

# The Coalition and Europe - After the Honeymoon

A Federal Trust Report



the  
**Global Policy**  
Institute

Policy Analysis in a Changing World

**THE FEDERAL TRUST**  
*for education & research*

enlightening the debate on good governance

This book is published by the Federal Trust whose aim is to enlighten public debate on issues arising from the interaction of national, European and global levels of government. It does this in the light of its statutes which state that it shall promote 'studies in the principles of international relations, international justice and supranational government.'

Up-to-date information about the Federal Trust can be found on the internet at:  
[www.fedtrust.co.uk](http://www.fedtrust.co.uk)

© Federal Trust for Education and Research 2011  
ISBN 978 - 1 903403 89 1

The Federal Trust is a Registered Charity No. 272241  
31 Jewry Street  
London EC3N 2EY  
United Kingdom

Company Limited by Guarantee No.1269848

Design by: Fred Fieber  
Cover Image: Getty images



This publication was co-funded by the European Commission  
Representation in the United Kingdom

# **The Coalition and Europe - After the Honeymoon**

**A Federal Trust Report**



**Contents**

Introduction	6
Part one: Has the General Election changed the UK's relationship with the EU?	7
Part two: European financial regulation and European economic recovery	14
Part three: Europe's place in the world and Britain's place in Europe	25
Part four: Citizenship and the Lisbon Treaty: Can the British ever be European citizens?	37
Part five: Concluding reflections	47

## **Introduction**

Over the past year, the Federal Trust and Global Policy Institute have been working on a project entitled "A New British Government – A New British Role in Europe?" to review the European policies of the Coalition government during its first twelve months in office. The project began with four conferences in late 2010 and early 2011, which considered distinct areas of European policy, and will conclude with a general conference in May 2011. This final conference will be the occasion to launch the following report, which reviews the four earlier conferences and attempts to draw some broader conclusions from them.

I should like to thank Christophe Singh and Jon Temple for their help in reporting the proceedings of the earlier conferences in the project. Ulrike Rüb-Taylor's contribution to every aspect of the project has been, as always, indispensable. The Federal Trust is also grateful to the European Commission Representation in London, which has been its partner in this project. I am of course responsible for the entire contents of this report, both as to the accuracy of its description of our conferences and, even more particularly, as to the ideas in the concluding section.

Brendan Donnelly  
May 2011

## **Part one: Has the General Election changed the UK's relationship with the EU?**

Conference held on 8<sup>th</sup> October 2010

### **Summary**

Four differing approaches to the European policy of the new British Coalition government were offered by the speakers at this first conference. Andrew Duff MEP presented a Liberal Democrat analysis, in which he welcomed the Coalition's rejection of extreme euroscepticism, but expressed concerns that the Coalition might lead to Britain's being seen as a "second class" European player. As a pro-European Conservative, Maurice Fraser described the Coalition's European policy in more positive terms, hoping that the experience of government may act as a restraint upon the extremes of Conservative euroscepticism. Labour Peer Lord Liddle welcomed what he described as an unexpectedly "pragmatic" approach to European questions from the Coalition, although he was concerned about the proposed European Union Bill (EU Bill) and uncertain how long the Coalition's present pragmatic approach might last. Anthony Teasdale of the cabinet of the President of the European Parliament reported that first reactions in Brussels to the European policy of the Coalition had been positive, but this initial reaction was now giving way to concerns about the EU Bill and forthcoming negotiations on the European Union's budget.

### **The Liberal Democrat view of the Coalition**

Andrew Duff, Liberal Democrat MEP for the East of England, while echoing the surprise of many that Britain's "most anti-European party" can cohabit with Britain's "most pro-European party," nevertheless welcomed the fact that the Coalition has obliged the Conservatives to drop the manifesto pledge in effect to renegotiate the terms of UK membership. The Coalition would act as a check on rebellious Tory eurosceptics and force the Liberal Democrats to drop their own manifesto pledge to hold a referendum on whether to stay in or leave the EU. Coalition ministers were being well received at meetings of the Council of Ministers, although the election of Bill Cash as Chairman of the Commons' EU scrutiny committee did not bode well. The Foreign Secretary's contribution to European policy over the coming months was also difficult to predict. Important forthcoming

issues, such as the reform of the budget, the multiannual financial framework from 2013 and enlargement would require the cultivation by London of good relations with Paris and Berlin. In this context, the stated British determination to avoid treaty change and refusal to make any preparation for joining the euro look highly ideological and provocative.

The next immediate step in the Coalition's European policy is the EU Bill which aims to amend the 1972 EC Accession Act. It is telling and deeply unfortunate that the Coalition uses the deliberately prejudicial and eurosceptic terminology of "ratchet clauses" to refer to the use of the "passerelle" in European treaties. Passerelle clauses had been inserted into the Lisbon Treaty precisely to allow the constitutional order of the Union to develop pragmatically and they might well prove useful to the UK when its own national interest is being blocked by another EU member state.

Treaty change, commented the MEP, has always been an important dynamic of European integration and will surely be needed in future to give greater added value to EU policy-making. An IGC next year cannot be excluded if temporary bail-outs within the Eurozone have to become permanent. Such a treaty reform might trigger a UK referendum, a likely "No" vote on a low turnout, an adverse market reaction, a loss of confidence in the Coalition and the further marginalisation of Britain.

By binding itself and its successors into referendums to ratify even small treaty changes, the Coalition is in Andrew Duff's view heading for trouble. If the EU Bill is passed unamended, all future British governments will be confronted by major domestic difficulties in negotiating any EU treaty change. No other state would today dream of adding a referendum on top of the already mandatory approval of national parliaments for the use of a passerelle clause. The proposed changes in British law are clearly intended, and will be interpreted by the UK courts as having been intended, to stop further European integration. The EU Bill serves to accentuate British exceptionalism on constitutional matters and will therefore force Britain's EU partners to go ahead further and faster without the UK.

It would be a pity, concluded Andrew Duff, if the impression were to be given that the Coalition is happy to leave the UK as a second-class European player, and even to contemplate with equanimity its permanent relegation to the third division, the likely consequence of some aspects of current Coalition policy. The quest for a bipartisan pro-European approach

to the making of British European policy remains elusive. For the rest of the Union, the British question remains problematic.

## **A Conservative viewpoint**

Responding as a Conservative, Maurice Fraser, Senior Fellow in European Politics at the LSE, did see a serious attempt on the part of the government to build goodwill and negotiating capital with our partners. Looking isolated in Europe is not an advantageous stance, and the basic precept of making friends and influencing people is well understood in the Conservative Party. The government's constructive stance has been warmly welcomed in Brussels - at least government ministers are reassuring our EU partners that Britain wants the EU to succeed rather than fail. This is partly due to the influence of the Liberal Democrats but also to parliamentary arithmetic. For the average Tory member the issue of Europe is dwarfed by issues such as the economic challenge and welfare reform.

