

GERMANY: HOW TO MANAGE BREXIT WHILE TRYING TO SAFEGUARD EUROPEAN INTEGRATION

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Abstract

The UK's decision to leave the European Union (EU) has been received with disappointment in Germany which, however, has paid comparatively little political attention to it. In addition to having to deal with Brexit, the German government has had to pay attention also to even more politically salient and pressing issues such as the Eurozone crisis and refugee crisis. Brexit is therefore a sideshow for Germany. Trade relations between Germany and the UK have been very close and are likely to continue on a high level after Brexit. There is a lot of political good will for the UK in Germany. However, protecting the Single European Market and keeping the EU together are overriding political priorities for the German government. The German government has no intention of penalising the UK for leaving the EU. However, at the same time, it will try to ensure any deal between the UK and the EU-27 does not make it attractive for other EU member states also to leave the EU.

Keywords: *Brexit, Germany, United Kingdom, European Union, Single European Market, budget, environmental policy, foreign policy, Franco-German alliance, reluctant hegemon*

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ALMANYA: AVRUPA BÜTÜNLEŞMESİNİ KORURKEN BREXIT'İ YÖNETMEK

Öz

Birleşik Krallık'ın (BK) Avrupa Birliği'nden (AB) ayrılma kararı Almanya'da dış kırıklığıyla karşılandıysa da siyasi olarak nispeten az dikkat çekmiştir. Alman hükümeti Brexit ile ilgilenmek zorunda olmasının yanısıra, Avro bölgesi krizi ve mülteci krizi gibi siyasi açıdan daha da önemli ve aciliyet gerektiren meselelere de dikkatini vermek zorunda kalmıştır. Bu yüzden Brexit Almanya için ikincil bir mesele olmuştur. Almanya ve BK arasındaki ticaret ilişkileri her zaman yakın olmuştur ve muhtemelen Brexit sonrasında da yüksek düzeyde devam edecektir. Almanya'da BK ile ilgili siyasi iyi niyet oldukça fazladır. Bununla birlikte Avrupa Tek Pazarını korumak ve AB'yi bir arada tutmak Alman hükümeti için ağır basan siyasi önceliklerdir. Alman hükümetinin BK'yi AB'den ayrıldığı için cezalandırma gibi bir niyeti yoktur. Fakat, aynı zamanda BK ile AB-27 arasındaki herhangi bir anlaşmanın AB'yi terk edecek diğer AB üyesi devletler için çekici olmamasını temin etmeye çalışacaktır.

Anahtar Kelimeler: *Brexit, Almanya, Birleşik Krallık, Avrupa Birliği, Tek Avrupa Pazarı, çevre politikası, dış politika, Fransız Alman ittifakı, gönülsüz hegemon*

Introduction

Many Germans initially considered the United Kingdom's (UK) decision to leave the European Union (EU) as having been caused by an 'English disease'. In the 1970s and 1980s, Germans associated the 'English disease' (*englische Krankheit*) with low productivity and high strike rates. The UK's decision to leave the EU is widely considered in Germany as British or *English* hubris which hankers after a long gone golden age in which the UK was a global power with an empire. Nowadays most Germans perceive both the UK and Germany to be middle ranking powers. They are hesitant to support an explicit German leadership role in the EU and globally, reflecting Germany's historic status as a 'reluctant hegemon' (Paterson, 2011) which, however, has been called into question in recent years. For example, at the height of the Eurozone crisis the then Polish Foreign Minister, Radoslaw Sikorski, famously stated in an interview with the *Financial Times* in 2011: "I fear Germany's power less than her inactivity" (Sikorski, 2011).

Shortly before the 2016 Brexit referendum, the German weekly news magazine *Der Spiegel* printed a Union Jack on its cover with the following text in both German and English: 'Please don't go! *Bitte geht nicht! Warum wir die Briten brauchen.* Why Germany needs the British' (*Der Spiegel*, 2016). In an

opinion poll conducted in early June 2016, 79 per cent of Germans stated that they do not want the UK to leave the EU (BBC 2016). Even as late as March 2018, the President of the German parliament (*Bundestag*) and former long-serving Finance Minister, Wolfgang Schäuble (Christian Democratic Union – CDU), stated that he considered an ‘exit from Brexit’ still as a real possibility (*Süddeutsche Zeitung*, 2018).

In Germany there is an acute awareness that Scotland voted decisively in favour of remaining in the EU in the 2016 Brexit referendum although Germans tend to be less aware that the Welsh overall supported Brexit. In the weeks and months which followed the Brexit referendum on 23 June 2016, most Germans therefore assumed that the UK’s decision to leave the EU might still be ‘curable’. Although there has been a certain “feeling of annoyance generated by Brexit” in Germany (Paterson, 2017:91), there is nevertheless generally a lot of political good will towards the UK. Not long after the UK’s 2016 Brexit referendum, the German Green Party (*Forum 90/Die Grünen – Alliance 90/The Greens*) started a parliamentary initiative which would have allowed the fast tracking of applications for German citizenship by UK citizens who live in Germany of which there were around 100,000 in 2017. Although this initiative received some support from the Social Democratic Party (*Sozialdemokratische Partei Deutschlands – SPD*) and parts of the Left Party (*Die Linke*), it was blocked by the CDU and its Bavarian sister party, the Christian Social Union (*Christlich Soziale Union – CSU*), which made up the largest party faction in the *Bundestag*, on the grounds that there was no need for a general liberalisation of German citizenship laws and that a *lex Britannica* would unjustifiably grant preferential treatment to UK citizens over other EU citizens (*Deutscher Bundestag*, 2016).

