimates, and the real number is closer to 250-300 thousands.<sup>63</sup> Ensuring the rights of these people after Brexit has been a key concern during the first phase of negotiations. According to an interviewed official, the government now believes that rights which Hungarian citizens enjoy in the UK will not be lost after Brexit.<sup>64</sup>

The issue of the size of the financial settlement has also been settled between the UK and the EU during the first phase of negotiations, which came as a relief to Hungarian decision makers. Interviewed officials argued that it was quite easy to find consensus among old and new EU member states about the importance of the financial settlement bill, since without the UK paying its dues, two scenarios could have occurred: either the CEE member states would have had to agree to receiving a lower amount of EU funds, or alternatively the net contributor EU member states would have needed to compensate for the shortfall of funds. Thus far, Hungarian officials have placed little attention on how Brexit will impact the EU's budget in the financial framework after.

Based on the above, Hungary clearly prefers that the UK stays in the single market after Brexit, as that would ensure continued market access for goods and services exporters, and is seen as the best way to guarantee the rights of citizens. However, the European Council clearly stated that no cherry picking is possible: the four freedoms are inseparable and continued free movement is a red line for the British government. Without single market membership, it is in the interest of Hungary that the EU negotiates a comprehensive free trade agreement (FTA) with the UK as soon as possible after Brexit.

**Security.** As with the other V4 countries, Hungary also sees its security closely tied to the Euro-Atlantic alliance. One respondent indicated that it would be in the interest of both Hungary and the EU for the UK to remain a part of the security system in Europe, and the intelligence sharing aspect

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<sup>58</sup> OECD (2017b): op cit.

<sup>59</sup> Interview with a Hungarian governmental official, 21 November 2017.

<sup>60</sup> Hungarian Government (2016): Magyar-brit üzleti tanács jön létre a cégek piaci jelenlétének erősítésére, <http://www.kormany.hu/hu/kulgaszdasagi-es-kulugyminiszterium/hirek/magyar-brit-uzleti-tanacs-jon-letre-a-cegek-piaci-jelenletenek-erositesere>.

<sup>61</sup> Interview with a Hungarian governmental official, 21 November 2017.

<sup>62</sup> 24.hu (2016): Orbán: Nem sérülhetnek a Nagy-Britanniában élő magyarok jogai a Brexit után, <https://24.hu/belfold/2016/11/09/orban-nem-serulhetnek-a-nagy-britanniaban-elo-magyarok-jogai-a-brexite-utan/>.

<sup>63</sup> Beke, K. (2017): Ide vezetett a tömeges kivándorlás: több magyar lépett le, mint gondoltuk, <https://www.portfolio.hu/gazdasag/ide-vezetett-a-tomeges-kivandorlas-tobb-magyar-lepett-le-mint-gondoltuk.260665.html>

<sup>64</sup> Interview with a Hungarian governmental official, 7 December 2017.

of clandestine services should continue.<sup>65</sup> Another respondent indicated that this is both a challenge and an opportunity for the EU: it can now put a larger emphasis on building up its own military capabilities, which the UK had opposed previously.<sup>66</sup> The Hungarian position is to maintain all existing security arrangements, but not to duplicate NATO. Greater EU cooperation in defence is supported by Hungary,<sup>67</sup> while at the same time it is making efforts to meet the requirement of spending 2 per cent of GDP on the military by 2024/2025. Military spending for 2018 already shows sizable increases compared to 2015.<sup>68</sup> This means that Hungary is trying to improve its military capabilities to meet NATO requirements and possibly to counter the negative effects of the UK's military no longer taking part in EU missions.

**Institutional aspects.** Issues related to institutional aspects of the Brexit deal did not seem to figure prominently among the issues Hungarian decision makers were concerned about. Several potential issues have been discussed during the interviews which the respondents believed that Hungary would favour: 1) an interim Brexit deal or some sort of transition arrangements for the years following March 2019; 2) the UK eventually joining the EEA; 3) some form of agreement which would deal with some of the most pressing issues in mutual relations beyond trade, such as taxation and investment. Unfortunately, positions on these seemed to be vague.

#### 4.2.3. Hungarian interests on Brexit-induced changes in the UK

In terms of the Brexit induced changes in the UK, the most important issue for the Hungarian government, which seems to have been settled in the first phase of the negotiations, is the rights of Hungarians (and other EU nationals) living in the UK. The Hungarian government has not voiced any strong preferences on the immigration regime of the UK towards EU nationals who would want to move after Brexit, and accepts that this is a decision for the UK to make.

One respondent mentioned that there are many potential pitfalls in legal harmonization (or de-harmonization in this case), as once British law starts to diverge from the EU's regulations, standards for instance in tariff nomenclature or in healthcare and medical regulation will make it challenging to cooperate with the UK, and access the British market.<sup>69</sup> Other types of Brexit induced changes in the UK have not yet been discussed in Hungary (such as the impacts of Britain's diminishing global position), although one respondent believes that if there is one country which may keep its global position after such a major change in its orientation, it will be the UK. There were no strong preferences voiced either in the case of Northern Ireland, nor greater devolution to, or the independence of Scotland. However, given the numbers of ethnic Hungarian in many of the CEE countries and their struggles to ensure their cultural rights, Hungarian governments have generally been sympathetic towards ethnic autonomy.

#### 4.2.4. Hungarian interests on EU level changes caused by Brexit

Once the UK leaves the EU, there are diverging opinions for the future of Europe and these discussions on the future mainly centre around the issue of the institutional structure of the EU. Two respondents have confirmed that Hungary does not believe that the EU is ready yet for the integration to deepen any further.<sup>70</sup> They believe that the first task of the EU should be to solve

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<sup>65</sup> Interview with a Hungarian governmental official, 21 November 2017.

<sup>66</sup> Interview with a Hungarian governmental official, 7 December 2017.

<sup>67</sup> *Index.hu* (2017): Még a végén tőkös lesz az EU, [https://index.hu/kulfold/eurologus/2017/06/12/eu\\_vedelmi\\_unio/](https://index.hu/kulfold/eurologus/2017/06/12/eu_vedelmi_unio/).

<sup>68</sup> *Index.hu* (2018): 100 milliárd forintból fegyverkezik Magyarország, [https://index.hu/gazdasag/2018/01/03/100\\_milliardbol\\_fegyverkezik\\_magyarorszag/](https://index.hu/gazdasag/2018/01/03/100_milliardbol_fegyverkezik_magyarorszag/).

