

SNAPSHOT

Fog over the Channel – Britain cut off?

17 November 2014

INTRODUCTION

Over the last decade, the usual manageable level of British discontent with the EU has grown to such an extent that the country's continued membership is now in question. With the anti-EU UK Independence Party (UKIP) snapping at his heels, Prime Minister David Cameron struggles to set the agenda, despite his promise to hold a referendum in 2017 on renegotiated terms of membership.

Ahead of the Rochester and Strood by-election and next year's general election in which the EU will be a major issue, this Snapshot evaluates the prospects of a UK exit, how other Member States view this and how they might deal with it.

Battle of the Medway

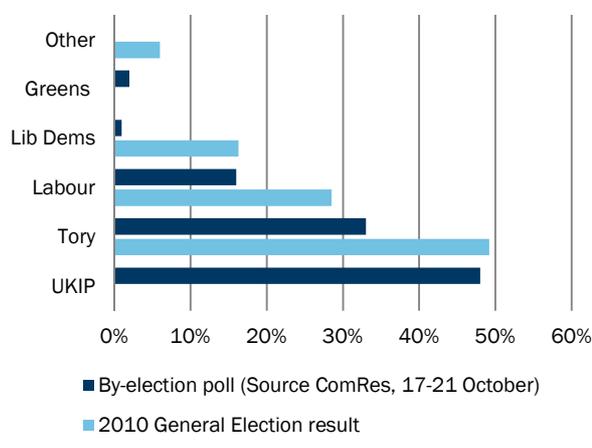
As the UK gears up for the May 2015 general election, relations with its neighbours across the Channel are very much on the agenda. The cobbled streets of Rochester and Strood in south-east England are the scene of a political battle which may impact the country's membership of the EU following the dramatic defection to UKIP of sitting Conservative MP Mark Reckless. If Reckless is re-elected on 20 November under his new affiliation, as polls suggest (handsomely – see Chart 1), UKIP leader Nigel Farage will watch gleefully as his party's second MP enters the House of Commons. Another UKIP victory would be a spectacular illustration of the eurosceptic ground swell in UK politics since the 2010 election.

Great Expectations?

After winning the European Parliament elections in May with 24 UKIP MEPs and two Westminster by-elections this autumn, Farage might have great expectations for 2015. The latest polls suggest that the pro-EU Liberal Democrats will lose half their MPs, the Tories are hemorrhaging voters to UKIP and Labour is losing significant ground in Scotland to the Nationalists, while many of its English supporters are tempted by UKIP. In recent weeks, controversies around a substantial upward adjustment of Britain's EU budget contribution and the European Arrest Warrant have exposed again the deep divisions within the Conservative party over EU membership. Awash with rumours of further

Conservative defections, Westminster will watch the Rochester result very closely to see where the winds of British politics are blowing. As EU membership becomes more contentious ahead of the 2015 general election, the UK's position in the EU looks increasingly shaky.

Chart 1: Rochester and Strood: 2010 general election results vs. 2014 by-election polls



Influence, not seats

However, despite a vote surge across England, UKIP still seems unlikely to secure more than a handful of seats next year. Winning even ten seats would already be an impressive victory for the new party on the block. So UKIP does not represent a real threat to the Conservative Party as the right-of-centre force in the House of Commons. What it does represent is a threat to the prospect of a Conservative majority. There are 22 Tory seats targeted by Labour which require a swing of less than 1.5% of voters, and many more held by Tories with Labour in second place with margins smaller than the estimated number of votes which they might lose to UKIP. These votes do not have to translate into UKIP seats in order to cost the Conservatives dearly in such marginal constituencies – and on current polling these seats are potentially sufficient to determine who governs after the next election. Farage's party already acts as an influential political pressure group, setting the agenda on EU membership and the related issue of immigration, forcing the Conservatives to take an increasingly hardline on both. Many backbench Conservative MPs sympathise with UKIP's stance, some of them openly.

In January 2013, David Cameron therefore felt obliged to promise a renegotiation of the UK's EU membership under a new Conservative government, followed by an in/out referendum in 2017. The question is whether this is enough to satisfy his backbenchers or eurosceptic voters. More eurosceptic gestures can therefore be expected from Cameron, even though his stated intention is to stay in the EU on a renegotiated basis.

