Brexit through the Eyes of Luxembourg

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General attitudes towards Brexit

The attitude of the Luxembourgish government to the negotiations surrounding Brexit has been influenced by two opposing factors. On the one hand, before the UK's Brexit referendum, Luxembourgish public opinion was strongly in favour of Britain's continued membership of the EU: in a TNS survey conducted in May 2016, 66% of respondents wanted the UK to remain a member, and only 25% thought it should leave. Similarly, among the political elite, members of all parties expressed first the hope that the UK would remain a member of the European Union, and then disappointment at the outcome of the Brexit referendum. Support for UK membership stems ideologically from pro-European attitudes and pragmatically from shared interests in banking and finance. The effect of strong support for British membership was that all politicians emphasized the importance of keeping Britain in the EU in the run-up to the referendum, and the importance of compromise to achieve this. This factor worked to David Cameron's benefit in his attempt to negotiate a new settlement in 2015 and 2016.

On the other hand, the manner in which Cameron announced the referendum and presented his demands for a special deal were widely perceived as 'cherry-picking' backed up by 'blackmail' and was described in those terms in numerous newspaper articles and by politicians from all parties except the small right-wing ADR. The concerns that 'successful blackmail' might encourage the use of similar tactics in the future were further fuelled by Cameron's attempt to veto the nomination of the Luxembourger Jean-Claude Juncker as Commission President in 2014 with the argument that the Brexit side might then win the referendum. Commentators pointed out, first, that Cameron was unable to guarantee a victory of the Remain side even if another Commission President was appointed, and second, that he would use these tactics again if the EU gave in now. In addition, there was a widespread perception that British demands were often more about domestic rivalries and squabbles between and within British parties than about genuine interest in the improvement of the European Union, and that European concessions – whether small or big – might therefore not be able to secure British support in the long term.

As a result, the Luxembourgish government was ultimately unwilling to compromise too much on key national and European interests in the negotiations before the Brexit referendum, despite the fact that it wanted Britain to remain a member.

After the referendum, the situation changed in that a majority of Luxembourgers were inclined to agree that 'Brexit means Brexit', even if this was originally not their preferred outcome. Thus, when the Tageblatt asked its readers whether a second referendum on the future of the UK would be justifiable (5 July 2016), 61 percent said 'no'. Most leading politicians agreed that the UK now has to leave the EU. The political consensus is that the Brexit negotiations should not be punitive, but also that there was no need to offer it gifts. The Luxembourgish government officially supports the European lead negotiator, but it is clear that the government has also identified a small number of priorities where it intends to defend Luxembourgish interests.

Key issues

The Luxembourgish government officially lends strong support to the common negotiating position of the EU. However, in practice, some issues receive a lot of attention from politicians and the media, and can thus be regarded as national 'red lines', even if the government avoids that expression.

The main priority is the protection of the financial sector, which plays an important role in Luxembourg's economy. As the British and Luxembourgish financial sectors are closely intertwined, the ideal outcome would be that Britain maintains access to the internal market in this area, but under the condition that it has to abide fully by all EU rules and regulations. This would cause a minimum of disruption, while also maintaining a level playing field for all actors. However, should Britain decide to adopt a different regulatory framework, then it should lose access to the internal market. This outcome would most likely cause some disruption to the economy, but it would also offer opportunities to compensate for those losses, as London-based actors would need to create or reinforce subsidiaries in EU member states.

These positions are consistent with the Luxembourgish stance during the re-negotiation of the UK's settlement in 2016. Financial services are also the area where the government and economic actors are most concerned about 'cherry-picking'. The least desirable outcome would be that the UK can keep the advantages of EU membership, including access to the internal market, without being bound by the same rules and regulations, and it is unlikely that the government would agree to back such an outcome. Foreign Minister Jean Asselborn has stated on several occasions, for example in March 2017, that 'No deal is better than a bad deal' is also true for Luxembourg and that there would be no harmful compromises on the internal market for financial services. Given the strength of that statement, this is clearly a national 'red line'.

Secondly, the government insists regularly that the EU's four freedoms are inseparable, and that internal market access therefore goes hand-in-hand with the free movement of workers. Finally, Prime Minister Xavier Bettel has stated occasionally that he supports the EU's demands for a settling of financial liabilities, and that he is against a transition period after Brexit.

In summary, as the Luxembourgish government aims to support the EU negotiator and the EU's common position in the negotiations, it has not set out detailed national priorities on a wide range of issues. It has, however, made its position clear on a small number of key priorities.