More imminent is the EU Bill, intended to place a potential lock on any future treaty amendment which would transfer power from the UK to Brussels. The lock would not cover the accession of new member states such as Croatia but would cover the passerelle clauses, for example a move to Qualified Majority Voting (QMV) by a decision of the Council without Treaty change. The EU Bill is also likely to include a clause clarifying the relationship between the concept of British sovereignty and the obligations of membership of the Union. Germany, France and other countries give effect to EU law through a sovereign act, enshrined in their constitutions. The British government has done the same through common law but, in order to avoid any confusion, the concept of British national sovereignty within the European Union will now be explicitly enshrined in a Parliamentary Act. Whether this measure will in fact clarify or confuse remains to be seen and it will surely be tested in the courts at an early stage, once enacted. As for the referendum requirement in the forthcoming EU Bill, in practice there will probably be no such referendum in this Parliament because the government would anyway oppose any transfer of competence or power as a matter of principle. The referendum would only be used in the unlikely event that the government were to support such a change.

On Economic and Monetary Union the government has made clear that there will be no UK participation in this parliament, and no participation

in the establishment of a European public prosecutor. A referendum on both these issues would be required, as also on giving up border controls or the adoption of an EU defence policy.

Policy (and money) as well as constitutional items loom large on the government's agenda, and it is keen to handle both holistically. Two agenda items to which it attaches great importance are the Working Time Directive (in Maurice Fraser's view perhaps the most ill-conceived and unnecessary piece of legislation the EU has produced) and the new framework for financial regulation as it affects the City of London. Up to now financial regulation proposals have been handled pragmatically both by George Osborne and Michel Barnier. On the Working Time Directive, the Coalition says it will work to limit its application in the UK. On the reform of the EU budget, difficulties loom. The agricultural interest in France is too strong for French politicians to overcome and President Sarkozy faces an election in 2012. The British abatement is unlikely to disappear. A shift in agricultural spending towards rural development and away from income support for farmers would objectively be a step in the right direction, but it will probably be more important for pro-CAP governments to show that they have protected the agri-budget than show they have eliminated the UK abatement.

Finally there are the "hardy perennials" of British EU policy: the case for continuing enlargement, a more efficient single market, improved competitiveness and supply-side reform, and a "global agenda" narrative centred on tackling protectionism and such challenges as climate change, energy security and humanitarian relief. All of this adds up to a "plausibly positive" EU agenda for the UK, whilst advancing its own national interest. "National interest" rather than "national sovereignty" is the narrative the Conservative Party feels most comfortable with. By returning to it after its eurosceptic excursion in opposition, the government is giving itself a "decent set of cards" to play.

## **The opposition and Europe**

Viewing the Coalition from an opposition standpoint, Lord Liddle, Chair of Policy Network, said he was delighted by the Coalition's softened policy on Europe and that David Cameron appeared to have abandoned the previously-held toxic plans for repatriation of powers. He too was impressed by the pragmatic attitude displayed by the government, but, he asked,

“will it last?”. Lord Liddle judged that the Coalition’s stance was not quite “thus far and no further” in European matters but he believed that it could well become so. Such is the logical purpose of the proposed EU Bill, promised for this autumn. Whatever the ultimate result of this piece of legislation in the UK, Lord Liddle believed that it would not stop the dynamism of the European Union. The dynamics of the real world meant that the future development of the EU and of the euro would continue to forge ahead without the UK, which would once again be left behind.

Turning to the global financial crisis and its consequent effect on Europe, Lord Liddle pointed out that recovery in the euro area is very much in Great Britain’s interest. The Prime Minister and leader of the Conservative party David Cameron seemed to recognise that from the British point of view the euro needs to work - apart from all other considerations the Eurozone is a major market for British goods and services. Most European nations currently outside the euro area would like to join the Eurozone one day, but the euro-crisis will not be easily resolved. The problems which caused the global financial crisis have not in Lord Liddle’s view disappeared. The present ad hoc arrangements favoured by the Eurozone will not last and there will have to be treaty change in this area. For the British to act on the motto “Thus far and no further” would be a denial of our national interest, which is advanced in truth by pooling of sovereignty in the European Union, not by becoming more isolated.

Europeans on the centre left, said Lord Liddle, are searching for a dynamic and socially acceptable single market. For this there is a need for a set of rules that will provide us with the ability to negotiate with the rest of the world. They are also seeking for a European external policy that will support, inter alia, world free trade. For that foreign policy to be truly effective, the Europeans will have to be prepared to pool their sovereignty.

Before the General Election, Lord Liddle concluded, the prospect of a new government aroused great apprehension on the part of many pro-Europeans. The creation of the Coalition had to some extent allayed these fears. But the government’s commitment to legislate for a referendum on any “transfer of powers” to the EU is both questionable and objectionable - and will put considerable obstacles in the way of a successful British engagement in Europe, given the possible dynamics of future European integration.

## The Brussels perspective

Finally, providing the view of the Coalition from the point of view of the European Parliament, Anthony Teasdale, Deputy Chief of Staff to the President of the European Parliament, noted that after the deep pessimism before the General Election, there had been relief in the European institutions at the approach and policies of the new Coalition government. In what was effectively a honeymoon period, ministerial visits to Brussels had demonstrated a positive, engaged attitude. The businesslike agenda the new government is putting on the table had included a range of topics from financial regulations to climate change. More recently however relations between Britain and Brussels had entered what might be termed a "third phase". The plans for the EU Bill and its "sovereignty clause" would be a shock to many elsewhere in Europe. The Coalition in Britain might be surprised by unfavourable European attitudes to this revival of traditional British obsessions.

Anthony Teasdale predicted confrontation between Britain and its partners over the European budget. After Lisbon, Parliament and European ministers are co-equal in this area. To the government it is unacceptable that European institutions should not make savings. The Commission and Parliament believe however that the level of European spending is not the central problem of the European budget. Much more important than the amount is the value of the spending. For instance the Commission is conducting a major study into the possibilities of substantial overall savings if member states were willing to pool expenditure on major research programmes.

Anthony Teasdale concluded with the observation that since the very early days of the Iron and Steel Community French political leaders have always played a dominant part in the development of the European Union. This is no longer the case and there is a resulting vacuum at the top of European affairs which Britain could try to fill. But Britain may be prevented from doing so by the widespread attitude in Britain towards Europe of "Thus far and no further" to which the Blair years were an only partial exception. A British "iron triangle," composed of the political class, the media and populist opinion, advocate a sort of "British exceptionalism" in British policy towards Europe. This leads to the illusion that Britain can and should prevent the European Union from pursuing further its integrative path. In fact the opposite is true. If Britain is too obstructive, it will not hold up progress

in Europe, but will simply end up as the odd man out of the continent. For Anthony Teasdale, this is a growing concern.