Germany has been widely portrayed as one of the most pro-integrationist EU member states (e.g. Bulmer and Paterson, 1996). However, in recent years a gap has opened up between the main political parties, which have all remained pro-integrationist although to varying degrees, and the general public which has started to question more strongly the benefits which Germany derives from EU membership (e.g. Dyson and Goetz, 2003). In 2013, the Alternative for Germany (*Alternative für Deutschland – AfD*) was set up as a populist anti-Euro (but not anti-EU) party. After moving decisively to the right and campaigning mainly on immigration issues, the AfD gained 12.6 per cent in the elections to the German parliament (*Bundestag*) where it became the third largest party after the CDU/CSU and SPD following the 2017 elections. However, the German public’s support for the EU has remained above the average public support given to the EU in all member states (e.g. Eurobarometer, 2017). In Germany (and several other member states) support for the EU immediately after the UK’s Brexit referendum actually slightly increased (Bertelsmann, 2016; Eurobarometer, 2017).

This article proceeds as follows. It first provides a short overview of Germany's 'European vocation' within the evolving EU. Next it explains the core economic issues underlying Germany's views towards Brexit and the future of the EU. It then focuses on the budgetary, environmental and wider political dimensions of the Brexit decision before the main issues and arguments are reconsidered in the concluding section.

Germany's European vocation within an evolving European Union

In order to gain a better understanding of Germany's 'European vocation' (Paterson, 2010) and attitude towards Brexit, it is necessary to consider briefly the origins of the EU. Together with Belgium, France, Italy, Luxembourg and the Netherlands, Germany was one of six founding member states of the 1952 European Coal and Steel Community (ECSC), 1957 European Economic Community (EEC) and 1957 European Atomic Energy Community (Euratom). At the end of the Second World War, economic recovery and political reconciliation especially with France – Germany had invaded France twice in the Twentieth Century - were central goals of the first German Chancellor, Konrad Adenauer (Christian Democratic Union – CDU), who was keen to anchor the Federal Republic of Germany (FRG) firmly in the West (*Westbindung*). (West) European integration allowed Germany to recover economically and regain its place as a civilised nation with a functioning liberal democracy after the defeat of the Nazi dictatorship by the Allied Powers.

It was only with reunification between the FRG (former West Germany) and German Democratic Republic (GDR) (former East Germany) in 1990 that Germany regained full sovereignty. At least initially unification did not weaken Germany's commitment towards European integration. On the contrary, unification has been widely seen as an important driver for European Economic and Monetary Union (EMU) i.e. the deepening of European integration (see also Paterson, 2017: 88). In particular France was keen on getting the unified and thus larger Germany to endorse EMU. The then German Chancellor, Helmut Kohl (CDU), who was a staunch Europhile, supported EMU without much hesitation. However, Germany insisted on the EU adopting a Stability and Growth Pact, which was modelled on a 1967 German Law to Promote Stability and Growth, in order to ensure sound public finances and coordinated fiscal policies by the Eurozone countries. Ironically, Germany (together with France) was later the first Eurozone member to be in breach of the Stability and Growth Pact (Dyson, 2014). The reason for this was the huge cost of unification which triggered a higher than usual budget deficit in Germany. The 2008 financial crisis developed from a banking crisis into a sovereign debt crisis which also engulfed the Euro and negatively affected in particular the Eurozone's economically weaker member states (such as Greece and Ireland). It transformed Germany from a 'reluctant hegemon' (Paterson, 2011) who would usually provide political

leadership in the EU only jointly with at least one other member state – normally France – into a major lender state who insisted – against considerable resistance from France and highly indebted member states - on the introduction of tough austerity measures in the highly indebted Eurozone countries to bring under control their huge budget deficits (Dyson, 2014).

The refugee crisis, which was largely driven by the conflict in Syria, is the other major crisis which pre-occupied German politicians in the run-up to the Brexit referendum and beyond. Chancellor Angela Merkel's (CDU) decision in 2015 that Germany should accept thousands of refugees who had become stuck in Hungary on route to Germany was one of the factors which triggered the arrival of hundreds of thousands of refugees and other migrants in Germany during that year. Chancellor Merkel's refugee policy has split and polarised German political parties and society into proponents and opponents.

As the UK's Brexit referendum took place during these dual crises – Eurozone crisis and refugee crisis – it is not surprising that Brexit has received comparatively little political attention in Germany. This is not to argue that Brexit is considered to be an unimportant political issue in Germany. The opposite is the case. However, in addition to dealing with Brexit, the German government has also had to pay attention to even more politically salient and pressing political issues such as the Eurozone and refugee crises. Moreover, the election of Donald Trump as American President in 2016, which took place only a few months after the Brexit referendum, and his 'America first' policy has triggered serious tensions in United States (US)-German and US-EU relations which Germany considers as a far greater potential threat to European economic prosperity and security than Brexit which has become a sideshow (*Financial Times*, 2018b).