<sup>69</sup> Interview with a Hungarian government official, 21 November 2017.

<sup>70</sup> Interviews with two Hungarian government officials, 21 November 2017 and 7 December 2017.

current pressing problems before deeper integration could be discussed. According to Prime Minister Orbán,<sup>71</sup> Hungary is against any formalized “two speed Europe”, however it understands the reality that multispeed Europe may take place if some member states voluntarily decide to deepen cooperation amongst themselves. An example for increased cooperation is among the V4 countries, who have started to harmonise financial planning and their position on cohesion policy according to one respondent.<sup>72</sup> Poland’s lead in the Visegrad cooperation is unquestioned, as Poland has the largest population and economic power in the CEE region. It was also indicated that the Hungarian interest is to increase the influence of member states and the Council, at the expense of the Commission.

A further negative effect of Brexit for Hungary is that the position of non-eurozone member states within EU decision making might weaken further. As long as the UK was a part of the EU, it was able to block issues which may have impacted on non-eurozone states negatively. However, once the UK leaves, it will be difficult to put together a blocking minority, which requires at least four member states representing at least 35 per cent of the EU’s population. The changed power dynamics in the EU are clearly seen as something Hungary will need to adapt to, but so far there has been little discourse on it.

#### 4.2.5. Summary of Hungarian interests

The Hungarian interests can be summarized as follows:

- Despite rhetoric from Viktor Orbán’s Eurosceptic government, Hungary is closely integrated into the EU and has strong reasons to remain a member. Public support for the EU is high.
- There has been no clear Hungarian position on a number of issues related to Brexit, and Hungary supported the common EU position in these cases. The government seems to have valued the unity of the EU.
- Ensuring access to the UK market is important for Hungary, both for goods and services. Hungary has a stronger interest than the other V4 in maintaining free trade in services with the UK after Brexit. Ensuring that regulations and standards do not diverge after Brexit is also seen as important. Hungary sees keeping the UK in the single market as the best way for ensuring this, but so far it has agreed to the common EU position that the four freedoms cannot be separated.
- During the first phase of the negotiations, the rights of Hungarian citizens to stay in the UK, and ensuring that the UK meets its commitments under the current financial framework have been the most crucial Hungarian interests, but both issues are now seen as settled.
- Hungary does not support further deepening of the EU post-Brexit, and has expressed strong reservations about multispeed Europe. As a non-eurozone country, Hungary sees Brexit as weakening its own position within the EU, and is now looking to build coalitions to ensure that non-eurozone members are not affected adversely by decisions pushed through by members.

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<sup>71</sup> Hungarian Government (2017): Magyarország számára Tusk újraválasztása Európa működőképességéről szól, <http://www.kormany.hu/hu/a-miniszterelnok/hirek/magyarorszag-szamara-tusk-ujravalasztasa-europa-mukodokepessegerol-szolt>

<sup>72</sup> Interview with a Hungarian governmental official, 21 November 2017.

## 4.3. Poland

### 4.3.1. Poland and the EU

Poland is the largest member state among the CEE countries, and has generally been seen as a success story of EU integration: its GDP per capita increased from 49 per cent of the EU average in 2004 to 69 per cent in 2016.<sup>73</sup> Poland was the only CEE country to not experience a recession during the economic turmoil which followed the 2008 global financial crisis. Market friendly reforms, strong internal demand, as well as an inflow of EU funds have been among the drivers of Polish growth. As the other V4 countries, Poland is also strongly integrated into the EU, and close to 80 percent of its trade is with other member states, among which Germany alone accounts for 35 percent.<sup>74</sup> Due to its large internal market however, Poland is a much less open country in trade terms than its smaller V4 peers. The attitudes of Poles towards the EU is the most positive among the V4: only 11 per cent of the Polish population has a negative view about the EU (see Figure 1), although the share of the population which trusts the EU has been declining since 2011.

However, relationships between the EU and Poland have deteriorated in recent years. The government of the right-wing Law and Justice (PiS) party, which came to power in 2015, has enacted a number of highly controversial changes and reforms. Most importantly, the reform of the judicial system, which allowed much stronger political control over the judiciary, has been seen by critics of the government as an attack on the rule of law in the country.<sup>75</sup> The European Commission has been especially critical of the Polish government's actions, as have a number of high profile members of the European Parliament. In December 2017 the European Commission enacted proceedings against Poland under Article 7 of the Treaty on European Union, citing "a risk of serious breach of the rule of law". Article 7 can be used against a member state where the "respect for human dignity, freedom, democracy, equality, the rule of law, and respect for human rights" is under threat, and can ultimately lead to the suspension of the country's voting rights in the Council. While it is unlikely to come to this, the enacting of Article 7 shows how badly the relationship between the EU and Poland has deteriorated.

Poland has had strong bilateral relations with the UK, especially in trade terms. However, the UK has also been an ally for Poland within the EU, and views many issues in a similar light, including EU enlargement, a hard-line stance towards Russia, and the further deepening of the integration.<sup>76</sup> A significant number of Poles have immigrated to the UK, and there is now a Polish community of around a million people living in Britain. The strength of these bilateral ties was shown in May 2017 with the visit of PiS party leader Jarosław Kaczyński to the UK, and more recently in December 2017, when Theresa May visited Warsaw. The two countries not only reaffirmed their commitment to maintaining a close relationship after Brexit, but also signed a joint defence treaty covering training, military exercises, information sharing, and defence industry cooperation. The only other country with which the UK has a similar treaty is France.<sup>77</sup> The Polish government has clearly affirmed its commitment to ensuring that the UK has a transparent, fast and unprecedented mode of agreement

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<sup>73</sup> Foreign and Commonwealth Office (2017): Overseas Business Risk – Poland, <https://www.gov.uk/government/publications/overseas-business-risk-poland/overseas-business-risk-poland>.

<sup>74</sup> Eurostat (2017): Intra-EU trade in goods - recent trends, [http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU\\_trade\\_in\\_goods\\_-\\_recent\\_trends](http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends)

<sup>75</sup> Council of Europe, Venice Commission (2017): *Poland - Opinion on the Draft Act amending the Act on the National Council of the Judiciary; on the Draft Act amending the Act on the Supreme Court, proposed by the President of Poland, and on the Act on the Organisation of Ordinary Courts*, [http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD\(2017\)031-e](http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2017)031-e)

<sup>76</sup> Borońska-Hryniewiecka, K. et al. (2016): op. cit.