## **Conclusion**

Summing up, Chairman Brendan Donnelly, Director of the Federal Trust, said that the purpose of the series of conferences was not to answer definitively all questions about the new Coalition's European policy. It was rather to provide a forum in which different analyses could be put forward and possible cross-currents in evolving British policy registered. Those speakers who had recalled that the Coalition is still in its early days were quite right, and this applied particularly to European policy. By the end of the series of conferences, it might be easier to come to an overall assessment of the Coalition's European policy than was currently possible. Signs and choices emanating from the Coalition were contradictory in this first phase and any predictions for the long term could probably only reflect the pre-existing optimism or pessimism of the speaker making the predictions. The Chairman inclined to a more pessimistic analysis than the majority of speakers at the conference. Events would show who was more nearly correct in attempts to read the future.

## **Part two: European financial regulation and European economic recovery**

Conference held on 4<sup>th</sup> November 2010

### **Summary**

The focus of this conference was to examine the regulation of the European financial services industry, particularly in relation to European economic recovery in the aftermath of the financial crisis of 2008. Describing the roots of the global financial crisis, Benjamin Angel, from the European Commission's Directorate-General for Economic and Financial Affairs, examined the combination of macro-economic and micro-economic failures which contributed to the collapse in 2008. The second speaker was Graham Bishop, a financial affairs analyst and the founder of the website [grahambishop.com](http://grahambishop.com), who examined the prospects for reform in the financial services industry and regulatory regimes in both Europe and the USA. Sir Brian Unwin, a former President of the European Investment Bank, commented on the present situation and discussed the major European Union policy issues that the new UK Coalition government was now likely to face. The final speaker, John Stevens, a former Conservative MEP, argued that the United Kingdom needed to pay greater attention to the European Union's new financial regulatory regime as well as being generally a more active participant in the Union.

### **The origins of the crisis**

In his historical review of the events leading up to the financial crisis of 2008, Benjamin Angel argued that on the macro-economic level there had been for many years a problem of excessive global liquidity. This could be traced back as far as the 1980s and was a legacy of the period following the financial crisis of 1987 when banks "flooded the market". This "abundance of global liquidity", funded by a spectacular growth in the availability of credit, in turn fuelled a sharp rise in asset values, notably in the United States, the United Kingdom and Ireland, leading to real estate bubbles. Significantly, these three countries were the very countries which had undertaken the greatest degree of banking liberalisation. In this new regulatory "light touch" financial climate, far too little attention was paid to

the quality of the borrowers themselves. In an environment in which asset values were rising fast, far too much reliance was placed on the rapid and continued appreciation of those values in the future. The situation was further exacerbated by the failure of the respective national financial supervisory bodies, whose outlook remained too nationally focused. They failed to recognise the enormous changes which had taken place in the financial world, in which ever-larger sums of money moved electronically across national borders, subject only to increasingly liberal national regulatory regimes.

For Benjamin Angel, the roots of the crisis were not only macro-economic. Micro-economic failures centred around the enormous growth over recent years in the availability of sophisticated securitised financial products. The true risk of complex securities, such as Collateralized Debt Obligations (CDOs), in which debts were re-packaged into literally thousands of new products - with their ultimate purchasers having absolutely no idea of the actual risk level of the products they had purchased - was extremely difficult to assess. Many of these financial products were rendered effectively worthless following the 2008 financial crisis. Of all the CDOs issued that year, 90% had changed from their original "triple A" ratings to mere "junk bond" status within just twelve months. The agencies had demonstrated their inability to provide accurate ratings but there was an obvious conflict of interest in the fact that the institutions seeking ratings were paying the agencies directly. Not only that, but the same agencies were also selling advice on how to obtain the best ratings. In such a situation the notion of impartiality was at best questionable. Agencies paid in particular too much attention to solvency on balance sheets and too little to liquidity. In the specific case of the British bank Northern Rock, the bank was solvent the day before it collapsed - but it was not liquid.

Turning in conclusion to the interrelated crises of sovereign debtors and the governance of the Eurozone, the Commission representative recognised that some of the European Union's leaders had been slow to recognise the nature of the crises they faced. New safety mechanisms had been put into place which would, it was hoped, now avoid further crises in Europe. It was important to ensure that these new European initiatives remained in harmony with the wider deliberations - the G20, the IMF and the Basel III Accord - which were all still ongoing. The overall picture therefore remains very complex and many issues remain to be suitably resolved. Bankers' remuneration, for example, still has not been properly addressed, nor the

range of activities pursued by the biggest banks themselves and the “too big to fail” problem.

Benjamin Angel concluded by warning that in the same way as short-termism had played its part in exacerbating the global financial crisis, there was now a danger of the European Union’s concentrating on short-term policies to confront the problems of the Eurozone. It was vital to convert the essentially short-term arrangement of the European Financial Stability Facility, created by the 17 Eurozone states in June 2010, into the more permanent solution of the European Financial Stability Mechanism, due to take up its functions in 2013. It will in any case be necessary to impose stricter national fiscal rules than envisaged by the “discredited mechanism” of the original Stability and Growth Pact. The proposals put forward by Angela Merkel and President Sarkozy after their meeting at Deauville had been agreed in principle by the recent European Council, which had also endorsed the possibility of a small consequential change to the European treaties. Germany’s commitment to sustain the euro is clear, but the principal challenges now faced by the Eurozone are the need to create incentives for member states to pursue fiscally prudent policies; and the need to create as a last resort, a managed restructuring process for sovereign debtors.

## **Prospects for regulatory reform**

Graham Bishop began his presentation by concentrating on what he saw as the central problems of the financial sector in recent years, namely the encouragement of excessive risk taking and a trend towards increased short-termism. In regard to the latter, there was a striking contrast between the short-term practices of the modern financial sector and the large industrial success stories such as Boeing, Rolls-Royce and Microsoft. These firms had been focused primarily on their longer-term corporate “vision” and their products themselves rather than simply on the next quarter’s profit and loss account. The situation engendered by excessive liquidity and growing short-termism had been exacerbated by “a whole range of individual cases of corporate greed and irresponsibility” within the financial system. Such behaviour was - as for example in the case of US housing loans - often encouraged by governments. All these factors together contributed to the crisis. Ironically, a direct result of the crisis had now been an increase in the level of risk aversion on the part of lenders since 2009, together with the

high price of credit for borrowers as banks sought to rebuild their liquidity.

As for the European Union's response to the 2008 crisis, the de Larosière report - which formed the basis for the European Union's Financial Supervisory Package - deserved praise, both for its "commendable speed of response" and also for its thoroughness as a "devastating critique" of the grave situation which followed the collapse. The Irish banks were very much a case in point. They had in fact passed the appropriate "stress tests" in mid-2010, yet just three months later three of them needed to be rescued. A yet more serious situation had then become apparent, as the Irish government's own solvency was put into doubt. There was a broader question to consider in this context, whether in such situations states themselves could claim to be able to remain as "guarantors" of the financial sector, and, if not, who then could bail out the banking sector. Banks operating on an international level were incurring risks on a scale that was beyond the capacity of individual national states to stand behind.

