Agora Report

British Pragmatism?
European Defence and Security Institutions in the Brexit Negotiations

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The Open Forum For Foreign Policy
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Executive Summary

Brexit negotiations, thus far, have mostly focused on the triad of citizens’ rights, the Irish border and the divorce bill, but since September talks are underway concerning the future of the UK-EU defence and space relationship. This paper examines four of the most important institutions and cooperation agreements in defence and space, offering an assessment of their economic and political significance to the United Kingdom.

This paper finds that UK participation in the EU’s Common Security & Defence Policy (CSDP) is of low political and economic importance to the UK. Limited UK troop contributions in recent years, apart from the EU’s anti-piracy mission ATALANTA, are indicative of this low priority. Instead, post-Brexit military operations are more likely to align with NATO deployments rather than with CSDP missions. Joint UK-EU CSDP operations could, however, be feasible where the UK government’s national interests align with the EU27’s mission priorities.

Since the Brexit referendum, the EU has forged ahead in the field of collaborative European defence research and development (R&D) by launching a European Defence Fund (EDF). The UK’s Ministry of Defence (MoD) is equally aware of the need to support its defence industrial base, initiating a similar fund via its Defence Innovation Initiative. Post-Brexit, the UK government will be hard-pressed to justify politically contributions to such a new EU project. Hence, this suggests a preference for a national R&D programme under UK oversight.

In addition to the launch of the EDF, the EU is expected to strengthen the role of its defence agency which encourages defence procurement as well as pooling and sharing of defence equipment. However, since its inception, the EDA has at most been peripheral to UK procurement initiatives. Therefore, as the UK leaves the Union it is also expected to discontinue its European Defence Agency (EDA) membership. More likely, the UK will continue to strengthen its ongoing strategy to gain economies of scale for its industry through major export programmes to non-EU countries.

Finally, the UK is a major stakeholder in the European Space Agency (ESA) which itself is not an EU institution. However, the EU has commissioned and finances the agency’s two flagship programmes, the Galileo Satellite Navigation System and the Copernicus Earth Observation programme. Unlike the above EU programmes, Westminster and the UK space industry are cognisant of the high economic and political stakes here. Consequently, the ESA and its two satellite programmes are likely to feature prominently in the upcoming Brexit negotiations.

Overall, this paper’s findings suggest that the UK has relatively few political and economic ramifications from leaving the EU’s defence institutions in their current form. The exception to this would be the EU’s space programmes which support Britain’s aerospace technology sector. After Brexit, the UK-EU relationship might well be headed towards pragmatic and problem-centric cooperation in defence, based on ad-hoc coalitions to solve common issues. However, the sheer number of stakeholders and current political volatility in Westminster may affect the political-economic calculus, altering the outcome of future relationship talks.
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Defence and space institutions have not featured highly in the initial stages of the Brexit negotiations. The British media has focused on the UK’s security surplus as a source of leverage on the EU rather than considering the pros and cons of future defence cooperation. Certainly, there has been little debate around why the UK government may feel comfortable parting from existing forms of defence and space cooperation. However, the current UK government must consider the UK’s relations to existing and new EU defence institutions post-Brexit. This inaugural Brexit Briefing by Agora’s Defence and Security Programme assesses the political and economic priority to the UK of four EU institutions and cooperation frameworks: The Common Defence and Security Policy, the European Defence Fund, the European Defence Agency and the European Space Agency. As most cooperation in defence and space relies either on sharing costly space-based assets or on co-developing defence technology, economics has been deemed an equally important aspect of the negotiations as politics, which are key factors playing into the UK-EU future relationship.

Participation in the EU’s Common Security & Defence Policy (CSDP), which deploys troops from EU member states in civilian and military crisis management and conflict prevention operations, is of low political and economic importance to the UK. With limited troop contributions in recent years, the UK is likely to pivot towards Atlanticist defence and security forums. However, the impending departure of the UK from the Union has already facilitated plans for deeper EU defence integration with the launch of a European Defence Fund in June 2017. Post-Brexit, the UK government is hard-pressed politically to justify contributions to such a new EU project. Instead, the UK is likely to support its defence industrial base through a national R&D programme, the Defence Innovation Initiative, under UK oversight. The EU’s defence agency which encourages defence procurement as well as pooling and sharing of defence equipment fulfils a similar mission. However, since its inception, the EDA has at most been peripheral to UK procurement initiatives and hence is unlikely to be a strategic priority in the negotiations. This briefing suggests that the UK is likely to continue to strengthen its ongoing strategy of supporting its domestic industry through export programmes to non-EU countries. Finally, regarding the European Space Agency (ESA), which itself is not an EU institution, the two EU-commissioned satellite programmes are likely to feature prominently in the upcoming Brexit negotiations where the UK space industry is a net beneficiary.