<sup>77</sup> UK Government (2017b): PM announces landmark new package of defence and security cooperation with Poland, <https://www.gov.uk/government/news/pm-announces-landmark-new-package-of-defence-and-security-cooperation-with-poland>

with the EU, which includes a transition period and maintains cooperation at the highest possible level.<sup>78</sup>

### 4.3.2. Polish interests on the EU-UK deal

**Economy.** Poland has very strong economic ties on a number of fronts with the UK. The UK is the second largest export partner for the country after Germany, accounting for 6.6 per cent of Polish goods exports, the highest share among the V4 (Table 2). Like the other V4 countries, Poland has a highly positive trade balance with the UK, with the value of imports from Britain only reaching 37 per cent of the value of exports. Trade has expanded significantly between the two countries after Poland's accession to the EU: Polish exports have more than tripled, and imports from the UK doubled between 2005 and 2015.<sup>79</sup> However, the expansion of trade between the two countries has not only slowed down after 2015, but in fact the value of total trade has contracted. While this mirrors certain trends in Poland's trade in general, it is also specific to the case of the UK, and, as in the Czech case, can be seen as a psychological effect of the Brexit vote, especially given how Polish exports to Germany increased in 2016.

The UK is also an important destination for Polish service exports, although the value of trade in services was only 24 per cent of the value of goods trade in 2015. Nonetheless, the UK is the third largest export market for Polish services, with a 7 per cent share (Table 3). The UK is the second most important services importer, but Poland has a slight surplus in services trade with the UK. Trade in services with the UK is not as important for Poland as it is for Hungary, but there are concerns about potential disruptions which a hard Brexit could cause.

While in a relative, per capita sense, Poland was never among the CEE frontrunners in terms of attracting FDI, the UK is a much more important source of capital for the country than it is for the other V4. Around 4-5 percent of Poland's FDI stock originates from the UK (see Figure 2). The UK is fourth largest investor in Poland after Germany, France, and the USA.<sup>80</sup> A number of large British companies have invested in Poland, mainly with the goal of gaining access to the Polish market, although some experts argue that UK based companies have been punching below their weight, and significant scope remains for further investments, especially in the manufacturing sector.<sup>81</sup> In terms of outward FDI from Poland, the UK seems to play a slightly more important role than it does for the other V4 countries, but it would be difficult to argue that Polish FDI in Britain is significant.

The Polish are the largest ethnic group from the EU states in the UK. Based on data from the OECD, around 2.5 per cent of Poland's population lived in the UK in 2015, equalling more than 1 million people. Poland thus has the largest share of its population living in the UK among the V4. The fact that Britain opened its labour market to CEE newcomers in 2004 provided significant opportunities for Polish workers, who have now developed strong community structures in the country.<sup>82</sup> This community is a highly important source of remittances for Poland, with transfers reaching around €1 billion in 2016.<sup>83</sup> Protecting the rights of this community is crucial for Poland, and given the size of the community, it is perhaps an issue which Poland prioritizes even more than the other V4

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<sup>78</sup> Polskie Radio (2017): Polsko-brytyjskie konsultacje międzyrządowe. Po Brexicie gwarancja praw dla imigrantów?, <https://www.polskieradio.pl/42/273/Artykul/1967027,Polskobrytyjskie-konsultacje-miedzyrządowe-Po-Brexicie-gwarancja-praw-dla-imigrantow>

<sup>79</sup> Foreign and Commonwealth Office (2017): op .cit.

<sup>80</sup> Foreign and Commonwealth Office (2017): op .cit.

<sup>81</sup> British Polish Chamber of Commerce (2016): British investment in Poland, <http://bpcc.org.pl/contact-magazine/issues/13/categories/55/articles/397>

<sup>82</sup> Borońska-Hryniewiecka, K. et al. (2016): op. cit., p. 51

<sup>83</sup> World Bank (2017): Migration and Remittances Data, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

countries.<sup>84</sup> As stated by Konrad Szymański, Poland's Minister for European Affairs, in September 2017:

Over one million of our citizens live in the UK, and they contribute to the economic development of this country through their work and taxes. We do not want Brexit to adversely affect their situation and life plans. That is why we care about comprehensive protection including access to the labour market, public services, social security. This protection should also extend to family members of our citizens. We believe that the Union's position meets these priorities.<sup>85</sup>

However, Prime Minister Mateusz Morawiecki, in a joint press conference with Theresa May in December 2017, argued that Poland also has strong interests in seeing these citizens return home.<sup>86</sup>

As the other V4, Poland is also a net recipient of EU funding, and has been clear that the UK needs to meet the financial obligations it had agreed to under the EU's current multiannual framework. EU Affairs Minister Szymański argued that the UK's commitments "are based on objective premises and have a solid legal basis."<sup>87</sup> This issue, as well as the issue of citizen's rights, have been settled during the first phase of negotiations to Poland's satisfaction.

Poland clearly has the strongest links with the UK in almost all economic issues among the V4, and not only in an absolute sense due to Poland's large size, but also in a relative sense. These ties give Poland strong interests for maintaining economic relations between the EU and the UK in their current form, within the framework of the single market. The UK's departure from the single market would harm Poland's economic interests.<sup>88</sup> The Polish government has indeed come out strongly in support of a close UK-EU relationship after Brexit. In December 2017 Prime Minister Morawiecki argued that he wanted a new trading relationship between the UK and EU "as soon as possible," stating that "trade and economic cooperation should be maintained at the best possible platform" for Poland and the UK.<sup>89</sup> He also argued that the freedom of service provision must be maintained between the EU and the UK, while also acknowledging that the development of the future trade relationship is the "prerogative of the European Commission."