Graham Bishop called for a complete overhaul of the derivatives system, given the risks that derivatives now pose to the global financial system as a whole. There was a strong case for the central clearing of derivative contracts, but given the true risks they pose it could be asked if we should indeed have them at all. Overall exposure amounted to perhaps ten times world GDP and was now concentrated in fewer banks, with the G14 banks holding 82% of this total. A catastrophic "non-economic event", such as war or major natural disaster, could force the issue and strain to the utmost the ability of the economic system to withstand the pressures which might result.

In spite of the increasing trend towards senior financial and corporate figures being prepared to take ever greater risks, there remained a distinct lack of effective penalties for those at fault. The banks continued to pay their senior staff very large bonuses, and to take very considerable financial risks, with an implicit understanding - in effect a free insurance policy from the taxpayer - that they are regarded as being "too big to fail". An immediate overhaul of financial regulation was required, and this had to be carried out at a trans-national level in view of rapid globalisation and expansion of financial markets in recent years.

Turning to the Eurozone, Graham Bishop reminded the audience that before the financial crisis in 2008, there had been hardly any differentia-

tion in terms of risks between European countries, but a considerable gap had since begun to emerge as banks sought to repair their books. Sovereign debt spreads had widened dramatically since the crisis, highlighting the difference in the Eurozone countries, with the market now increasingly differentiating between the economies of the Northern and Southern European states. In reaction to the crisis, the European Union had established the Balance of Payments Support arrangements and created the European Financial Stability Mechanism and the European Financial Stability Facility. Beyond this, a task force under Herman Van Rompuy would in due course report back to the European Council with an appropriate package. This would deal with four main issues: the establishment of a "European Semester" for policy co-ordination between member states; the resolution of macroeconomic imbalances; enhanced sanction mechanisms for member states who deviate from fiscal targets; and the reduction of overall percentages of public debt to GDP ratios in the Eurozone's member states. A particular concern was now making itself felt in international currency markets relating to the Basel III accords. These accords were based on the absolute creditworthiness of national government debt, and the apparently increasing willingness of governments within the Eurozone to envisage at the least the possibility of sovereign defaults or restructuring was worrying in this connection.

### **European actions for reform**

According to Sir Brian Unwin, much of the severity of the global financial crisis finds its origin in the "light touch" regulatory regime which has applied in the City of London and elsewhere since the deregulation programme of the 1980s. It is instructive to observe that Canada, with a much more stringent financial regulatory structure, has not suffered from the global financial "debacle" to anything like the same degree as its more liberalised counterparts, its banks emerging largely unscathed. Despite the persistent complaints from those within the City of London as to the supposedly excessive provisions of the UK Financial Services Authority's rule book, their claims that they were in any way "over-regulated" could not be sustained. In the case of the UK, there had been the "extraordinary failure" to foresee the impending crisis at the Northern Rock bank, and the Bank of England had been slow to appreciate the seriousness of that crisis. This slowness illustrated the inadequacy of the tripartite system put in place by Gordon Brown in 1997. During the early days of the crisis the Governor

of the Bank of England appeared to spend more time lecturing on “moral hazard” than taking practical steps to avert serious contagion and further collapse. An immediate overhaul of financial regulation was clearly required. It was obvious that this had to be carried out at a trans-national level in view of the rapid globalisation of financial markets in the past few years.

Sir Brian regretted that the progress of regulatory reform in the US had been somewhat halting in recent months, but was glad to see that European Union was pressing ahead with its own reforms without waiting for the White House and Congress to resolve their differences. The EU is often accused - especially in the UK - of acting slowly, bureaucratically and clumsily, but this was far from the case in the speedy production of the de Larosière report by the Union. Following its approval by the European Council in early 2010, it was feared that this report could lead to a head-on clash with the next UK government, widely expected to be a Conservative one. Although the then aspiring Chancellor of the Exchequer George Osborne had said that he was willing to “trade” with Europe to protect the UK’s financial industry, there were many powerful voices, both within the Tory Party and the City, urging David Cameron to resist any further “intrusion” of Brussels into the workings of the City of London.

In spring 2010 there had been the distinct prospect of a critical early trial of strength by a Conservative government with their European partners - and, since the new directive would be settled by majority voting not unanimity, David Cameron would risk being outvoted on a set of proposals supported by France, Germany and others. This might damage the Conservative party’s credentials with many in the City and those on the more eurosceptic wing of his party. The eventual outcome of the 2010 UK general election, which resulted in the Conservative-Liberal Democrat coalition, however, promised a more tempered approach to European policy than might have been the case with a purely Conservative government. In the event, the government had fortunately followed with regard to European financial regulation the sensible, pragmatic approach of its predecessor, perhaps helped by the fiscal exclusion clause negotiated by Gordon Brown, which denied the European Union power to force a state to bail out a failing financial institution. There has been since the Election hardly any criticism of the government’s pragmatic approach to European financial regulation either in the City or on the backbenches. The package was indeed hailed by the Financial Times as being a financial reform that

“should not be seen as a threat”, and one “ which could help save the financial industry from its own excesses”. This outcome was an encouraging reorientation of UK policy for those wanting the UK government to play a more constructive part in making the single market work and help contribute in due course to economic recovery.

Establishing a credible, consistent and effective framework of regulation is, Sir Brian stressed, a necessary condition of completing the European single market so dear to British governments. A new regulatory and supervisory regime has been established comprising the European Systems Risk Council; the European Banking Authority in London; the European Insurance Authority in Frankfurt; and the European Securities and Market Authority in Paris. Four main priorities underlie this new institutional architecture. The first is to develop a more efficient financial supervisory framework addressing both macroeconomic and microeconomic aspects of regulation. The second is to increase liquidity in the financial and banking system through co-ordinated actions consistent with the new measures agreed in the Basel III Accords, notably the introduction of leverage and short-term liquidity ratios and new requirements with regard to capital requirements. The third is to extend the parameters of financial regulation and supervision. This extension includes new proposals on credit rating agencies which separate credit and advisory functions, and the regulation of short selling, derivatives, and deposit and insurance guarantee schemes. The fourth and final priority is to improve the overall transparency of the financial sector, together with the creation of crisis management mechanisms – including the establishment of insolvency and resolution funds - and to enhance safeguards for consumers while providing European stress tests for banks.

For Sir Brian, the attitude of the new British Coalition government to financial regulation was a demonstration that it was generally adopting a far more conciliatory attitude to Europe than might have been feared. The coalition seemed to have accepted the view that its interests were best served by the UK remaining with the mainstream of European discussion and policy. Nevertheless, such questions as the European budget issue still carry in British political discourse so much “emotional baggage” from previous eras - especially Margaret Thatcher’s “battles” of the 1980s - that it is very hard for any UK Chancellor of any political complexion not to talk in belligerent and provocative terms about them. This pattern shows signs of repeating itself in respect of the 2011 European Budget. David Cameron had clearly felt compelled to represent the decision of the

Council - to restrict the increase of payment appropriations in 2011 (126.5bn Euros), rather than to accept the 6% sought by the Commission - as some kind of "victory". Mr. Cameron was able to claim that "from now on the EU budget will reflect the spending cuts made by national governments", but the UK Prime Minister did not manage to secure his original objective of a freeze of the European budget, an objective which many of his eurosceptic supporters would dearly have liked to accomplish. In a more rational world the UK Prime Minister might have pointed out to the British public - so bombarded with misinformation about Brussels bureaucracy and profligate spending - that the principal priorities of the 2011 European budget are measures to boost economic recovery, such as research and development, energy networks and environmental protection. All these are or should be priorities for the UK government itself. Nor should it be forgotten that the adopted European budget will entail a freeze on almost all staff recruitment in Brussels.