Economic issues and the Single European Market

Germany is the EU's largest economy. Following the so-called economic miracle (*Wirtschaftswunder*) of the 1950s, Germany quickly developed into the EU's economic powerhouse. The EU's Single European Market (SEM) – formerly the Common Market – greatly helped Germany to develop into one of the world's leading export nations which achieved 'export world champion' (*Exportweltmeister*) status several times in the Twenty-First Century.

Although Germany's huge trade surplus is perceived by most Germans as an important measure of economic success, it has come under pressure from actors as varied as the US under its right-wing populist President, Donald Trump (Republican Party), the International Monetary Fund (IMF) under its left-leaning President, Christine Lagarde, and the pro-market *The Economist* (e.g. 2009) magazine. Critics of Germany's huge trade surplus have usually pointed out that Germany's export driven economy has greatly benefitted from an undervalued Euro because the European Central Bank (ECB) has also to take into account

(e.g. when it sets Eurozone-wide interest rates) the economically weaker Eurozone countries. Defenders of Germany's exporting success tend to emphasise that it is mainly due to the German economy's higher productivity and ability to produce high value products (such as high performance cars and sophisticated machinery) which are widely sought after around the world.

The UK, which used to be the EU's second largest economy until it was overtaken by France, has long been a very important export market for German companies. In 2016 and 2017, the UK ranked third and fifth respectively as an export market for German goods (Statistical Federal Office, 2018). The UK's recent relative - rather than absolute! - decline as a destination for German goods is not only due to the almost immediate impact of the outcome of the Brexit referendum (*Financial Times*, 2018b) but also the result of other factors such as the meteoric rise of China as a major export market for goods 'made in Germany'. For much of the 2010s, Germany's share of goods exported by all 28 EU member states (EU-28) to China was almost three times higher than trade between the UK and China or between France and China (Eurostat, 2018). Germany's export success in China flies in the face of arguments put forward by Brexiteers in the UK who have frequently claimed that the EU allegedly stifled the UK's ability to have stronger trading relations with rapidly emerging economies such as China.

While the UK has remained one of Germany's most important five export markets the reverse does not apply. In the 2010s, the UK did not belong to the top ten importers of goods to Germany (Statistical Federal Office, 2018). In 2017, the UK ranked eleventh and thus below small countries such as Austria, Belgium, the Czech Republic and the Netherlands. In 2015, only about 1.3% of goods imported to Germany had been produced in the UK (DIHK, 2017). One important reason for the UK's significant trade deficit with Germany is due to the fact that the service sector has been given priority over manufacturing in the UK. Prior to the 2008 financial crisis, Germany was often accused by neoliberal economists of having an underdeveloped service sector while relying too much on manufacturing. Since the 2008 financial crisis it has been recognised more widely that manufacturing (especially of high value goods) is likely to remain an important economic sector also for highly developed countries.

While Germany is significantly less reliant on imported British goods, the UK is currently highly dependent on German goods in sectors such as automobiles, machinery tools and pharmaceuticals which are all governed by SEM rules. In 2017, the UK was the second biggest export market for the German automobile industry which exported cars and parts worth approximately 29 billion Euros and employed about 9,000 people in 95 production sites in Britain (Reuters, 2017). German direct foreign investment is especially strong in the automobile sector. For example, BMW owns Rolls Royce and produces the Mini in the UK.

However, German companies have also invested in other sectors such as offshore wind turbine production. For example, Siemens opened major new production facilities for offshore wind turbines in Hull in 2016. The German Employers Association (*Bundesverband der deutschen Industrie – BDI*) estimated that German companies employed about 400,000 staff in the UK in 2017 (Deutsche Welle, 2017a).

Prominent Brexiteers in the UK (such as David Davis, Boris Johnson, Liam Fox and Michael Gove) have therefore frequently argued that in economic terms, Germany has more to lose from a Brexit in the absence of a trade deal between the UK and the EU-27. However, a 2017 study by the influential, pro-market *IFO Institut*, which had been commissioned by the German Economics Ministry, came to the conclusion that a so-called hard Brexit without a trade agreement between the UK and EU-27 would lead only to a loss of approximate 0.2 percentage points in GDP in Germany while the UK's GDP would decline by about 1.7 per cent. The same study concluded that a Brexit with a far-reaching trade deal between the UK and EU-27 would trigger a loss in GDP of only 0.1 and 0.6 percentage points in Germany and the UK respectively (IFO, 2017, see also *Der Spiegel*, 2017).

Brexit will have a differentiated effect on various industrial sectors and regions in Germany. For example, the Northern German Hanseatic city states (*Länder*) Bremen and Hamburg, which have had strong trading relations with the UK (and other countries) for many centuries, are likely to be more negatively affected than other regions in Germany which are less reliant on trade with the UK. The ports of the state (*Land*) Bremen (which includes Bremerhaven) are among the world's biggest automobile hubs from which a large number of cars manufactured in Germany are shipped to the UK. In Bremen the European consortium Airbus is a major employer which annually exports around €140 million worth of goods to the UK (WfB Bremen, 2017). The UK's 2016 Brexit decision has however also had economic reverberations in the South of Germany which is, compared to the North and especially the East, economically more prosperous. The Southern states (*Länder*) Bavaria and Baden-Württemberg host many small and medium sized enterprises (SMEs) which make up the so-called *Mittelstand* that constitutes the backbone of the German economy. Such SMEs specialise, for example, in the manufacture of machinery tools. In 2017, Bavaria exported about eight percent of its goods to the UK. This amounted to a decline of exports to the UK of about three percentage points compared to the previous year. Companies in Bavaria have blamed this decline on the outcome of the Brexit referendum (Bayerischer Rundfunk, 2017).