The Labour Party, should it enter office in 2015 either with or without coalition partners, would not hold a referendum unless there was a treaty change transferring sovereignty to the EU. Although this would probably end the prospect of a referendum in the coming years, it would not resolve the issue of the UK's EU membership *per se*. British euroscepticism would not go away and Farage and friends would still be breathing down the necks of the other parties.

The outcome of an in/out referendum is difficult to predict. Over the past 10 months supporters and opponents of leaving the UK have both polled around 40% with undecided voters hovering around 20% (see Chart 2). While big business and many other governments, including the USA, would voice their support for Britain's continued EU membership, uncertainty would continue until the last minute.

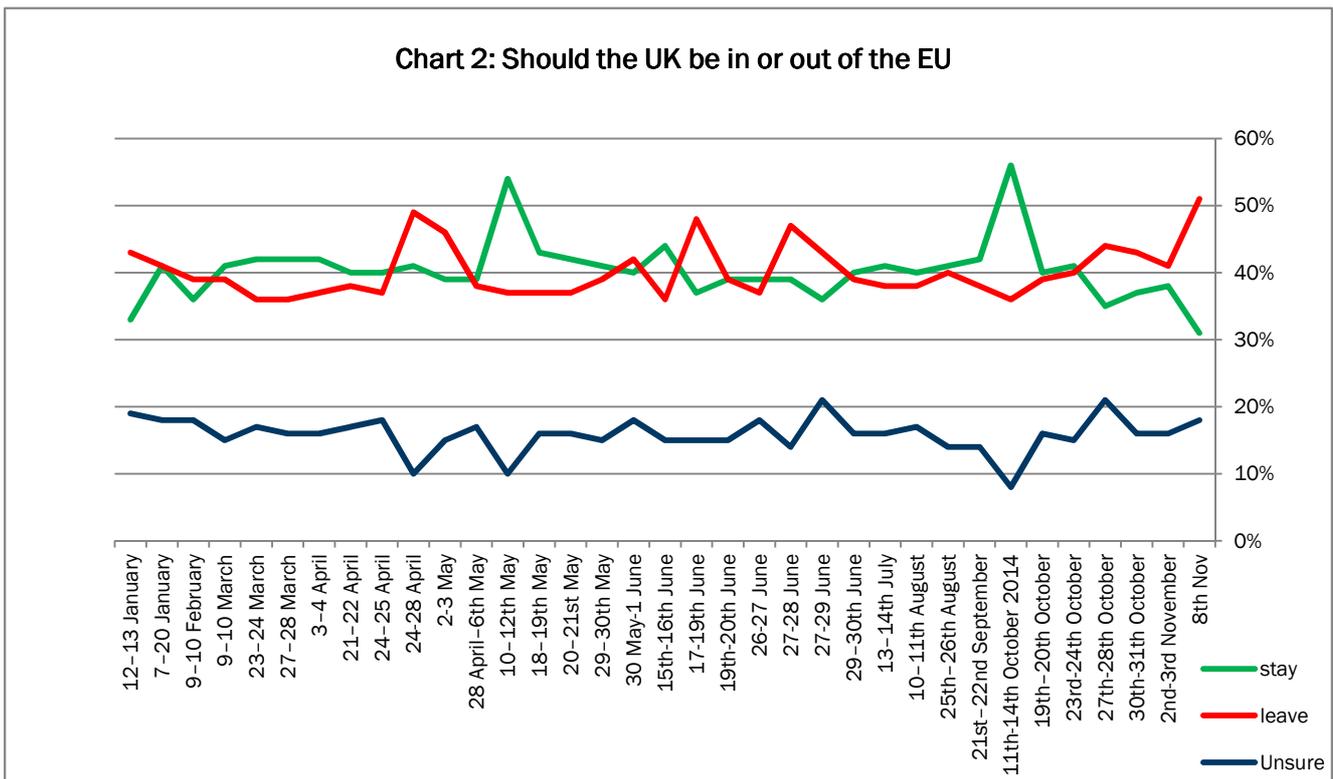
Mixed views from Brussels

Other EU governments have long given up hope that the UK might become europhile, but the prospect of a British exit is something new. This provokes mixed emotions in EU capitals: while they might not miss the most awkward family member, many are also aware that a significant precedent would be set with the first

departure of a Member State and that the EU would lose prestige and influence (and, a lesser consideration, a net budget contributor):