Overall, this paper’s findings suggest there are relatively few political and economic ramifications to the UK from departing the EU’s defence institutions in their current configuration. The exception to this would be the EU’s space programmes which support Britain’s technology sector. The UK-EU future relationship might well be heading towards more pragmatic and problem-centric cooperation in defence, based on ad-hoc coalitions to solve common issues. However, the sheer number of stakeholders and current political volatility in Westminster may affect the political-economic calculus and the ultimate outcome of the negotiations.
The Common Security and Defence Policy (CSDP) is the EU’s institution for deploying civilian and military missions. The operational basis of CSDP was built on the spectrum of crisis prevention and conflict management missions, known as the Petersberg Tasks and the Helsinki ‘Headline Goal’ agreement in 1999 to field 60,000 troops within 60 days for up to a year. This intergovernmental arrangement emerged out of a context of European Member States’ military and political failures as well as the impotence of EU civilian and structural instruments in the Balkans during the 1990s. Alongside its practical importance, CSDP has a strong identity-building dimension, driven by endogenous pressures from Europeanists for further integration. Today, the EU is present in the Balkans, Middle East, Eastern Europe, North and East Africa. Training missions for foreign militaries, police and criminal justice systems comprise the majority of the CSDP manpower. Based on common interests of protecting trade and commerce, the EU has also intervened to counter piracy and disrupt human trafficking and smuggling. Two naval operations are underway in the Mediterranean and in the Western Indian Ocean with a total fleet of around 30 ships and helicopters. CSDP missions are typically confined to the EU’s surrounding regions, termed by the EU’s Global Strategy (EUGS) as building “State and Societal Resilience to our East and South.” Since 2008, CSDP has stalled with the number of missions falling in the face of austerity pressures on European treasuries, but in a post-referendum environment France and Germany are seeking to place defence and security at the heart of Europe.

The UK has been integral to the development of CSDP since the bilateral agreement between Blair and Chirac in December 1998. As one of the two founders of a European Defence and Security Policy, contributing roughly 25% of European defence spending, the UK has been a “prime mover and is one of the main shareholders in this policy area.” The Operational Headquarters for the EU’s successful anti-piracy mission, EUNAVFOR Atalanta, is based out of the British Armed Forces’ Northwood facility in Hertfordshire. However, since 2010 the UK has scaled back its troop commitments as missions in the Balkans have wound down. Currently, just over 150 British troops are deployed across five CSDP missions. While the British contribution is more in terms of materiel, infrastructure and operational support, the UK personnel commitment is only 2.6% of the total civilian and military contribution of 5876 staff.

The Politics of UK Involvement in Common Security and Defence Policy

Brexit has undermined the UK’s traditional policy position built upon the twin pillars of the Anglo-American ‘special relationship,’ represented by NATO, and a pragmatic support for the EU’s comprehensive approach to security. However, in the current Tory-DUP ‘confidence and supply’ deal a formal integrated relationship for enhanced partnership with the EU on CSDP does not seem to be a top political priority. The key unknown is to what extent the UK might seek to use its sizeable defence budget and security capital as a trump card to enhance its bargaining power. The Brexit White Paper in February 2017 was meant to reassure European partners that the UK will “remain committed to European security and add value to EU foreign and security policy” after the divorce. The diplomatic paper highlights Britain’s qualitative contribution to CSDP operations and missions with people, finance, equipment or operational support. Following successful de-escalation in the Balkans, the UK has focused on maritime CSDP missions. Since June 2015, a Royal Navy multi-role vessel has been stationed in the Mediterranean, working on counter-narcotics operations, arms interdiction to Libya, supporting UN arms embargo and working on disaster relief as part of the Operation Sophia in the context of the Mediterranean migrant crisis. Brexit does not seem to have reduced the Royal Navy’s commitment to the mission. In December 2016, the sister ship, HMS Echo, relieved the HMS Enterprise, extending the British naval presence in the Mediterranean under EU auspices.