Brexiteers in the UK have frequently argued that German industry will put pressure on the German government to agree a favourable trade deal between the UK and EU-27. However, the protection of the SEM - including its four

freedoms, namely the free movement of goods, people, capital and services - and the prevention of a possible further disintegration of the EU are higher economic *and* political priorities for the German government (see also Turner and Green, 2017; Paterson, 2017). And even German industry considers the integrity of the SEM as well as the resolution of the Euro crisis and the preservation of multilateral global trade agreements or at least bilateral trade agreements between the EU and Germany's main export countries (e.g. the US and China) as more important priorities than easy access to the UK's market post-Brexit. In late 2017, the Managing Director of the BDI, Joachim Lang, stated in an interview: "Yes, German industry wants to keep a very close relationship with Britain. But have no doubt: We prioritize the further improvement of the EU" (Deutsche Welle, 2017a). The German government's main objective in the negotiations on the future relationship between the EU and the UK, will therefore be to safeguard the SEM *and* to ensure that any post-Brexit (trade) deal between the UK and EU will not entice other member states to follow the UK's example. The German government has no intention of penalising the UK for leaving the EU. However, at the same time, it will try to ensure any deal between the UK and the EU-27 does not make it attractive for other EU member states also to leave the EU. Instead the German government is likely to insist on a deal which at least to some degree will act as kind of deterrence for member states who would be keen to have close trade relations with the EU without having to accept all of the *acquis communautaire* that is the existing EU laws. This chimes with repeated statements by Chancellor Merkel and other senior German politicians that they will not allow the UK to cherry pick (*Rosinenpicken*) (see also Turner and Green, 2017).

Germany will undoubtedly miss the UK as a partner which also strongly favours free trade within and outside the EU. Prior to immigration becoming a politically salient and highly contested issue in the UK, both Germany and the UK staunchly defended the free movement of goods, people, services and capital within the SEM, often against considerable resistance from France which has a stronger state interventionist tradition. With the departure of the UK from the EU, Germany will thus lose an important ally on issues of free trade. At least in the short to medium term this loss is likely to be less severe for Germany due to the fact that Emmanuel Macron was elected as French President in 2017. Unlike many of his predecessors, President Macron is a strong supporter of the SEM and free(r) trade.

Whether and, if so, what kind of trade agreement the UK will be able to agree with the EU-27 will depend significantly on Germany and France's positions. In the past the Franco-German alliance has been of central importance for European integration although the duumvirate's leadership has become more contested, especially since the enlargement by ten Central and Eastern European countries in the 2000s (Paterson, 2012). While past UK governments have consistently

favoured the widening of the EU (including Turkish EU membership) rather than its deepening and strongly supported the EU's Eastern enlargement, France has sought to give priority to the deepening of European integration in preference to the widening of the EU. France was therefore initially hesitant to support the EU's Eastern enlargement and - under President Sarkozy (2007-2012) - has ruled out Turkish EU membership. Germany is the only large member state which has supported both the deepening and widening of the EU. However, during a television debate on 3 September 2017, shortly before the national elections, the Chancellor's main challenger, Martin Schulz (SPD), unexpectedly ruled out Turkish EU membership for the foreseeable future and thus overturned his party's policy which, up to then, had been to support Turkish EU membership under certain condition such as the fulfilment of the so-called Copenhagen criteria which stipulate, among others, as conditions liberal democracy, a market economy and the protection of minorities. In her reply, the visibly surprised Chancellor Merkel (CDU) also ruled out Turkish EU membership (ARD 2017). Large parts of her own party had never fully endorsed the idea of Turkish EU membership and welcomed Chancellor Merkel's unequivocal statement.

The imposition of significant tariffs by the EU on the UK after Brexit is something that Germany is likely to resist. However, the introduction of non-tariff trade barriers for the UK would arguably be more difficult for Germany to prevent. It was only after several important European Court of Justice (ECJ) decisions that measures which have the equivalent effect of quantitative restrictions (e.g. rules that have the effect of disadvantaging competitors) were largely eliminated within the SEM. However, the UK government has insisted the ECJ should no longer play a role after the UK has fully left the EU, although it has indicated that it would continue the court's decisions during a transitional period to avoid a cliff edge exit from the EU which would have serious negative economic consequences. In line with World Trade Organisation (WTO) rules, tariffs between EU and non-EU member states on machinery tools amounted to only between zero and four percent in the late 2010s. However, different regulatory standards for automobiles between, for example, the EU and USA have resulted in additional costs of between five and 18% (Deutsche Welle, 2017b). For the UK to have to rely on WTO rules therefore does not seem to be a particularly attractive economic option especially as President Trump has weakened multilateral trade agreements and the international organisations which underpin them.