**Security.** Poland's national security is firmly grounded in the framework of NATO. However, the external military actions of Russia, as well as its increased use of propaganda and disinformation in the past decade have been a source of worry for Poland. The governing PiS party has generally tended to view Russia with hostility. Poland is also the only V4 country to have a land border with Russia. These issues have given Poland incentives to ensure that NATO remains committed to security in the region. To ensure this, Poland has developed a close bilateral relationship with the USA within NATO, which includes hosting American troops and equipment in Poland, concentrated along the border with the Russian enclave of Kaliningrad.<sup>90</sup>

The UK's departure will be strongly felt in Poland on security issues, and it may also cause a shift in the EU's attitudes towards Russia.<sup>91</sup> The UK and Poland both view Russia as a threat to Europe, and have taken a relatively hard line regarding sanctions against it. The loss of the UK will mean that the

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<sup>84</sup> *Reuters* (2016): Britain seeks to strengthen ties with Poland before Brexit, <https://uk.reuters.com/article/uk-britain-eu-poland/britain-seeks-to-strengthen-ties-with-poland-before-brexidUKKBN13N01L>

<sup>85</sup> *Onet.pl* (2017): Konrad Szymański: Nie widzę sił zdolnych do odwrócenia Brexitu, <http://wiadomosci.onet.pl/swiat/minister-szymanski-nie-widze-sil-zdolnych-do-odwrocenia-brexitu-wywiad-wywiad/98sbktg>

<sup>86</sup> *Politico.eu* (2017b): 'Madame Brexit' pushes stronger ties with Poland, <https://www.politico.eu/article/theresa-may-pushes-stronger-ties-with-poland-after-brexid/>

<sup>87</sup> *Onet.pl* (2017): op. cit.

<sup>88</sup> Borońska-Hryniewiecka, K. et al. (2016): op. cit., p. 54-55.

<sup>89</sup> *Politico.eu* (2017b): op. cit.

<sup>90</sup> *Newsweek* (2017): U.S. Soldiers Deployed to Poland's Border with Russia As Trump Changes NATO Views, <http://www.newsweek.com/us-soldiers-poland-border-russia-trump-nato-584256>

<sup>91</sup> Onyszkievicz, J. (2017): Brexit and its Impact on British-Polish Relations, <https://www.europeanleadershipnetwork.org/commentary/brexit-and-its-impact-on-british-polish-relations/>

balance of power within the EU may tilt towards countries which have appeared to be more pragmatic towards Russia, such as France, Italy, and even Germany.<sup>92</sup> As mentioned, Poland has concluded a defence treaty with the UK in December 2017, which puts it in a unique position among the V4. The treaty is not meant to duplicate any kind of cooperation already under way in the framework of NATO, but rather to strengthen existing ties further, and add an element of defence industry cooperation. The UK has also deployed 150 troops, along with the contribution of the USA, along the Polish border with Kaliningrad. The treaty is also aimed at improving cooperation to identify and counter Russian disinformation.<sup>93</sup> These actions seem to indicate that Poland does not fully trust the UK to remain engaged with European security, and is looking for bilateral ways to ensure commitment. Britain on the other hand seems to be using defence cooperation to secure the support of Poland in reaching a favourable trade deal with the EU.

**Institutional aspects.** Given Poland's strong political and economic ties with the UK, it is interested in findings ways to ensure that the UK remains a participant in certain European policies after Brexit. Beyond keeping the UK in the single market and committed to the security of the Eastern member states, Poland has been an ally of the UK in areas like deregulation, greater freedom for services, labour market flexibility, and digital regulation. Energy security is also a key policy area for Poland, and has lobbied together with the UK for the development of a European energy grid. These considerations may make Poland support some form of post-Brexit relationship in which the UK takes part in these policies.<sup>94</sup> However, the mechanisms through which such cooperation could be possible are as yet unclear, and Polish officials do not seem to have given them much practical consideration.

#### 4.3.3. Polish interests on Brexit-induced changes in the UK

Poland has lost the largest share of its population to immigration to the UK among the V4, and there is a clear push from the government to encourage Poles to return.<sup>95</sup> The fact that the British government aims to leave the single market and thus end free movement can thus be welcome by the Polish government, as it will make emigration much more difficult for Poles after Brexit. Beyond the new immigration regime for EU nationals, Polish officials have expressed little interest towards institutional changes in the UK. They seem to have been relatively neutral towards the question of Scottish independence.<sup>96</sup> Poles in Northern Ireland make up the largest minority in the region,<sup>97</sup> and Polish officials supported the common EU position on the question of the Irish border during the first phase of the negotiations.

#### 4.3.4. Polish interests on EU level changes caused by Brexit

The Polish government is generally not in favour of deeper integration, and argues that the EU needs to solve its current problems before this can be possible. These problems, according to the government, include the weak legitimacy of the EU, the Commission becoming far too active at the

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<sup>92</sup> Borońska-Hryniewiecka, K. et al. (2016): op. cit, p. 54-55.

<sup>93</sup> Politico.eu (2017c): Poland and UK to sign joint defense treaty as May visits Warsaw, <https://www.politico.eu/article/poland-uk-defense-treaty-as-may-visits-warsaw/>

<sup>94</sup> Borońska-Hryniewiecka, K. et al. (2016): op. cit, p. 52.

<sup>95</sup> *The Herald* (2017): Poland's top diplomat in Scotland: independence could keep Scotland in EU but if there's a hard Brexit Poles should come home, [http://www.heraldscotland.com/news/15413753.Poland\\_39\\_s\\_top\\_diplomat\\_in\\_Scotland\\_independence\\_could\\_keep\\_Scotland\\_in\\_EU\\_but\\_if\\_there\\_39\\_s\\_a\\_hard\\_Brexit\\_Poles\\_should\\_come\\_home/](http://www.heraldscotland.com/news/15413753.Poland_39_s_top_diplomat_in_Scotland_independence_could_keep_Scotland_in_EU_but_if_there_39_s_a_hard_Brexit_Poles_should_come_home/)

<sup>96</sup> *The Herald* (2017): op. cit.

<sup>97</sup> *The Irish News* (2017): 'Great fear' amongst Polish community in north over Brexit, <https://www.irishnews.com/news/brexit/2017/03/31/news/-great-fear-amongst-polish-community-in-north-over-brexit-983465/>.

expense of the Council and the member states, the lack of consensual decision making, and the large disparities in development within the Union.<sup>98</sup> Poland also sees threats in multi-speed integration, for example former Prime Minister Beata Szydło has argued that it could lead to the unfair exclusion of certain member states, and has stated that if “areas of deepened integration are to be created in a narrower group of countries, they must remain open for others, who may wish to join later.”<sup>99</sup> President Andrzej Duda has also argued that the EU needs to maintain unity and organizational, legal, market or budgetary duality cannot arise.<sup>100</sup>

However, there are exceptions. Poland has been supportive about greater integration in the fields of defence and internal security, and is open to enhancing European defence capabilities. However, these must not double NATO’s security structure or undermine it in any way. While internal security is primarily seen as the responsibility of member states, Poland supports the development of European capabilities to control borders, as well as tightening cooperation between the special services of member states, including the integration of their databases.<sup>101</sup> Stronger cooperation on curbing migration, including development assistance and other policies, is also an issue where Poland can support deeper integration.