- **Germany and the Netherlands** clearly have an interest in the UK staying as a pro-market ally and Angela Merkel has tried to accommodate David Cameron, but not at any price, e.g. she will not compromise free of movement of EU citizens
- **Sweden, the Czech Republic, and other Central/Eastern European countries** closely cooperate with the UK in promoting a more economically liberal (for some, less political) Europe; many of them are also outside the euro and share UK financial sector interests; countries like **Poland** have many citizens living and working in Britain
- Others may be less willing to make concessions: for **France**, President Hollande has signaled that the UK should not downgrade or diminish Europe; **Spain** may use a negotiation to progress in its joint sovereignty claims over Gibraltar

While this offers some hope to David Cameron in his quest to renegotiate the terms of the UK's membership, he should be cautious about what to expect. Other governments will make some concessions (at least cosmetic) for him to offer British voters, but they know that any revision of the EU treaty would require a tortuous ratification process, including referenda in several EU Member States where euroscepticism has become a political force. They are also wary that if the UK tries to unpick key principles underlying the treaty (e.g. freedom of movement) or carve out a special deal for itself, others may make similar demands, and an EU



of 28 countries could become unworkable. This would also go against the trend in recent years towards greater cooperation between the eurozone countries (through instruments like the European Semester to coordinate budgets and the European Stability Mechanism to bail out financially constrained governments). Such integration has happened without a treaty revision. Why risk a fraught treaty change to satisfy the UK if this could undo all their efforts to make the euro more stable?

The BBQ (British Budget Question)

The latest row over a further UK contribution to the EU budget comes at bad time for David Cameron, just ahead of the by-election. The problem has been caused by bad communication by the Commission and bad timing, but the figures are based on Member States' own calculations. The tough stance by London is for its domestic audience, but other Member States are conciliatory and some (though perhaps not all) seem ready to allow the Conservatives to claim some sort of victory to counter UKIP rather than pick a public fight.

The awkward partner

Despite apparently having some sympathy on the budget issue from other net contributor countries, this latest row does not mark the start of any realignment in the UK's favour. British governments, and the Conservative Party in particular, have not been good at building close, long-term EU alliances with other national capitals. Cameron is no exception:

- As a result of a commitment given by Cameron when wooing right-wing MPs during his party's leadership campaign, the Tories left the main centre-right political group in the European Parliament, the EPP, in 2009; this has diluted their influence with other centre-right EU governments.
- Cameron's very personal battle against Jean-Claude Juncker's appointment as Commission President became a fruitless one-man stand, losing him friends without any concrete gain.
- In 2011, Cameron blocked an EU treaty revision to deal with the euro crisis unless it gave guarantees to secure the financial position of the City of London: the other Member States ignored this and created a non-EU treaty without the UK.

This antagonism has not been forgotten by other Member States, and it would be optimistic to believe that the UK could create any long-term alliance with other pro-free trade or net contributor countries. There is huge political commitment to the EU in most Member State governments, and the suspicion lingers that the UK wants to play a wrecking role. This may be unjustified, but it undermines the chances of a Conservative government negotiating concessions that would appear to give the UK a special status.

Conclusion: A difficult balancing act

The Rochester and Strood by-election is likely to mark another milestone in the march of euroscepticism towards the mainstream of British politics. The contentious issue of the UK's membership of the EU will be a major point of next year's general election.

This makes David Cameron's balancing act very difficult: he is no passionate europhile but he wants to keep Britain in the EU through a renegotiation. This is not enough for voters attracted by UKIP or even some of his own MPs; while other EU governments, though concerned about a British exit, are wary of rewriting the EU treaty's fundamental principles. He may be able to squeeze through a new deal to present as a fundamental revision but which only offers concessions in certain areas (and the UK already has several opt-outs, so new ones would have to be chosen carefully). The hard part would then be selling the deal to the public – while the government could win a referendum, this would be no easy task. Should there be no referendum in 2017, expect one once the Conservatives are back in office. Until then, British governments will continue to be tempted to play the role of awkward partners in Brussels with an eye on eurosceptic discontent back at home.



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