Financial dimension

In 2017, Germany was the largest contributor to the EU's budget with a relative share of approximately 21 per cent, which constituted a reduction of Germany's contribution by about 10 per cent less compared to 1995 (BMF, 2017: 8). In 2014, the UK was the fourth largest national contributor after Germany

(€25.81 billion), France (€19.57 billion) and Italy (€14.36 billion) (EPRS, 2016: 2). The UK has remained a significant net contributor to the EU's budget despite the fact that British Prime Minister, Margaret Thatcher, negotiated the so-called rebate for the UK in 1985. The rebate was agreed on the basis that the UK benefitted in financial terms much less than other member states from the EU's Common Agricultural Policy (CAP) which constituted by far the largest spending item in the EU's overall budget at the time. In 2014, the UK made with approximately €11 billion the fourth largest national budget contribution despite the fact that the rebate had reduced its contribution by 35 per cent or €6.1 billion (EPRS, 2016: 2). Following the adoption of the widely publicised British rebate in 1985, less well-known 'temporary corrections mechanisms', triggering more modest reductions in national budget contributions from other member states including Germany, were also applied (EPRS, 2016: 6).

Although Germany's export oriented economy has been a major beneficiary of the SEM (BMF, 2017; Bulmer and Paterson, 2018; Dyson and Goetz, 2003), the German public has become increasingly reluctant to accept what it, rightly or wrongly, has perceived as Germany's paymaster role in the EU. Turner and Green (2017) have therefore argued that 'reducing the need for a further increase in Germany's roles as Europe's "paymaster in chief"' will be a major priority for the German government in the negotiations for a post-Brexit deal. As the UK plans to leave the EU on 29 March 2019, Brexit will coincide with negotiations for the EU's next multiannual financial framework on the basis of which the EU's annual budgets are fixed. The European Council, which is made up of the Heads of State and Government (i.e. the highest political representative from each member state), aims to agree the new multiannual financial framework for 2021-2028 by mid-2019.

The current multiannual financial framework for the EU's budget runs from 2014-2020. If no cuts are to be made to the EU budget after the UK leaves the EU in March 2019, then an annual gap of approximately €10.2 billion would have to be plugged until the new multiannual financial framework for 2021-2028 becomes applicable. As Paterson (2017: 92) has pointed out:

The UK is a major contributor to the EU budget and its departure raises awkward questions in relation to financing, with a number of Member States entertaining expectations that Germany – as the richest and largest Member State – will fill the gap.

Some studies have suggested that Germany's annual budget contribution could increase by as much as 16 per cent or €3.8 billion (*Die Zeit*, 2017). The coalition agreement for the grand coalition between the CDU/CSU and SPD, which came to power in March 2018, states 'We want to strengthen the EU financially' (CDU, CSU and SPD, 2017: 8) but fails to mention any figures. However, it is unlikely that a 16 per cent rise in Germany's national contributions

would be acceptable to the CDU/CSU-SPD government despite the fact that the first chapter (!) of its coalition agreement is entitled ‘A new start of Europe’ (CDU, CSU and SPD, 2017: 6-10). The Budget Commissioner, Günther Oettinger, who is a German national, has opposed significant cuts to the EU’s post-Brexit budget on the grounds that the EU will have to spend more money than planned on tasks such as immigration, external border security and defence. In an interview with Germany’s mass-circulation tabloid, *Bild*, Commissioner Oettinger identified the Brexit budget gap as between €12 - €14 billion while conceding that about half of it would probably have to be met with cuts to the EU’s budget (*Bild*, 2018). However, the actual Brexit budget gap will partly depend on what final post-Brexit deal the UK strikes with the EU. It is Germany’s large contribution to the EU budget which explains “the firmness of the German insistence that Britain must settle its debts before the negotiations of any future trade deal can begin” (Paterson, 2017: 92).

Germany has three principal options to deal with the post-Brexit gap to the EU’s budget. First, it could significantly increase its national contribution to the EU budget; second, it could press for cuts to the EU’s budget; and, third, it could try to insist on EU funding being made conditional on recipient member states having fulfilled all of their EU obligations. It is likely that the German government will opt for a combination of the above mentioned three options with the main emphasis on the first and second option. However, in her government statement (*Regierungserklärung*) on 21 March 2018, Chancellor Merkel explicitly linked the availability of EU structural funds to member states willingness to accept their EU obligations including a fair share of refugees (Bundesregierung, 2018a). Chancellor Merkel’s argument that EU member states should expect financial solidarity only if they live up to their EU obligations has been supported by the French President Macron. However, especially Hungary and Poland have up to now strongly resisted the implementation of the EU’s distribution plan for refugees, most of whom enter the EU in Greece or Italy but would like to travel mainly to Germany or Sweden which are prosperous EU member states with relatively liberal asylum laws. The EU’s refugee policy (including the allocation of refugees across the EU), which has already caused serious rifts between some member states, is likely to become a politically even more contested policy if it were to become explicitly linked to the allocation of EU (structural) funds as Chancellor Merkel, President Macron and Commission President Juncker have demanded. However, in mid-2018, a serious conflict erupted within the German government between the CSU, which demanded more restrictive refugee policy including immediate unilateral national measures (e.g. turning back asylum seekers at the German border who had already registered in another EU member states), and the CDU which backed Chancellor Merkel’s more liberal stance and EU-wide solutions.