On the other hand, the UK’s strategic culture diverges significantly from the many other EU Member State and CSDP’s low-intensity, broadly civilian character. With a high average equipment spend per soldier and a strong history of expeditionary missions, the British Armed Forces are operationally
oriented towards higher-intensity missions. Although Conservative Party divisions and leadership challenges make isolating a clear position in certain policy areas challenging, from a foreign policy perspective the most likely outcome in the medium-term is a doubling-down on NATO as the primary arena for British operations, alongside ad-hoc, multi-national contact groups.

The UK Armed Forces: Ambassadors for Global Britain

From an economic perspective, the UK government has broad autonomy over its commitment to CSDP since EU foreign policy operates on an intergovernmental basis. The EU budget is independent from the CSDP budget where 85-90% of a mission is determined on a ‘costs lie where they fall’ principle depending on member states’ individual national interests and political will. However, it is fair to expect budgetary pressures on Her Majesty’s Treasury to lead to consolidated foreign policy activity, aligned closely with trade goals. According to Office for Budget Responsibility estimates, two-thirds of the Treasury’s £26 billion Brexit war chest has been consumed already. Clearly, the post-Brexit economic calculus is dependent on a plethora of factors including any free-trade arrangement, the effectiveness of the transition, market confidence, and the post-Brexit vision cast by the UK government. The first-ever joint exercises between the RAF and the Japan Air Self-Defence Force in October 2016 and the recent announcement that the HMS Argyll will join historic military exercises with the Japan Maritime Self-Defense Force reflect the economic as much as geopolitical situation, driven by Liam Fox’s Department of International Trade in support of a growing regional defence market. At the Air Power Conference in July 2016, Sir Michael Fallon, the former UK Secretary of State for Defence, described the RAF as “our greatest ambassadors...promoting British influence and industrial brilliance.” The UK Armed Forces can expect to play an increased political-economic role as an important shopfront for Global Britain. British Typhoon squadrons will conduct more intensive rotations with international partners, the Royal Navy are ramping up their presence East of Suez from their new base, Mina Salman Port in Bahrain, and HMS Queen Elizabeth II aircraft carrier is due to deploy in the Asia-Pacific region.

Since there is little prospect of using CSDP to recoup economic benefits, its priority is low. Although the values and political interests of Europe and the UK align on maritime CSDP missions, opportunities for political and trade wins through rotation to Atlanticist forums and growth markets mean its political importance is limited.
The UK’s decision to leave the Union has re-energised integrationist activities in the European defence sector. In June 2017, Federica Mogherini, the High Representative of the Union for Foreign Affairs and Security Policy, launched the European Defence Fund (EDF) as part of the Commission’s European Defence Action Plan. Crucially for negotiations with the UK, in the next EU budget (2021-27) this institution will provide €500 million per year in grants for collaborative research into innovative defence technologies and products. Further to research and technology funding, the EDF creates a €1 billion annual funding mechanism to incentivise multi-national development and acquisition within the single market, covering 20% of the costs of successful projects in development phase where the consortium is made up of at least three companies in two or more EU member states. At this early stage, the programmes enjoy a broad base of support across the EU. Not only President Juncker in his September 2016 State of the Union address, but also the Commission, and the Council have given their blessing to the EDF, while the key actors, German Chancellor Angela Merkel and French President Emmanuel Macron, appear supportive.

This institution plays into Brexit negotiations due to the need for the UK to position itself advantageously in the post-Brexit aerospace and defence industry, which is expected to be a key aspect of the UK’s long-awaited industrial strategy.

In terms of the political importance of the EDF to the UK, Theresa May’s government is under pressure to maintain British competitiveness in European aerospace and defence. Announcements of an erosion of the engineering skills base, such as the cuts to the workforce of the UK’s largest manufacturer, BAE Systems, in October 2017, could severely hamper a future Prime Minister. Although the UK is not currently a member of the EDF, the new institution is relevant to Brexit negotiations. Indeed, the Future Partnership Paper states that the UK could “consider options and models for participation” despite historic opposition to the initiative in 2013. However, in what appears to be a political power play, Michel Barnier, the European chief negotiator for Brexit, has ruled out the participation of British companies and research institutions in the EDF. The impact from a new trading relationship with the EU overshadows the importance of access to new R&D funding, but were the UK locked out of a growing, well-financed, rationalised defence market, the political narrative would be detrimental to the May government.