#### 4.3.5. Summary of Polish interests

The Polish interests can be summarized as follows:

- Poland has the strongest economic relations with the UK among the V4, and has seen Britain as a strong ally within the EU. Poland is thus highly interested in keeping the UK as close as possible to the EU, preferably in the framework of the single market, and even developing ways of including the UK in various EU policies.
- The UK is Poland’s second biggest export market, and officials have argued for a close trading relationship, involving services as well. Poland has so far supported the EU’s joint approach on the indivisible nature of the four freedoms and the need to maintain the unity of the EU27, but has been less vocal on this than the other member states. Poland has the most to gain among the V4 from granting the UK a favourable deal, as well as tightening bilateral cooperation.
- The rights of Polish citizens in the UK have been the single largest concern for Poland during the first phase of negotiations, which is now seen as settled. However, there are voices within the Polish government who would prefer that these people return to Poland, and thus the government seems less concerned about the future immigration system the UK introduces for EU nationals.
- In terms of security, Brexit will weaken the EU’s stance against Russia, which is against Poland’s interests. Poland has thus been keen to ensure that NATO remains strong, and unlike its V4 peers, it has also sought more bilateral security guarantees, including a defence treaty with the UK.
- Poland does not support further deepening of the EU post-Brexit, and argues that the EU suffers from a number of problems that need to be solved before any further deepening is possible. The government is strongly against multispeed Europe. However, Poland does support more integration in the fields of security and defence cooperation.

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<sup>98</sup> Szydło, B. (2017): Wystąpienie Premier Beaty Szydło na Forum Polityki Zagranicznej, <http://www.kolonia.msz.gov.pl/resource/a3e69e3d-f608-4e32-89a3-64ca5df778e1:JCR>.

<sup>99</sup> Szydło, B. (2017): op cit.

<sup>100</sup> *Forsal.pl* (2017): Szczerski: Polska nie wpycha krajów regionu w antyniemiecki sojusz, <http://forsal.pl/artykuly/1052088,szczerski-trojmorze-polska-nie-wpycha-krajow-regionu-w-antyniemiecki-sojusz-wywiad.html>.

<sup>101</sup> Szymański, K. (2017): What Kind of Union Does Poland Need?, <http://www.ppd.pism.pl/Numery/1-67-2016/What-Kind-of-Union-Does-Poland-Need-Minister-Konrad-Szymanski>.

## 4.4. Slovakia

### 4.4.1. Slovakia and the EU

After becoming a member of the EU in 2004, Slovakia's approach towards the European project has been highly positive, and it has been enthusiastic about deepening its integration with the Community. However, the country has struggled to push through its own goals during the first few years after accession, and has acted much more as a follower than a leader. Although Slovakia had several clear preferences and ideas about the development of certain policies, especially in connection to energy policy or relations with the Eastern Neighbourhood, it had a hard time in achieving these goals.<sup>102</sup> This lack of influence however did not diminish Slovak enthusiasm, and Slovakia still belongs among the most Euro-optimistic countries of the region, at least on the level of political elites. There is a wide agreement on the political level regarding the support for EU membership and its strategic importance for the Slovak Republic.<sup>103</sup> The Prime Minister, Robert Fico has clearly argued that Slovakia's future is with the "core" of the EU, and not with the increasingly Eurosceptic East.<sup>104</sup> This, and other similar statements are reinforced by the fact that the country adopted the euro in 2009, and it is still the only V4 country to have done so.

The Slovak Presidency of the Council of the EU in the second half of 2016 started only a couple of days after the Brexit referendum, which brought a significant level of stress to the Slovak administration, already overwhelmed by preparations. However, the decision of UK voters to leave the EU did not derail Slovakia's original plans for the Council Presidency, as Brexit did not affect the day-to-day business of the Council during the second half of 2016. The Bratislava summit on 16 September 2016 was the first European Council meeting outside of Brussels since the 2010 Lisbon Treaty, and it was also the first summit without the UK. The leaders of the remaining member states discussed the future of the Union, and the Bratislava declaration adopted at the summit proclaimed the unity of the remaining member states, as well as their support for the European project.

Britain has been traditionally seen as a strong partner for Slovakia within the EU, not only because it was one of the main supporters of the Community's Eastern enlargement, but also because it was among the few EU members which opened their labour market to the newcomers already in 2004.<sup>105</sup> Slovakia also shares many common positions across a range of topics with the UK, and has therefore considered Britain to be a strong partner within the EU's decision-making mechanism. Slovak officials have expected difficult Brexit negotiations from the very start, and the slow and complicated progress during 2017 supported these negative expectations. As noted by a senior official at the Slovak Ministry of Foreign and European Affairs, "Brexit will not be advantageous for either side – the question is, who will lose less."<sup>106</sup>

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<sup>102</sup> Malová, D. et al. (2010): *From Listening to Action. New Member States in the European Union*. Bratislava: Devín Printing House.

<sup>103</sup> Slovak Government (2017a): *Vyhlasenie ustavných činiteľov k prioritám členstva Slovenskej republiky v Európskej únii a v Severoatlantickej aliancii*, <http://www.vlada.gov.sk/vyhlasenie-ustavnnych-cinitelov-k-prioritam-clenstva-slovenskej-republiky-v-europskej-unii-a-v-severoatlantickej-aliancii/>.

<sup>104</sup> Reuters (2017b): *Slovakia's future is with core EU, not Eurosceptic eastern nations*: PM. <https://www.reuters.com/article/us-slovakia-politics-eu/slovakias-future-is-with-core-eu-not-eurosceptic-eastern-nations-pm-idUSKCN1AV1YY>.

<sup>105</sup> Beblavý, M. and Bilčík, V. (2016): *Slovakia and Brexit: A gentle approach to tough love*. In: Wyplosz, C. (ed.) *What To Do With the UK? EU perspectives on Brexit*. CEPR Press: London.