Environmental dimension

For much of the 1970s and 1980s, Germany and the UK found themselves on opposite ends of the environmental leader-laggard divide. The UK was frequently portrayed as the ‘dirty man of Europe’ (Rose, 1990) while Germany was more often than not characterised as an environmental leader state (Andersen and Liefferink, 1997; Wurzel, 2002). In the 1970s/80s, the main line of conflict in EU environmental policy-making therefore occurred between Germany, which often demanded EU-wide emission standards derived from the best available technology (BAT) principle, and the UK which usually lobbied for more flexible, cost-effective environmental quality objectives (EQOs) (e.g. Wurzel, 2002). Héritier et al. (1996) have argued that up to the early 1990s, Germany largely succeeded in uploading to the EU level its preferred national environmental policy preferences and regulatory style. However, since the 1990s the EU has moved away from detailed EU environmental laws which stipulate BAT-derived uniform emission limits (e.g. for drinking water and lead in petrol) towards more flexible framework laws (e.g. the water framework directive) or procedural measures (e.g. access to environmental information and environmental impact assessment).

The UK, supported by Sweden and Finland as well as the Netherlands, acted as the main driver for procedural standards and more flexible, cost-effective EU framework laws which often set EQOs while stipulating the principle of the best available techniques not entailing excessive costs (BATNEEC) that has been widely used in British environmental policy. Germany, supported by Austria, on the other hand, continued to lobby for ambitious BAT-derived substantive standards. In Germany the new procedural EU environmental policy measures created considerable adaptation pressures because of their ‘poor fit’ with existing domestic environmental legislation (Héritier et al., 1996). The differences in preferred environmental regulatory styles between Germany and the UK should not be exaggerated as both countries have, in practice, made use of mixes of uniform emission limits and EQOs in their respective domestic environmental policies (Haigh, 1982; Wurzel, 2002). Importantly, some regulatory principles were interpreted differently in different EU environmental policy measures as can be seen, for example, from the fact that the BATNEEC principle was sometimes spelled out as best available *techniques* not entailing excessive cost (in which case it came closer to British preferences) and sometimes as best available *technology* not entailing excessive cost (in which case it resembled the German BAT principle) (Wurzel, 2002: 29).

Whether the UK’s exit from the EU will lead again to the dominance of the traditional German environmental regulatory style on the EU level is however unlikely for the following three main reasons. First, as explained above, the differences between national environmental regulatory styles between Germany

and the UK were not as marked as some have suggested. Second, EU environmental policy measures typically constitute complex compromises which take account of the preferences of as many member states as possible (Weale, 1996). In any case, the UK's preference for a more flexible approach is nowadays shared by several member states including Sweden and the Netherlands. Third, over the years Germany's nationally preferred environmental regulatory style and policy instruments have been strongly Europeanised (e.g. Jordan and Liefferink, 2004). The EU emissions trading scheme (ETS), which has become the EU's main policy instrument for tackling carbon dioxide emissions from industry, constitutes a good example. Initially Germany (together with Austria) strongly opposed the adoption of EU ETS (Wurzel, 2018b). Since the EU ETS has become operational, Germany has changed into an emissions trading proponent while lobbying for making the scheme more ambitious.

It is unlikely that Brexit will pave the way for the re-tabling of the Commission's 1992 proposal for an EU-wide carbon/energy tax which had been vetoed by the UK on sovereignty grounds. The adoption of EU tax measures requires unanimity and other member states (e.g. Ireland and depending on the party in government also Spain) have also been opposed to an EU-wide carbon/energy tax although so far they have been hiding behind the UK's veto. Frustrated by the lack of progress with its carbon/energy tax proposal the Commission started to push for an EU-wide emissions trading scheme in the late 1990s. The US had insisted on emissions trading, initially against strong EU opposition, as a condition for signing the Kyoto Protocol. The US later abandoned the Kyoto Protocol which unexpectedly made the EU an emissions trading leader that has championed the EU ETS as a global model (e.g. Skjærseth and Wettstad, 2008; Wurzel, 2018b).

Brexit will have a significant impact on EU climate change policy because the UK is (behind Germany) the second largest emitter of carbon dioxide emissions. Following its 'dash for gas' due to the closure of many coal mines, which was cost-driven and politically motivated rather than for environmental policy reasons, by the Thatcher government in the 1980s, the UK developed into a climate change leader. Germany's climate policy benefited greatly from 'wall fall profits' which resulted from carbon dioxide emission reductions due to the closure of outdated heavy industries in the former East Germany after German unification in 1990. It is therefore perhaps not surprising that Germany and the UK have adopted similarly ambitious greenhouse gas emissions reductions targets although the two countries have held divergent views on the need to set legally binding EU targets for renewable energy which were favoured by Germany and opposed by the UK (Wurzel et al., 2017).

Since the accession of the Central and Eastern European states in the 2000s, the East-West split between member states on EU environmental policy issues

has become more dominant than the North-South split. Braun (2014: 457) has argued that the EU has failed to diffuse successfully norms such as ecological modernisation to the Eastern European member states. Especially for EU climate policy the Visegrad states (made up of Hungary, Poland, Czech Republic and Slovakia) have, under Poland's leadership, tried to form alliances to oppose EU proposals which they regard as overly ambitious (Braun, 2014).