The political move from Europe has prompted a tit-for-tat response by the former UK Defence Minister, who launched the Defence Innovation Initiative in September 2016. The key policy announcement was a £800 million, 10-year innovative procurement fund to rival the per-country investment offered by the EDF. Other measures include a Defence and Security Accelerator for developing a diverse, supplier network and an Innovation and Research InSight (IRIS) Unit to assess the defence and homeland security of the UK.
security application of new technologies. Moreover, exportability has been brought to the core of British procurement strategy to support the manufacturing base in the post-Brexit economy. A key recommendation of Sir John Parker’s November 2016 report on British shipbuilding was incorporating requirements from the export market as “an inherent design philosophy in all future new series of ships for the Royal Navy.” The report emphasised the need for a more coordinated ‘Team UK’ approach with British consortia, acting in sync with a proactive UK government in pursuit of large international contracts. The political and economic pressures of the EDF and Brexit has led the recommendations to be incorporated into the recent UK National Shipbuilding Strategy. At London’s Defence and Security Equipment International trade show in 2017, Fallon spoke of the central dimension of exportability, typified by the reference to the newly announced plans for a Type 31e frigate: “The aim is in the name. E...stands for exports.”

Overall, the renewed activity in the European defence market, particularly a fresh injection of R&D funding and moves to finally implement the Permanent Structured Cooperation, envisaged in the Lisbon Treaty, have had political resonance in the MoD. Defence innovation and competitiveness have taken on a fresh political dimension, when faced by a united European front. The UK’s upcoming industrial strategy is likely to reflect this priority and reasonable Brexit concessions may well be made to ensure UK market leaders are supported in mainland Europe.

Investing for the Future

From an economic perspective, the UK is a net beneficiary of European R&D money. Access to the EU’s €80 billion Horizon 2020 research and innovation fund seems to be high on the UK’s agenda since it receives 15% of all funding and ranks top in terms of participations across the EU28.7 The UK’s declining productivity figures, which currently stand below the OECD average, reflect, in part, a long-term lack of infrastructure and R&D investment. A greater dependence on UK government innovation funds post-Brexit will only increase its budget pressures. Therefore, while the new EDF institution is slowly ramping up until 2020, if fully implemented, the strength of UK aerospace and defence innovation might be at risk to decline relative to their continental competitors. With increased regulation throughout the supply chain of British-domiciled industry, the government is likely to seek access to European R&D current and future investment as part of the new UK-EU relationship. However, large annual contributions to the EU budget are not politically feasible, meaning UK national champions from BAE Systems and Qinetiq to Cobham and Babcock may have to resort to a combination of national funds, accelerators and partnership arrangements with new markets for customer-driven innovation spending. The EDF, once successfully implemented, affects European defence economics, potentially creating rival hubs and reducing British share of the European market. The prospect of a competitive and protectionist European aerospace and defence market, fueled by a well-funded EDF, causes economic implications to the UK to drive the political priority of the future institution.

While operationally the EDF may be insignificant to the MoD, the EDF attacks historically weak British investment in defence R&D, raising the economic priority of a national alternative to support industrial competitiveness and export markets to sustain demand. Even if the EU offered the UK associated membership to the EDF, large contributions to an EU fund in an area of sensitive sovereignty issues would be unpalatable to the British electorate post-Brexit. As a new institution, the EDF’s sizeable political significance is exerted, not through the threat of losing access, but as a result of the potential economic ramifications.
Brexit and the European Space Agency (ESA)

The European Space Agency is an international agency, independent of the European Union. Hence, the UK’s ESA membership is not tied to the UK’s planned exit from the European Union. Non-EU ESA member states include, for example, Norway or Switzerland. Nevertheless, the EU and ESA cooperate closely and about 75% of the UK’s space budget is dedicated to ESA, funds that are also used to work on joint ESA-EU projects. In fact, the EU is ESA’s most important partner and customer when it comes to space policy, the planning of future missions, and funding of its key programmes. Furthermore, the EU is an important political advocate for ESA which manages two of the EU’s flagship space programmes: the Galileo Satellite Navigation System and the Copernicus Earth Observation programme.