<sup>106</sup> Interview with an official at the Slovak Ministry of Foreign and European Affairs, 13 November 2017.

#### 4.4.2. Slovak interests on the EU-UK deal

**Economy.** While economic relations between Slovakia and the UK can also be considered important, they do not have a crucial position comparable, for example, to relations with Germany. Although the UK ranked fifth among major export destinations for Slovak goods in 2016 with an almost 6 per cent share, its more typical position was between the eighth and ninth places in previous years (see Table 2). The position of the UK as an exporter of goods to Slovakia is even weaker, and it has never been among the country's top ten import partners during the decade starting in 2007. Slovak trade in goods with the UK nonetheless shows a very large surplus for Slovakia. The position of Britain as a destination of Slovak service exports is relatively stronger, as is the position of the UK as a service import partner (Table 3). However, during a decade between 2007 and 2016, a downward trajectory can be observed for both indicators, and the value of trade in services is significantly lower than the value of goods trade. As shown in Table 3, trade in services between Slovakia and the UK is more or less balanced. Slovakia is not a key destination for UK FDI. Ranging between 18<sup>th</sup> and 13<sup>th</sup> places, and the UK FDI stock being consistently around 1 per cent of the total, the UK does not belong among the major investors in Slovakia. Similarly to the other V4 countries, Slovak FDI flows to the UK have been minimal.

However, in spite of these statistics, the UK is still considered an important partner in economic terms for Slovakia by the government. Brexit is followed very closely at the governmental level and much effort is put into preparing positions towards individual issues discussed in connection to the process. Beyond the Ministry of Foreign and European Affairs, all other ministries are also involved in the development of Slovak positions, as Brexit is seen as a complex issue which concerns all policy areas.<sup>107</sup> Moreover, besides the Slovak embassy in London, a number of other Slovak embassies also report on Brexit.<sup>108</sup> A series of interviews with senior Slovak officials indicate that two economic issues were crucial for Slovakia during the first phase of the Brexit negotiations: the rights of Slovak citizens working and living in the UK, and financial (mostly budgetary) issues.

The rights of Slovaks currently living and working in the UK were the main issue of interest for the Slovak government during the first phase of the Brexit negotiations. As shown in Figure 3, Slovakia had the second highest share of population living in the UK after Poland among the V4. In 2015, there were around 80-100 thousand Slovak nationals living in the UK. While this is not a significant number from a British point of view, it is a big group from the Slovak perspective, as it represents close to 2 per cent of the Slovak population. Protecting the rights of this Slovak community by negotiating a deal that would secure their rights as close to the level before Brexit as possible was a priority for the government. During the country's presidency of the Council of the EU, Prime Minister Fico claimed that Slovakia, together with other V4 countries, will veto any deal between the EU and the UK that would limit the rights of EU citizens to work in Britain.<sup>109</sup> He also stressed this position of Slovakia during a bilateral meeting with Michael Barnier, the EC's Chief Negotiator at the end of October 2017,<sup>110</sup> and during a meeting with David Davis in March 2017.<sup>111</sup> Although the Slovak position towards the V4 had changed with Slovakia becoming more ambitious in belonging to the EU's "core", the position of the V4 was united in connection to the rights of EU citizens in the UK after Brexit. There was "natural coordination" on this issue within the V4 group. After the December European Council, which formally confirmed the conclusion of the first phase of the negotiations,<sup>112</sup>

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<sup>107</sup> Interview with an official at the Slovak Ministry of Foreign and European Affairs, 1 December 2017.

<sup>108</sup> Internal correspondence between Slovak embassies and the Ministry of Foreign and European Affairs

<sup>109</sup> Beblavý, M. and Bilčík, V. (2016): op cit.

<sup>110</sup> Slovak Government (2017b): Predseda vlády SR sa stretol s hlavným vyjednávačom EÚ pre brexit Michelom Barnierom, [http://www.vlada.gov.sk/predseda-vlady-sr-sa-stretol-s-hlavnym-vyjednavacom-eu-pre-brexit-michelom-barnierom/?day=2017-10-01&art\\_datum\\_od=2017-11-05&art\\_datum\\_do=2017-11-05](http://www.vlada.gov.sk/predseda-vlady-sr-sa-stretol-s-hlavnym-vyjednavacom-eu-pre-brexit-michelom-barnierom/?day=2017-10-01&art_datum_od=2017-11-05&art_datum_do=2017-11-05).

<sup>111</sup> Slovak Government (2017c): Premiér Robert Fico prijal britského ministra pre brexit, <http://www.vlada.gov.sk/premier-robert-fico-prijal-britskeho-ministra-pre-brexit/>.

<sup>112</sup> Interview with an official at the Slovak Ministry of Foreign and European Affairs, 1 December 2017.

Prime Minister Fico ensured Slovaks living and working in the UK that the status quo will be maintained and their rights as EU citizens will remain unchanged after Brexit.

Slovak interests towards the second key economic issue, the financial consequences of Brexit, were shaped by the fact that Slovakia, like its V4 peers, is a net recipient of EU funding. The potential reduction of the EU's budget caused by a British refusal to fulfil obligations would negatively influence not only Slovakia, but more broadly the "friends of cohesion" group.<sup>113</sup> As characterized by an official from the Ministry of Foreign and European Affairs, the budgetary agenda was a "painful communication", as the UK was at first not very clear about its position on whether it would fulfill its obligations regarding the multiannual financial framework until 2020. Later, once it reached a position, the amount it was willing to contribute was in constant flux.<sup>114</sup> However, it has to be said that the changes of position were positive from a Slovak point of view: the UK's original position of contributing €20 billion was not acceptable for Slovakia, however the later suggestion of €50 billion was viewed favourably. According to an interviewee, this was "a crucial issue" for Slovakia, which would have had a big problem with continuing the Brexit negotiations without finding an agreement on the issue of finance. The final agreement on the financial settlement has clearly been considered a success by Slovak political representatives.

**Security.** Slovak respondents clearly expect the weakening of the EU in military terms. Slovak Minister of Foreign Affairs Miroslav Lajčák noted at the World Economic Forum in January 2017 that security issues connected to extremism and nationalism are important challenges for Slovakia. Slovakia therefore seems to prioritize internal EU security cooperation, and keeping Britain within this system, at least on the level of intelligence sharing, would be in the interest of the country.