Turning in conclusion to the question of the single European currency, Sir Brian argued that as long as the UK continues to remain outside the Eurozone, its relationship with the European Union will continue to display "a distressing paradox". The UK has a huge contribution to make to the debate about the future of the euro, but it is condemned by its absence from the single currency to stand on the sidelines of the debate. The Governor of the Bank of England for instance is not part of the governing council of the European Central Bank and is therefore unable to exercise a full role in its deliberations. Instead of being at the heart of the debate on the governance of the euro, which is critically important to our own economic future, Britain remains on the periphery. In June 2010, the UK was outside the process which established the European Financial Stability Facility - at a time when failure to resolve the Greek financial problems could have had disastrous consequences not only for the Eurozone but also for UK banks as well. While all these vital decisions are being taken, the British public is being misleadingly told that the decisions made on these issues - central to our financial well-being - will not affect them as the United Kingdom is not a member of the Eurozone.

Sir Brian's final judgement was that it was "humiliating" that the UK coalition government had chosen a policy which prevented it from taking a substantive part in the European financial debate, but left vital decision-making to France and Germany. He feared that more attention might be focused by political leaders in this country on the avoidance of parliamen-

tary trouble in the House of Commons than on contributing to the substance of the matter, which was the most important change in the economic governance of the euro since its establishment. The UK's persistent failure to be at the centre of the European debate continues to be to its demonstrable national disadvantage.

## **The UK outside the Eurozone**

The final speaker, John Stevens, warned that there is the possibility of a major debt restructuring in Ireland, which could in turn create such problems that the country's membership of the Eurozone - and even, ultimately, of the European Union - could be called into question. In the case of Ireland the situation was complicated by its relations with the United Kingdom, its largest market, which had remained outside the Eurozone and was undergoing financial problems of its own. Upward pressure on prices and interest rates in the United Kingdom could impact heavily on the currently "very fragile" position of many consumers in the UK, particularly those dependent on the housing market.

According to John Stevens, a potentially unsustainable 'fault-line' could result from the UK's opting out of the European arrangements to improve the stability of the Eurozone. In the event of a major restructuring of debt in Ireland, UK banks are highly exposed. If a similar situation were to develop in Portugal, or more particularly in the case of Spain, British financial institutions would be even more exposed. In the limiting case, Britain could end up expecting European taxpayers to bail out UK banks despite having declined to be part of the very scheme which would so directly be to our benefit. European taxpayers would, justifiably, look askance at any such outcome. In the longer term such a 'semi-detached' status for the UK within the European Union brings considerable disadvantages with it. The global trend towards "regionalism" means that the United Kingdom could find itself more isolated in a world increasingly dominated by competing protectionist trade blocs.

More generally, it is for John Stevens an extraordinary state of affairs that the UK is completely detached from the debate which is going to determine "the detailed architecture" of the future of European integration. "Making the euro work" is the most important current challenge to the European Union. There is an interesting contrast between the Coalition

government's attitude towards the euro and the UK's recent defence pact with France, which is "the most positive news for pro-Europeans" in the United Kingdom since before Tony Blair conceded a referendum on the euro. It is, in the view of John Stevens, an "astonishing policy transformation", representing a clear move away from the hitherto much-vaunted "special relationship" with the US in respect of nuclear matters and instead towards the construction of a serious European defence identity. The UK may well feel that defence is the only lever that it possesses in European matters. As such it is indicative of the scale of the isolation which the UK has felt as a result of not being in the Eurozone.

The economic crisis may well be far from over but it is clear that Germany is fully committed to the euro and to developing the necessary mechanisms to ensure its continuance. We have, in effect, crossed a frontier beyond which economic policies have moved from merely the national to the supra-national level, but we have yet to realise what the full consequences of this will be. A relatively benign global economic scenario is certainly conceivable for the future, but given the huge imbalances in the global economy, such as those between the United States and China, no such outcome can be guaranteed. Competitive devaluations, for instance, could lead towards trade wars or the imposition of currency controls. In such a case, the significance of the euro will become ever greater. Indeed, the more serious any global crisis, the greater will be the likelihood of a stronger European economic identity developing.

John Stevens concluded his presentation with the assertion that the UK's economic prospects are closely connected to the fortunes of the Eurozone. As regards joining the euro, the Conservatives do not want to, and the Liberal Democrats have stated that they do not wish to do so within this Parliament. It may be however that in due course the Labour Party will find tactical political reasons to acquire a "certain enthusiasm" for it. A "complex and tense political situation" could well emerge in the foreseeable future, centred upon the Coalition's attitude towards British membership of the euro. There could be serious consequences from the markets if they believed that the United Kingdom would never in any circumstances join the euro. No other aspect of Britain's relationship with its partners in the European Union had the explosive potential of this issue.

## **Conclusion**

The Chairman Brendan Donnelly observed that the conference had reflected an apparently wide range of attitudes to European issues on the part of the new Coalition government. According to the consensus of the speakers, this government had shown itself willing to compromise on financial regulation, tougher in its rhetoric than its reality on the European budget and unyielding on the euro. It had also surprised the British participants by its approach to European defence co-operation, particularly with France. Although the advertised topics of the conference had been exclusively economic in nature, that had not prevented favourable references by a number of speakers to Anglo-French convergence in security matters. The Chairman recognised that financial austerity could well be a powerful motive for further integration in Europe, integration that might well go beyond the purely economic. But he drew the conference to end with a renewed stress upon the central nature of the single European currency and its current reform for the continuation of the European integrative project. Britain is by its own decision far outside that process of reform and the official policy of the Coalition entails the continuation of that situation for many years to come. The Coalition's various European policies should be weighed rather than counted for their impact upon Britain's position within the European Union. Britain's continuing absence from the euro perhaps said more about underlying British attitudes towards the European Union than did even in aggregate all the other aspects of current British policy towards the Union discussed during the conference.

## **Part three: Europe's place in the world and Britain's place in Europe**

Conference held on 16<sup>th</sup> December 2010

### **Summary**

Four speakers considered the subject of the conference from their differing perspectives. Dr. Antonio Missiroli, Head of the European Dialogue Section in the Bureau of European Policy Advisers at the European Commission, detailed the institutional developments that have taken place in the European Union as a result of the changes contained in the Treaty of Lisbon. Lord Hannay of Chiswick, former British ambassador to the United Nations and member of the EU Select Committee in the House of Lords, urged the importance of policy content in appraising the scope for a more robust EU foreign policy. Professor Richard Whitman, Professor of Politics at the University of Bath, discussed the difficulty for the EU of moving beyond its existing European Security Strategy. Professor Stephen Haseler, Director of the Global Policy Institute and Professor of Government at London Metropolitan University, discussed the UK's self perception in its "awkward" historical relationship with the Union, but suggested that the current global financial crisis could be an opportunity for the United Kingdom to reevaluate its position in the world.