Copernicus Earth-observation Programme

The EU initiated the Copernicus mission in partnership with ESA to develop a global earth observation capability for the environment and security as part of the Horizon 2020 strategy for R&D. As part of this programme, ESA manages six families of satellites and furthermore incorporates data from 30 partner space agencies. These families of satellites, called sentinels, have radar imaging, high-resolution super-spectral imaging, or altimeter capabilities allowing the EU to provide researchers with data that can effectively be used for monitoring of land management, the marine environment, atmosphere, emergency response, security, and climate change. This data is accessed by EU agencies as well as most member states’ national government agencies. The cost of the programme, about €4.3 billion until 2020, is divided between the EU and ESA on a two-thirds to one-third basis.

The most recent satellite launched for the Copernicus programme, was the Sentinel 5P, an air-pollution monitoring satellite built by Airbus in Stevenage, UK. At the launch event, Jo Johnson, the UK’s Minister of State for Universities, Science, Research and Innovation, re-stated that the UK government will seek to guarantee the country’s continued participation in the programme post-Brexit. Just like the Galileo programme, continuous participation in Copernicus is of high value for the UK’s space industry but also for its research landscape, universities, and government agencies who leverage the data generated by the Sentinel satellites.

Galileo Satellite Navigation System

The Galileo programme was initiated to develop a European satellite navigation capability independent of the Russian GLONASS and U.S. GPS satellite constellations. It gained initial operating capability for civilian and military purposes in December 2016. When fully operational, including spare satellites, the entire constellation will consist of 30 satellites (24 operational and 6 spare satellites). An increasing number of defence applications as well as commercial purposes require ever higher precision navigation. Hence, access to the constellation represents a key security and economic enabler for all EU member states, including the UK. As the executive agency, ESA is managing the system on behalf of the EU which is funding the entirety of the system. Therefore, access to the constellation as well as the lucrative contracts related to this €10 billion programme is limited to EU member states only. Furthermore, the military-grade, high-precision navigation capability of Galileo, referred to as the Public Regulated Service (PRS), is reserved for the militaries and government agencies of EU member states. It is also highly regarded by the United States and Norway with both countries having already applied to negotiate access to the PRS with the EU.

Since the inception of Galileo, the UK has funded 14% of the programme cost and UK-based companies are estimated to benefit from 17% of the work-share associated with the programme. The key beneficiary in the UK is Surrey Satellite Technology Ltd. (SSTL) which is one of two prime contractors.
for the construction of the Galileo Satellites. The two firms have been awarded the latest contract for the final eight satellites as recently as June 2017. UK officials have strongly underlined their willingness to conclude an agreement to continue their country’s participation in the programme, not only to secure the work-share of SSTL but also to maintain access to the constellation for UK government agencies. However, the EU is in a strong negotiating position as it has the contractual right to withdraw the award from SSTL once the UK leaves the EU. That is unless SSTL decides to re-locate to an EU member state.23

The role of ESA and specifically the flagship Galileo programme is of high operational and economic priority for the UK. However, since it is equally important for the EU to conclude the programme in a timely manner, the motivation from both sides to come to a win-win solution, for this specific programme at least, is greater than in the other topics under negotiations discussed in this paper. Only in October did UK and EU officials begin to negotiate these specifics and UK ministers have stated the country’s preference to remain part of both the Copernicus and Galileo programmes.24 Apart from the difficult financial negotiations required to account for all past, current, and future funding of the projects, the second biggest hurdle will be the negotiation of an effective security agreement to ensure the UK’s access to the encrypted, military-grade, PRS data from Galileo. One other non-EU member, Norway, already signed a security treaty with the EU to gain access to Galileo’s data; however, it is yet to be decided if it will be allowed to access the PRS signal that offers military-grade precision. There are many concerns surrounding the security encryption, including in the manufacturing and supply of signal receiver chipsets, an issue that has already proven very difficult to resolve among EU member states.25

Since both British politicians and the UK’s space industry are aware of the high economic and political importance of continued UK participation in ESA programmes, the EU is in a relatively strong negotiating position. On the other hand, the potential delays associated with a ‘hard space Brexit’ should not be underestimated as the EU would have to find SSTL’s technical expertise elsewhere. Therefore, unless the EU’s space programmes are turned into a bargaining chip to gain UK concessions in other areas, the two sides should have an interest in a mutually beneficial solution and continued cooperation.
Briefing: British Pragmatism?