**Institutional aspects.** Slovak officials have not expressed any preferences on the institutional aspects of the Brexit deal. Britain was seen as an important partner for Slovakia in many policy issues, and in fact the UK has been considered to be a significant supporter of several issues deemed crucial for Slovakia.<sup>115</sup> Any possibilities to keep Britain engaged in EU policies through some sort of new arrangements would be welcomed by Slovakia.

#### 4.4.3. Slovak interests on Brexit-induced changes in the UK

Slovak officials did not voice strong preferences on Brexit-induced changes in Britain. The issue of the Irish border received some attention as it was one of the three main topics in the first phase of negotiations, and possibly the most contentious among them. This issue was not of key importance for Slovakia, and illustrates well the Slovak government's position towards issues related to Brexit which it does not see as a priority: Slovakia's strategy here was simply to align with the common position of the EU27, and support the interests of members with a more immediate stake in the issue. Slovakia thus showed solidarity with Ireland, while acknowledging the problematic nature of the issue. The unity of the EU27 was crucial for Slovakia not only concerning the issue of the Irish border, but the Brexit negotiations as a whole. Slovakia has seen this solidarity as reassuring, with the hopes that the EU27 would back the country's interests as well if any crucial Slovak interest towards Brexit came up.

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<sup>113</sup> Bulgaria, the Czech Republic, Croatia, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. Interview with an official at the Slovak Ministry of Foreign and European Affairs, 10 May 2017.

<sup>114</sup> Interview with an official, Slovak Ministry of Foreign and European Affairs, 1 December 2017.

<sup>115</sup> For example, together with France in area of nuclear energy. Interviews with an official at Slovak Ministry of Economy, 12 May 2017 and with an official at the Slovak permanent representation in Brussels, 12 June 2017.

Slovakia has a relatively large Hungarian ethnic minority, and thus does not have any interests in encouraging ethnic nationalism and separatism in other parts of Europe. To date, it is among the five EU members which have not recognized Kosovo. Surprisingly however, the Slovak government has appeared sympathetic towards the prospect of Scottish independence, and Prime Minister Fico has even offered to mediate an amicable divorce based on Slovakia's experience in seceding from Czechoslovakia in the early 1990s.<sup>116</sup>

#### 4.4.4. Slovak interests on EU level changes caused by Brexit

The EU will clearly be weakened in the military and economic sense due to Brexit. However, some Slovak officials have argued that the integration can also benefit from the UK's departure, as Brexit will increase the internal homogeneity of the Community. The effort of the EU27 to provide a unitary response to the UK's positions has been seen as successful, and can spur momentum to support the stronger unification of the member states at a general level. As noted by an interviewee, "the EU has been, paradoxically, more united than the UK until now."<sup>117</sup> Several interviewees mentioned that the UK was not internally united when it came to its goals and objectives concerning Brexit, which translated into unclear signals and positions.

When it comes to security issues after Brexit, Slovak respondents expect the weakening of the EU's position at the global level. After Brexit, France will be the only nuclear power within the EU, however, its army does not project a strong global image. Germany is very cautious in military terms for historical reasons and has been reluctant to strengthen its army or to engage it outside its borders. As a result of these tendencies, Brexit will complicate the development of military structures within the Union. Moreover, the EU may be less able to rely on US support, and not only due to the rhetoric and policies coming from President Donald Trump's administration.

Slovakia none the less sees opportunities in Brexit. As discussed, Slovakia perceives itself as belonging to the core of the EU, as opposed to other V4 countries, especially Hungary, which have increasingly emphasized their disagreements with the core. Slovakia is the only V4 country to have adopted the euro, and Prime Minister Fico has been especially keen on ensuring that Slovakia moves closer to the EU's core. While other V4 leaders have categorically ruled out their support for multispeed Europe, Prime Minister Fico, while also critical, seems to have been more pragmatic and has argued that the Slovakia must prepare for it.<sup>118</sup> He has also commended the reforming rhetoric of French president Macron.<sup>119</sup>

However, as argued by an interviewee, the position of individual member states in the post-Brexit EU will depend on their own activities, and not directly on Brexit-induced changes or the results of the negotiations. It is difficult to expect a situation in which Slovakia achieves a stronger position within the Community only because the UK leaves. Some countries will be more active than others, which will have a positive impact on their post-Brexit position. Therefore, it is up to Slovakia to find its place, and although it is striving to be within the core, the core itself will be defined by countries like France or Germany.<sup>120</sup>

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<sup>116</sup> *Express* (2016): New EU president plots to help Scotland's independence bid by copying Czechoslovakia, <https://www.express.co.uk/news/world/685197/new-eu-president-scotland-slovakia-czech-republic-czechoslovakia-brexit-sturgeon>

<sup>117</sup> Interview with an official at the Slovak Ministry of Foreign and European Affairs, 13 November 2017

<sup>118</sup> *NewsNow* (2017): Fico: Slovakia Must Be Stable and Prepared for Multi-speed EU, <https://newsnow.tasr.sk/foreign/fico-slovakia-must-be-stable-and-prepared-for-multi-speed-eu/>.

<sup>119</sup> *The Slovak Spectator* (2017): Fico: We cannot allow multi-speed EU to become divisive, <https://spectator.sme.sk/c/20544533/fico-we-cannot-allow-multi-speed-eu-to-become-divisive.html>.

<sup>120</sup> Interview with an official at the Slovak Ministry of Foreign and European Affairs, 1 December 2017.

#### 4.4.5. Summary of Slovak interests

The Slovak interests can be summarized as follows:

- Slovakia's current government sees orientation towards the core of Europe as a national interest, as opposed to aligning itself with the "Eurosceptic East." Brexit is expected to provide opportunities to strengthen this commitment.
- Slovakia sees a united EU27 position towards Brexit as a key interest. On issues where it does not have vital stake, it has thus far simply supported the common position. This approach is likely to continue during the second phase of the negotiations.
- Britain has been a less significant market and investor in case of Slovakia than for the other V4 countries. Ensuring access to the UK market, especially in terms of goods exports, is nonetheless an important Slovak interest.
- Britain has been considered a strong partner in EU decision making processes. If the UK's participation in certain EU policies post-Brexit is possible, Slovakia would be likely to supportive.
- During the first phase of the negotiations, the rights of Slovak citizens to live and work in the UK, and ensuring that the UK meets its commitments under the current financial framework have been the most crucial Slovak interests, but both issues are now seen as solved.