### **European foreign policy institutional changes**

Dr. Missiroli, whose ideas were offered on a personal basis, began with the observation that international treaties tend to suffer from the problem of "climate change" - a disparity between the climate in which the treaty is negotiated and the climate in which the treaty is enacted after being ratified by all member states. As the period between negotiation and ratification may well last for several years, significant national and international developments may intervene - for example, the 9/11 terrorist attacks - and these events may themselves create a new political and economic climate.

The Maastricht Treaty, for instance, was drafted in December 1991, but only came into force in November 1993, following the European Exchange Rate Mechanism (ERM) crisis of the preceding year and the out-

break of civil wars in the former Yugoslavia. The context in which the treaty entered into force was thus radically different from that which had prevailed when it was originally negotiated. Similarly, the Amsterdam Treaty was approved in June 1997, coming into force two years later - immediately following the war in Kosovo. The war in Kosovo was one of the events which persuaded the European Union member states to appoint Javier Solana, with his experience as a former NATO Secretary-General, as the Union's High Representative for External Affairs.

The same has been true of the Treaty of Lisbon. The main provisions of the Treaty, including the important new provisions on external policy, were agreed by the member states in October 2003, and by the time the Treaty was finally ratified in 2009 the global financial crisis had broken out in full force. Nor was the global financial crisis the only new factor. Since 2003, the member states of the Union had increased in number from fifteen to twenty-seven. Many leading European politicians of 2003 had been replaced by successors with other personal experiences, other political priorities and other interpretations of their European and national roles. Perhaps most importantly, the general European agenda shifted radically between 2003 and 2009. A principal goal of the Constitutional and Lisbon Treaties was to improve the effectiveness of the European Union on the global stage. This goal had not disappeared by 2009 from the consciousness of the EU's leaders. The Union's economic governance had however come in the previous six years to assume in their minds at least comparable importance with the question of external relations. The Lisbon Treaty did not reflect this change of priorities.

For Dr. Missiroli, no fair judgement about the effects of the Lisbon Treaty upon policy-making could be made before the end of the present Commission's period of office in 2014. It would not be surprising if by that time unintended consequences of the new Treaty were making themselves felt. There had been much debate as to the exact role of the President of the Council, and whether the incumbent should be a "President of Europe" or simply the Chair of the European Council. In the event, and to the surprise of many, Herman van Rompuy turned out to be neither, becoming in reality more of an ambassador, facilitator and mediator, a role which he may well not have originally envisaged. For Dr. Missiroli, the European Council has become a dominant actor in the European Union's institutional framework over the last few years. The role of its President will therefore continue to evolve and will also be tested by the member states, For exam-

ple during the forthcoming 2011 G8 trade negotiations, the negotiations will be chaired by the French President Nicolas Sarkozy, whilst Herman Van Rompuy will be separately responsible for representing the Union's member states.

The non-rotating Presidency of the European Council was not the only innovation of the Lisbon Treaty highlighted in Dr. Missiroli's speech. Another key actor shaping the European Union's implementation of the Treaty was Baroness Ashton, the High Representative for Foreign and Security Policy, supported by the new European External Action Service. The scope of the High Representative's responsibilities had been greatly broadened by the Lisbon Treaty, moving beyond the original remit of diplomacy, defence and development (the "three D's"), to encompass also trade, immigration, finance and the environment. There were indeed observers who believed that Baroness Ashton had an "impossible job description". She is the Union's chief foreign policy representative, a Vice-President of the Commission and Chair of the Foreign Affairs Council. This last responsibility on its own could be regarded as a full-time job.

As well as reporting to the European Commission, Baroness Ashton has a double accountability, to the Council and to the European Parliament, with the latter in particular becoming increasingly assertive with every year that passes. She must also maintain close relations with the twenty-seven member states and their respective foreign ministries. Given the relatively limited budgetary resources of her support structure, Baroness Ashton faces, to use the term coined by Christopher Hill when analysing the Common Foreign and Security Policy, the danger of a "capability gap". She will need to streamline the way she operates her job description and to limit her policy priorities. Only by concentration on the essentials of her task has she any chance of using the European External Action Service to show that she can deliver results.

## **Europe: The foreign policy dimension**

Complementing Dr. Antonio Missiroli's examination of the institutional aspects of European Union external relations, Lord Hannay chose to concentrate specifically upon the policy dimension. How best to define, secure and to promote the external policies of the Union was at the heart of the negotiations leading to the Constitutional Treaty and the Lisbon Treaty. Lord

Hannay noted that these two treaties were broadly similar in terms of their external policy provisions, and that both treaties reflected a recognition by the Union's member states that the European Union was "punching below its weight" in the peace-keeping, security and other external fields. This failing had been confirmed by Eurobarometer poll results which showed that European citizens themselves wanted Europe to be more active in these areas. The Lisbon Treaty had established a reinforced role for the Union's High Representative for External Affairs, formalised the international legal personality of the European Union itself and founded for the Union an External Action Service. The emergence of these entities conveyed at last a tangible reality in operational terms, which went beyond the Union's traditional vague and rhetorical aspirations.

Lord Hannay believed that the slow process of setting up the External Action Service – together with what he saw as its sometimes "underwhelming" first senior appointments – had revealed rather too much "traditional turf-fighting" both within and between institutions. Modest external successes for the Union, such as the brokering of the resolution between Serbia and Kosovo and the package of sanctions against Iran's nuclear ambition, had in consequence not received the positive attention they deserved. Admittedly, it was difficult to ensure such positive attention for the European Union. The media's focus on the problems in the Eurozone itself tended to exaggerate the relative shift in the balance of power away from Europe and the Atlantic and towards the emerging economies of Asia and Latin America. Europe evidently lacked the capacity to become a global superpower, a role for which it had neither the will nor the ambition. But predictions of a drift towards "total irrelevance and marginalisation" for our continent were equally wide of the mark, given Europe's size and economic weight.

The time has come, Lord Hannay argued, to bring the debate on Europe's role in the world back into a proper perspective, and to concentrate upon what is both achievable and desirable. The European Union needs to direct its influence towards global policy issues, such as finance, trade, climate change and peace and security. Europe's external policy objectives should start in its own "backyard" – in the Balkans, in those countries on the Union's Eastern fringe and in the Mediterranean region. The question of further enlargement cannot be avoided. Sustainable stabilisation in the Balkan region can only come about if all those countries can be kept moving forward along the accession route. As to the former countries of the

Soviet Union, Lord Hannay believed that offering Moldova, Belarus and the Ukraine the ultimate possibility of accession, provided that they could make the transition to stable democracy, the rule of law and a market economy, made good sense for the Union and would help those countries continue effectively on the path of reform.