Up to now the Franco-German alliance has not played a significant role for EU environmental policy although it has been a major driver for European integration in general. The main reason for this is that Germany and France have different traditional national environmental regulatory styles and environmental priorities (Wurzel, 2008a). While Germany has opted for the phasing out nuclear power, France continues to rely heavily on nuclear energy. However, for much of the 2010s and especially in the run-up to the 2015 Paris climate conference, which endorsed the Paris Agreement, France and Germany have worked together closely on EU and international climate policy issues. At a joint press conference with Chancellor Merkel, President Macron stated after the European Council on 22-23 March 2018, that it would not be desirable for the EU to conclude trade agreements with third countries which have failed to commit to the Paris Agreement (Bundesregierung, 2018b). Creating an explicit link between climate and trade policies on the international level could have significant foreign policy implications, especially if the US were to withdraw from the Paris Agreement under President Trump.

Foreign and security policy dimension

With Brexit, the Franco-German alliance will once again become more important. As was mentioned above, in the past, the Franco-German duumvirate has been a major driver for European integration although its influence has declined as a result of the various EU enlargements (Paterson, 2012). French Presidents and German Chancellors have worked closely together sine Charles de Gaulle and Konrad Adenauer signed a Franco-German friendship treaty in the 1950s. Since the election of Emmanuel Macron as French President in May 2017, it was France rather than Germany which has made the running on initiatives to rejuvenate the EU. The long drawn out government coalition negotiations which followed the German elections in September 2017, made it impossible for the acting government (i.e. outgoing caretaker government) to react decisively to President Macron's political initiative to rejuvenate the EU let alone start its own EU initiatives. In a speech at the Sorbonne University in September 2017, President Macron put forward detailed plans for a reformed EU after Brexit. Since Angela Merkel was re-elected as German Chancellor on 14 March 2018, the German government has tried to make up lost ground while engaging closely with France. The German and French governments subsequently announced that they would publish joint proposals for the reform of the EU in 2018.

The 2018 coalition agreement (*Koalitionsvereinbarung*) for the CDU/CSU-SPD coalition government contained a fairly substantive chapter on the EU which is entitled ‘A new awakening for Europe (*Ein neuer Aufbruch für Europa*)’. The coalition agreement was negotiated while Martin Schulz, who is a former EP President and staunch supporter of deeper European integration, was still the SPD’s leader. Schulz resigned as leader of the SPD and refrained from becoming Foreign Minister in Chancellor Merkel’s new cabinet, shortly after the coalition agreement had been adopted in principle by the leaders of the CDU, CSU and SPD. After the election results had become clear on 24 September 2017, Schulz firmly declared that the SPD would not enter into another grand coalition with the CDU/CSU and that he would not serve in a cabinet with Merkel as Chancellor. The possibility of him breaking these two promises did not go down well with SPD party members, who still formally had to endorse the coalition agreement, and the general public. Schulz’s actions were triggered by his desire to save the coalition agreement by sacrificing his personal ambitions. From the UK’s perspective, Schulz’s downfall could be seen as advantageous as he was expected to lobby hard for a tough Brexit deal to ensure the integrity of the EU. His resignation was probably also welcomed by the Russian President, Vladimir Putin, because Schulz, in contrast to especially the left-wing in the SPD (as well as The Left and AfD), has strongly supported sanctions against Russia because of its annexation of Crimea. However, Heiko Maas (SPD), a former Justice Minister, who eventually became the new Foreign Minister - following another internal tussle within the SPD about this ministerial post – is also a strong supporter of the EU and close relations with France. Maas has publicly backed the continuation of sanctions against Russia while opposing Trump’s unilateralism in favour of multilateralism.

The fact that the SPD has been able to claim the post of Finance Minister in the new CDU/CSU-SPD coalition government could turn out to be more important for President Macron’s ambitions for rejuvenating the EU than the issue of who serves as German Foreign Minister. The new Finance Minister, Olaf Scholz (SPD), is considered to be less hawkish about strict austerity measures than his predecessor Wolfgang Schäuble (CDU) who, although a committed pro-European, did not make himself popular in France and the highly indebted Eurozone countries - most of all Greece – with his unwavering insistence on fiscal prudence and austerity measures as a cure for the Eurozone crisis (Dyson, 2014). However, while the coalition agreement mentions the need for new investment on the EU level in general terms, it does not provide any details. Moreover, Chancellor Merkel is under considerable pressure from the right-wing in her own party, which is represented in the new cabinet through Jens Spahn, and even more so from the CSU, not to abandon austerity measures to solve the Eurozone crisis.

While Germany has been portrayed as an economic giant and political dwarf (Paterson, 2011), Belgium's Foreign Minister, Mark Eyskens, is quoted as having called "Europe an economic giant, a political dwarf, and a military worm" (cited in Whitney, 1991). Many Germans would ideally like Germany to be a larger Switzerland i.e. an economically prosperous country which does not get involved in military conflicts. However, within a rapidly changing geopolitical environment and pressure from the US on Europe to do more for its own defence, both Germany and the EU are likely to become more active on security policy issues.