## 5. Ground for common actions? Recommendations for a V4-friendly post-Brexit Europe

Based on the analyses of the individual V4 countries above, it is clear that there are a number of similarities between their interests, but also some differences, as well as issues which they have so far given little consideration to. Seven key points can be identified were the V4 countries can work together to achieve their common aims, both during the remainder of the Brexit negotiations, as well as beyond them.

1. **The power of unity.** Individually, the V4 countries are relatively small compared to the UK. While Britain is an important economic partner for them, especially as a destination for goods exports, they are less important markets for the UK. This means that their individual bargaining power is low. The V4 countries have recognized this, they have remained united as a group, and have also supported the common EU position. No V4 country made any strong attempts to undermine the EU's unity. This clearly paid off in the first phase of the negotiations, as the UK was unable to drive wedges between the EU27. The V4 also have strong interests in maintaining good relations with the reinvigorated Franco-German alliance, and they may not wish to risk any fallout over Brexit. However, many in Britain think that dividing the member states may be possible in the second phase regarding trade issues.<sup>121</sup> The V4 are unlikely to be the causes of such division, although they may be more flexible behind the scenes.
2. **Economics interests.** The V4 have a strong interest in ensuring that Britain remains a part of the single market, and if that is not possible, some kind of deep free trade deal is concluded with the country which also covers services. While the rights of EU citizens living in the UK have been settled in the first phase of negotiations, this agreement may become void if the UK leaves the EU without a deal. It is also unclear at this stage whether free movement will be maintained during the transition period after May 2019. It is a clear interest of the V4 that the UK does not leave without a deal, as it would have severe impacts on V4 trade and citizens. Maintaining the unity of the EU and getting a deal at any costs however may not be compatible with these economic interests. As discussed, the first phase of negotiations has demonstrated the power of unity, and the V4 should prioritize this over their immediate economic interests.
3. **Make sure the UK remains close to the EU.** Britain was a reliable partner in a number of areas deemed crucial for the V4, such as foreign policy or the regulation of the internal market. The UK's departure is therefore a great blow to these countries. However, the V4 can make steps to ensure that the UK does not drift too far from the EU. If there is political will, some EU policies could be opened up for participation of non-members, and such participation in policies would be in the long term interest of the UK as well, even though there seems to be little political appetite in Britain for such arrangements at the moment. The V4 countries need to analyse and judge which policy areas are of vital importance to them in terms involving the UK, and can initiate efforts to develop EU-level frameworks for such cooperation after Brexit, perhaps even in a bespoke fashion. However, it is ultimately the UK's choice to decide what kind of relationship it wants with the EU and whether it would like to develop policy-level co-operations. The V4 recognize this, however, they can ensure that the door remains open for the future.

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<sup>121</sup> *The Economist* (2018): Now for the difficult bit. 13-19 January.

4. **Longer term divergence.** Keeping the UK close is also important in terms of market access. While a good trade deal can ensure that Britain's market remains open for V4 exports, regulations and product standards may drift from those of the EU in the long term, potentially harming V4 market shares. Any mechanisms for ensuring there is no regulatory divergence, other than single market membership, seem politically infeasible at the moment. However, the V4 can make efforts post-Brexit to develop specific forms of EU-UK cooperation which work against regulatory divergence, perhaps along similar lines to the agreements the EU has in place with Switzerland.
5. **Security.** Ensuring that the UK remains close to the EU is especially important in terms of security, including military aspects, but also cooperation on intelligence gathering and information sharing (especially in the context of cross-border organized crime and international terrorism). While the UK has not questioned its commitments towards the continent's security in the framework of NATO, it seems to be making some steps towards greater bilateral cooperation, as evidenced by the recent defence treaty with Poland. The V4 however have generally shown strong preferences towards multilateral defence guarantees in the framework of NATO. They also have interests in ensuring that any deeper European cooperation in defence does not become a competitor to NATO. Britain has always been a strong proponent of closer EU-NATO cooperation, and often acted as a bridge and a pragmatic mediator between the two organizations. Without the British input, "the implicit inter-institutional arrangement that leaves NATO in charge of Europe's military defence and deterrence, while the EU takes on 'softer' security challenges and those outside Europe, could crumble."<sup>122</sup> Some of the V4 have already expressed support for deeper EU defence cooperation. However, given the lack of defence capacities and spending in the EU27, which cannot be solved rapidly, NATO is the only organization capable of guaranteeing the security of the V4. The V4 need the UK to maintain its commitment in the future as well.
6. **The future of the EU.** The V4 are divided on how to approach EU-level changes post-Brexit, and it is unclear whether these differences can be reconciled. Slovakia has adopted the euro, and has expressed a desire to belong to the core of the EU, while the Czech population is highly Eurosceptic, as are the current Polish and Hungarian governments. The deepening of the integration, with greater Franco-German dominance and perhaps in a multispeed fashion, will become a reality after Brexit. The V4 countries need to develop an approach to it – blocking further deepening will be extremely difficult, and there is no desire to do so in some of the V4, such as Slovakia and the Czech Republic. Stricter fiscal rules for eurozone members could even be supported by the Czech Republic, for example. With the V4 not fully united, building coalitions will be difficult, and without the UK, it is unclear who exactly the natural allies of the V4 will be. Implementing V4 interests in post-Brexit EU will, among others require much more skilled diplomacy from the V4, and this is an area where they should start investing now.
7. **The Irish border.** The V4 seem to have paid relatively little attention to the question of the Irish border. However, there are good reasons to follow closely the emerging border arrangement, as it can serve as a potential model for other external borders of the EU as well. Many of the V4 countries, as well as CEE countries more broadly have interests in making the flow of goods and in some cases people smoother on the EU's external borders. Many of the neighbouring countries have little prospects of joining the EU in near future, and thus more open (which should not mean less controlled) borders could be an interim solution.

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<sup>122</sup> Bond, I. et al. (2016): *Europe after Brexit. Unleashed or undone?* Centre for European Reform, p. 6.



This publication has been funded by the International Visegrad Fund, Visegrad Grant number 21640265



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With special thanks to Patrycja Rozbicka and Monika Brusenbauch Meislová

All links were checked on 1 February 2018.