In the same way Turkey needed to be helped and encouraged in its negotiations for accession, and not subjected to “a deluge of pessimistic signals”. Failing to integrate Turkey would, argued Lord Hannay, be a “major strategic error with many destabilising consequences”. With regard to Russia, which did not aspire to membership of the Union, the European Union needed to negotiate a balanced relationship, in particular as part of a properly integrated energy security policy. In its dealings with North Africa and the Middle East the European Union needed to develop a more coherent set of policies and to speak with a single voice. In the specific case of Israel, a “deeper and stronger” relationship could help in the effective resolution of the Palestine issue. Nor could the European Union afford to neglect Africa. The Millennium Development goals require active European engagement across the entire continent and substantial co-operation with the African Union. A prominent European role in Africa is also necessary to provide a counter-weight to the growing Chinese presence there.

European Union foreign policies needed to be primarily directed towards major global challenges, as set out by the first European Security Strategy in 2003, which had defined “effective multi-lateralism” as one of its principal objectives. The aftershocks of the 2008 financial crisis were still being felt and the global disciplines needed to avoid a future crisis were still not yet in place. These policy challenges required European leadership, a willingness to commit resources and also an acceptance of the need to give the emerging developing countries such as China, India, Brazil and Indonesia a greater say in the shaping of global solutions. The G20 needed to become a problem-solving forum, taking the lead from the lessons learnt at Copenhagen in order to move towards a set of legally binding agreements to reverse climate change, to increase the ambitions of the carbon emission targets, to commit finance to checking deforestation and to encourage the spread of green technology. On trade, efforts should be resumed to complete the Doha round of negotiations, as called for by the Seoul G20 summit. The risk of protectionism had not disappeared, and continuing high levels of unemployment in the developed world would only add to it.

To achieve all these objectives Lord Hannay emphasised that Europe needed to operate with a more effective single voice than it had in the past, and also needed to project its views and influence in a way which took more account of the views and positions of others. Here was an opportunity for the new External Action Service – together with better co-ordination in Brussels – to make a real difference. None of this however, could be achieved overnight. Lord Hannay mentioned four benchmarks for judging the success – or otherwise – of the European External Action Service. The first was whether the Service would lead to a reduction in “turf-fighting” in and between European institutions. The second was whether greater coherence was being achieved in the European Union’s different external policies – between, for instance, the Common Agricultural Policy and our development aims, or between concern for human rights and developing trade and investment. The third was whether the European External Action Service achieved a greater degree of diplomatic professionalism than the Commission’s network of external offices had managed to do in the past. The fourth was whether the External Action Service was becoming better at outreach to other governments and at public diplomacy than the Union’s representatives had managed in recent years.

When discussing Britain’s contribution to the European Union’s external policies, Lord Hannay argued that the United Kingdom’s absence from the single currency and the Schengen agreement should not prevent a significant British role in the Union’s external policies and in the construction of the European External Action Service. Indeed, without a Britain that was prepared to play a leading role, Lord Hannay believed that European external policies could not prosper. European foreign and security policy decisions demanded unanimity, while Britain and France were the only two European nations capable and willing to project power on a worldwide basis. The recent British defence review would reduce Britain’s capacity to act in this way alone. Britain needs Europe more than ever for her external influence to be maximised, and Europe needs Britain for the same reason. The recent Anglo-French defence pact was an extremely encouraging sign in this context.

Lord Hannay concluded by observing that there was nothing in Europe’s external agenda which conflicted with the programme of the British Coalition government. In some areas of policy, notably the decision to ring-fence foreign aid spending from budget cuts and the added resources earmarked for conflict prevention and resolution, Britain could be regarded as

a European leader. British governmental rhetoric is however sometimes lagging behind reality. Perhaps this discretion is due to fear of domestic political controversy. But this lack of self-confidence may make it more difficult for Britain to exercise its proper influence on its partners. If we do not speak up for ourselves, then how will we persuade others? There is a danger for the British government of becoming too reactive, and of responding only to the initiatives taken by others. That would be in neither Britain's nor Europe's best interests.

## **A grander strategy**

It was difficult, Professor Richard Whitman began his speech by observing, to discuss the European Union's place in the world without simply repeating what the European Union sets out in its European Security Strategy, the Treaties and the numerous statements made by key foreign policy actors within the European Union itself. Professor Whitman believed that the Union is now in an "interregnum" period, a period which began in the early twenty-first century, specifically with the adoption of the European Security Strategy.

Despite the fact that the Lisbon Treaty is now in force, and despite the launch of the European External Action Service, Professor Whitman thought it was probably too early – as previous speakers had observed – to pass judgements on the institutional infrastructure of the Lisbon Treaty and the European Union's resulting capabilities in terms of Common Foreign and Security Policy and Common Security and Defence Policy. The Lisbon Treaty probably has a greater claim than any other to be the foreign policy treaty among the European treaties. It possesses far more focus in that area than either the Maastricht or Nice Treaties, and is intended to bring together all the various foreign policy strands: it thus contains the promise to fuse and to articulate a clear European foreign policy vision. It is particularly important to articulate – as was mentioned by Lord Hannay – not only what third parties can expect of Europe, but also what Europe wants of them. Europe has not always been as clear as it should be in developing that vision.

At the heart of Professor Whitman's speech was the concept of European "grand strategy." Does Europe actually have a grand strategy – and indeed, does it matter if we do not? Britain, with its imperial past, has a

long tradition of supposedly pursuing a "grand strategy". In more recent decades, other European Union members have tended to 'contract-out' the concept of "grand strategy" to the United States. However, in the post 9/11 period this is a diminishing option. Professor Whitman believed that there was indeed a distinct need in the European Union for an over-riding vision, for a grand strategy. Professor Whitman regarded the European Union's recent past record as having been neither "grand" nor "strategic".

According to Professor Whitman, a grand strategy requires three major components. First, the European Union must define how it wishes its world to be. In Europe's case this means a clear vision for enlargement in the western Balkans and a definition of what kind of relationship it wishes to have with Eastern Europe through the European Neighbourhood Policy. Europe also has its part to play in envisioning how the wider world should look. Since it is primarily a civil power, trade and investment policy will be central to its grand strategy. Second, Europe needs to develop internal structures and mechanisms to define and consolidate its strategic goals. The Lisbon Treaty is an attempt by the Union to modernise aspects of its formerly largely internally focused institutional apparatus and governance. The European Union still has to reconcile differences of analysis between its individual members, and beyond that may need to re-evaluate its relationship with the United States - its only genuine strategic partner to date. Third, the Union needs to face the question of how exactly to achieve the overarching vision. Professor Whitman believed that the European External Action Service should not simply replicate existing traditional practices in diplomacy and representation, and might, for example, consider innovative approaches to the provision of embassy representation in the developing world. As the European Union's Common Security and Defence Policy is developed, there will be a need to re-evaluate its goals in the light of the constraints placed upon military spending by pressure upon governmental budgets. It is important at such a time that any cuts in expenditure should be considered in a collective context rather than through a narrow national lens. A strong coherent vision is therefore vital - a grand strategy for the European Union is not merely desirable but essential.