Germany has used its status as principal creditor and 'fiscal saint' during the Eurozone crisis to act as a regional hegemon who, with support from other member states (e.g. the Netherlands), the Commission and the International Monetary Fund (IMF), imposed tough austerity measures on the 'fiscal sinners' (Dyson, 2014; see also Paterson, 2017: 92). However, on (military) security issues Germany is unlikely also to transform any time soon into a 'not-so-reluctant hegemon'. On security issues Germany has long been and is likely to remain a 'tamed power' (Katzenstein, 1997). Germany is highly dependent on France for EU/European defence policy issues and on the US for NATO defence efforts, although German political parties on the far-left (i.e. The Left) and far-right (i.e. AfD) favour the dissolution of NATO.

With Brexit, France will become the only EU member state with nuclear weapons and a seat as a permanent member of the United Nations (UN) Security Council. This will strengthen France's already important role within the EU's Common Foreign and Security Policy (CFSP). On the other hand, cooperation on security (including military security and the fight against international terrorism) is likely to remain very close between the UK and the EU-27 (see Paterson, 2017; Turner and Green, 2017). Moreover, the UK, Germany and France are important NATO partners. That the UK is likely to be able to rely on solidarity from Germany and France as well as (most of) the other EU member states on security issues post-Brexit has become clear by, for example, the reactions to the nerve gas poisoning of the Skirpals in Salisbury in 2018. Almost all EU member states followed the UK's lead in swiftly expelling Russian diplomats. The UK is not only an important military power at least in Europe. It also has a lot of expertise on international terrorism which the EU-27 will be keen to make use of post-Brexit. Paterson (2017: 94) has however warned that the UK would be unlikely to succeed if it were to attempt to use its important role on security policy issues as a kind of 'get out of jail card' to trigger concessions from the EU-27 on a trade deal.

Conclusion

The UK's decision to leave the EU has been received with great disappointment in Germany. There is a lot of political good will for the UK in Germany. The coalition agreement for the new CDU/CSU and SPD coalition government states: "We regret the exit of the United Kingdom from the European Union. After its departure we would like to have a trusting relationship between the Federal Republic of Germany, the United Kingdom and the EU-27" (CDU, CSU and SPD, 2017: 6). However, protecting the SEM and keeping together the EU are overriding political priorities for the German government which will try to ensure that the final deal between the UK and the EU-27 does not make it attractive for other EU member states to follow the British example. In March 2018, a 21-month Brexit transition deal was provisionally agreed between the UK government and the EU's chief negotiator, Michel Barnier. If accepted as part of the final Brexit agreement, it would avoid a cliff-edge exit for the UK which, however, in exchange would have to accept the EU's rules during the transitional period without being able to influence them (*Financial Times*, 2018a).

In Germany, Brexit has attracted comparatively little political attention. This is not to argue that Brexit is considered to be an unimportant political issue for Germany. The opposite is the case. However, for the German government, Brexit constitutes only one of currently three major European crises, the other two of which are the Eurozone crisis and the refugee crisis. As Turner and Green (2017) have rightly argued '[o]f these, Brexit has the lowest domestic profile and is perhaps the one with the lowest direct impact'. Moreover, President Trump's 'America first' policy has turned Brexit into a sideshow for Germany (*Financial Times*, 2018b).

The UK has long been an important export market for German goods while the UK has a high trade deficit with Germany. The UK's relative importance as an export market for German goods has declined slightly since the 2016 Brexit referendum, although another factor constitutes the meteoric rise of China as an export market for goods made in Germany. Trade relations between Germany and the UK are likely to remain on a relatively high level after Brexit. The UK is currently strongly reliant on German goods in sectors such as automobiles and machinery tools. Germany, on the other hand, relies heavily on the City of London for financial services although it is hoping to attract some of the jobs in the City of London to Frankfurt which is Germany's financial centre. Brexit will have a differentiated effect, not only on different industrial sectors but also on different states (*Länder*) and regions in Germany. The city states Bremen and Hamburg have traditionally had very strong trade links with the UK while many export-oriented SMEs are located in the South of Germany. Germany will clearly

miss the UK as a partner which also strongly favoured free trade within (and outside) the EU.

The impact of Brexit on EU environmental policy is likely to be limited. Germany and the UK are no longer at opposite ends of the environmental leader-laggard dimension. As regards tackling climate change, Germany and the UK have adopted similarly ambitious long term greenhouse gas emissions reduction goals although the two countries have diverged with regard to their respective renewable energy policies. Possible major deregulation efforts by the UK post-Brexit, which have been touted by some UK government ministers, could reignite disputes between Germany and the UK about the best approach to pollution control and the need for an economic level playing field. Different environmental product standards create barriers to trade while lower environmental process standards may reduce costs but also lead to the externalisation of pollution.

With Brexit, the Franco-German alliance will become more important again. In the past, the Franco-German duumvirate has been a major driver for European integration although its influence has declined as a result of the various EU enlargements since the 2000s. Since the election of Emmanuel Macron as French President in May 2017, it was France rather than Germany which has been able to make the running on initiatives to rejuvenate the EU. However, following the re-election of Angela Merkel as German Chancellor in March 2018, the German government has tried to make up lost ground while engaging very closely with France. Whether the Franco-German alliance will indeed be able to engineer a 'new awakening' for the EU or be unable to halt the spread of 'European Disunion' (Hayward and Wurzel, 2012) remains to be seen. On security issues the UK is likely to be able to continue to cooperate closely with Germany and the other EU member states post-Brexit.

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