Key actors

The next national elections will be in October 2018, and it currently looks like the liberal-left coalition government of LSAP, DP and Greens might lose its majority. In that event, the Christian-democrat CSV would probably return to power. As the next government would take part in the final negotiations around Brexit, it is important to understand not only the priorities of the government, but of all major parties in parliament.

All Luxembourgish parties - with the possible exception of the right-wing ADR (6.6% of votes in 2013) and the 'Déi Lénk' (4.9% in 2013) - are generally pro-European. However, these two parties are more euro-critical than eurosceptic and cannot be compared to UKIP or certain sections of the British Conservatives or Labour parties. Déi Lénk is critical of many EU policies, which it finds too neo-liberal, but is in favour of European integration per se and would indeed like to see more integration in a number of areas. The ADR would prefer a return of competences to member states, a Europe of national states and of multiple-speeds where each state can decide in which areas it would like to cooperate, but it also concedes that Luxembourg can only exist within the EU and that it benefits from membership.

As a result, there is agreement on many issues from (almost) all parties. For instance, all parties with the exception of the ADR agree that the four freedoms are inseparable and that internal market goes hand-in-hand with the free movement of workers. The ADR agree with the UK government that the abuse of the freedom of movement needs to be limited, but still advocates an 'extensive' freedom of movement.

Similarly, all major parties share the government's position on the financial sector, and several leading politicians (e.g. from the CSV, DP, the Greens) have stated that there must be a clear differences between EU member states and non-members, and that there should be nothing in-between. The ADR, which proposes a quasi-membership status for countries like the UK is an exception in this regard. While those statements were made in 2016 and early 2017, they do not bode well for British proposals to base the 'new' relationship between the UK and the EU on agreements that are largely copies of the existing custom union and internal market. Thus, as all major parties adopt similar positions, the elections of 2018 are unlikely to change the Luxembourgish stance in the Brexit negotiations.

Outside the world of politics, a number of major associations in the financial sector could be influential in the debate. Their public statements suggest that their line complements the stance of the government. For instance, the Luxembourg Bankers' Association (ABBL) has insisted in the past that Britain should not get unfair advantages. The Association of the Luxembourg Fund Industry (ALFI) seems to assume that UK-domiciled funds will lose their passporting rights and will have to establish subsidiaries in the EU. It insists on the importance of maintaining a level playing field, i.e. on the undesirability of granting internal market access for the London City without full compliance with the EU's regulatory framework. It now focuses on advertising Luxembourg's financial place and on attracting new actors. Finally, the insurance industry has been very successful in attracting new investments to Luxembourg in the wake of the Brexit referendum.

To conclude, for most major financial actors, the worst-case scenario seems to be a soft Brexit that distorts competition and creates unfair advantages for British competitors. In that vein, they also lobby for a clear 'in or out' decision without cherry picking. The privilege of internal market access should always come with the obligation to respect the regulatory framework.

The salience of Brexit

The coverage of Brexit in the Luxembourgish media and the number of political statements and debates on the issue have substantially increased over time. The media did report on David Cameron's Bloomberg speech in 2013, but there was little political commentary and few newspaper reports on the issue in the following year. This does not necessarily mean that the question of UK membership was regarded as 'unimportant'. Rather, during those years, the Brexit debate was perceived to be predominantly about British politicians posturing in conflicts between and within UK parties. As such, foreign politicians (and citizens) could only wait for the outcome of the referendum.

The Luxembourgish debates on the issues picked up slowly in 2015, when negotiations on the special deal for Britain in the event of a Remain vote started. Coverage peaked in 2016 and 2017 when the conclusion of the special deal, the referendum and the start of Brexit negotiations presented opportunities for non-British politicians to shape outcomes.

Interestingly, the intensity of political debate does not fully reflect the economic salience of the topic. Initially, the general assumption was that Brexit would be disruptive due to the close ties between the financial sectors of the UK and Luxembourg. Until the referendum, politicians of all parties tended to argue that Brexit would slow economic growth in Luxembourg. However, as recent growth figures were quite robust, and as Brexit also opens up new opportunities especially through the relocation of financial actors, the government currently tends to argue that the economic impact of Brexit is impossible to predict precisely, but that it will most likely be somewhere in the range of slightly positive to slightly negative. Thus, despite the intense media coverage, the assumption is that the economy will not be adversely affected – provided that the EU does not grant the UK access to the internal market for financial services without a corresponding obligation to respect its regulatory framework.