Brexit and the European Defence Agency

The European Defence Agency (EDA), established in 2004, is responsible for fostering defence cooperation between European member states and partner nations. The EDA manages joint R&D programmes and other initiatives to strengthen the competitiveness of the European defence industrial base, while encouraging collaborative procurement among member states. The EDA reports to the EU’s European Council and operates with a budget of roughly €30 million annually. This comparably small budget has effectively limited the potential impact of the EDA since its inception. This illustrates the politically-contested role defence policy has played within the EU. Only in autumn 2016, a few months after the Brexit referendum, did the EU27 decide to raise the budget for the first time in six years, a symbolic decision in and of itself.26

In the past, the UK government has been one of the key opponents to any budget increases for the EDA and therefore the expected departure of the UK from the EU will likely be considered a relief for the organisation itself and some of its stakeholders. Since the UK government has a long history of vetoing budget increases and is renowned for avoiding participation in some of the EDA’s larger R&D initiatives, motivation to continue this troubled relationship is likely to be muted.27 The annual UK contribution amounts to about £3 million, which is likely to be covered on a proportional basis by the remaining members after Brexit.

Alternatives and Post-Brexit Outlook

In principle, the role and purpose of the EDA overlaps with the mission of NATO’s Organisation Conjointe de Coopération en matière d’Armement (OCCAR), an organisation that manages joint procurements between NATO members. If the UK wishes to jointly procure military equipment it could easily rely on OCCAR instead or simply arrange for bilateral or multilateral government-to-government agreements. Consequently, the UK’s dependence on the EDA and vice versa is marginal at best. Given the relatively low political and economic importance of the European Defence Agency for the UK and the country’s reputation within the agency as a vocal opponent of its mission, it is expected that the UK will leave the EDA upon formally exiting the EU. Nevertheless, both parties are likely to prioritise an arrangement which allows for the conclusion of all ongoing cooperation projects. Certainly, a continued membership as a non-EU member with no position in the EDA’s steering committee, such as Switzerland, appears to be a less likely outcome of the upcoming negotiations.

It is too soon to judge whether the EDA will become a more effective and powerful organisation within the EU once the UK leaves its steering committee. However, its difficult relationship with the EDA suggests the UK is unlikely to play a significant role in the future of the agency.
While Europe seeks to forge ahead on deeper defence cooperation following Brexit, the existing European institutions in this sphere are of limited political significance for the UK, except for space. In the Brexit negotiations, the economic and technical value of UK participation in EU-funded space programmes are likely to feature most prominently. This inaugural Brexit Briefing has shown the close relationship between politics and economics in determining the importance of access to European institutions for the UK government. Within defence and space, the political risk for the UK is strongly linked to the economic risks associated with losing access to lucrative EU space contracts. The ability to maintain the UK’s defence industrial base, avoid job losses, and ensure access or finding alternatives to European R&D funding affect the political strength of the current minority government. Faced with a high risk of economic disruption, the UK government will have to make trade-offs to mitigate economic impact and avoid the appearance of a status quo from continued membership and contribution to EU space and defence R&D funds. However, this assessment does support the argument that a departure from the EU has a relatively low operational and political impact for the British Armed Forces. Hence, the EU’s CSDP, is likely to be low on the negotiating agenda. It may, however, feature as a forum through which to demonstrate British goodwill in negotiations by continuing to offer maritime and intelligence assets in exchange for EU commitments in other policy areas.

An understanding of the importance of European defence and security institutions to the UK and, by implication, possible British negotiating positions are valuable to the foreign policy community and British public alike. However, the current UK government is just one of many stakeholders in the ongoing Brexit negotiations. On the UK side, this includes pressures from Conservative leadership candidates, Brexiter and Remainer backbench rebels, the DUP, and British industry. While Europe has shown a remarkably united front to the public in the initial phase of negotiations, 27 member states and their domestic politics as well as European Commission and Parliament present an almost unlimited set of possibilities for response to the UK position.
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