## **Britain in Europe**

Professor Stephen Haseler agreed with Professor Whitman that the European Union most definitely needed a "grand strategy". The United Kingdom on the other hand certainly did not. Britain had conspicuously not

yet managed fully to disentangle itself from the 'grand strategies' of its imperial past. Professor Haseler repeated Dean Acheson's epic remark that "Britain has lost an empire and has not yet found a role". Whilst many might find that quotation somewhat over-worn, he emphasised that it was still very relevant today. The United Kingdom's international role remains unclear, an unclarity which in part stems from the fact that change can take a very long time in the British system - the glacial process of the reform of the House of Lords was clear evidence of this.

Britain's relationship with Europe remained that of an "awkward partner", a legacy of the post-1945 environment in which its status as a "diminished power" with a rapidly declining imperial role was epitomised by the then Foreign Secretary Ernest Bevin's template of the three concentric circles in which Britain operated: the Commonwealth, Europe, and the United States. The Commonwealth represented a diminished version of the old British Empire; in Europe Britain had survived the war in better shape than its mainland neighbours; and Britain's privileged relations with the United States remained as a legacy of our wartime alliance. Through the prism of these competing loyalties Britain wished to continue to "punch above its weight" in terms of its foreign policy. Professor Haseler observed that a wise strategy would have been to punch equal to one's weight, but Bevin was insistent that in the emerging nuclear world "We want the bloody bomb, and we want the bloody Union Jack on it!", an ambition that was keenly supported by the Conservative opposition. However, British foreign policy was redefined by the 1956 Suez Crisis. Lack of US approval for Britain and France's invasion of Egypt, together with the threat to oil supplies, meant that Britain's broader quasi-imperial Commonwealth aspirations were at an end, and at the same time marked a caesura in the Anglo-American relationship which had obtained since 1945.

After 1956, there followed in the United Kingdom a debate between the merits of a US- and a European-facing foreign policy option. By the 1970s, the European option was being taken very seriously indeed, particularly during the Heath administration. Amongst the political class, and especially the generation who believed that Suez marked a grave policy mistake, there was a serious attempt to align UK policy with that of Europe. Application to join the European Economic Community was first made by the Macmillan government, then by the Wilson administration. Only after General de Gaulle had left the stage was there no longer a veto on UK entry. In terms of its approach to Europe the Heath government was remark-

able among recent British administrations. Mr. Heath was unreservedly convinced that Britain's future lay at the heart of Europe, and that this European commitment would help modernise Britain's old-fashioned political and economic cultures.

Edward Heath's full commitment to Europe, the "Heath Revolution", eventually led to British accession to the Treaty of Rome, despite considerable internal Conservative opposition. However, a new turning point for British foreign policy came in 1974 with the election of a Labour government. Prime Minister Harold Wilson and his successor James Callaghan were both committed Atlanticists. They were followed by the Conservative Prime Minister Margaret Thatcher in 1979. Despite an initially positive approach to the European Union from Mrs. Thatcher, the conflict between the European model – higher tax, social welfare, managed economy - and the emerging "Thatcherite" policy model - lower tax, reduced social cohesion, more individualised US free-market values - became over time more pronounced, estranging the British government from the main currents of European thinking.

While the Heath government - reflecting the thinking of its predecessors - believed that Britain needed a fundamental change in its economic approach, the Thatcher government of the 1980s was buoyed up in its unenthusiastic view of the European Union by the perceived success of its new economic model. The combination of North Sea oil revenues, income from numerous privatisations, and "Big Bang" banking liberalisation, engendered a mood in the United Kingdom happy to dismiss European ideas. The European economic model was stereotyped as "sclerotic" - the apparent antithesis of the Thatcherite 'free-market' approach. "No further" for British participation in European integration became the British political consensus, a view which prevails to the present day.

Britain thus entered the period of rapid globalisation in the 1980s and later both institutionally and philosophically "detached" from the European Union. In the 'deep' globalisation period from 1989 it was firmly on the side of the US economic model and Wall Street, with the City of London having a pivotal role. Though the Blair government professed itself as a pro-European one, it still saw the American approach to economic questions as the model to follow. This orientation had a political component as well. Mr. Blair's success in persuading the US to become involved in the war in Kosovo was followed by his involving the United Kingdom in mili-

tary operations against Iraq. The British Prime Minister was clearly neither surprised nor embarrassed to be categorised by Donald Rumsfeld as a part of "New Europe" rather than "Old Europe".

Today, however, we live, believes Professor Haseler, in a different era. The period of American pre-eminence is coming to an end, and the "high" point of globalisation has been passed. As we enter a new phase, the system focussed on Wall Street and the City of London is giving way to a multi-polar world of large competing "blocs". This will lead to increased protectionism, as is already evident in the USA and China. The role of the UK as America's "Sidekick" depended crucially upon a pre-eminent United States. As the US focus shifts in the coming decades away from Europe and towards the Pacific Rim region and the rising "BRIC" nations (Brazil, Russia, India and China) the UK will be forced to reappraise its allegiance. The global financial crisis in its turn will force the European Union states to engage in increased political and economic integration which will oblige the UK to rethink its place in Europe. With the UK banking sector's high exposure in the Eurozone - particularly through the Irish and Spanish economies - Britain has a vested interest in a Europe-wide stabilisation of the Eurozone.

Despite much comment in the United Kingdom that Britain is fortunate not to be in the Eurozone during the Eurozone's current problems, Professor Haseler took an entirely contrary view. The Eurozone's collective strength had been a great asset in dealing with the crisis. If the problems generated by the crisis had not been resolved on a European Union-wide basis, economic catastrophe would have been a real possibility. The UK Coalition government, with opposing attitudes to European questions in its ranks, faces difficult decisions through the prospect of UK involvement in Eurozone bail-outs, and the possibility of a new treaty to address the Eurozone's problems of economic governance.

On the world stage, the European Union will be able increasingly to present a single face through its Common Foreign and Security Policy, headed by its new High Representative. The new European External Action Service could become a real source of impetus for European Union foreign policy, although its development will take some considerable time to evolve. As the global system evolves into new large "blocs", the need for European Union coherence - as one of those "blocs" itself - will increase. Within this context, Britain will not be able to escape re-appraising its whole attitude

towards Europe. The unfolding sovereign debt crisis, together with Britain's involvement in the contemporary financial problems of the Eurozone through the exposure of its banks, could well act as a catalyst towards closer British involvement in the Union as a whole.

## **Conclusion**

In conclusion, the Chairman Brendan Donnelly praised the complementarity of the analyses offered by the speakers. There was a tendency in the United Kingdom to speak dismissively of institutional reforms within the European Union as if such reforms were the self-indulgent preoccupations of the cloistered Brussels elite. Doctor Missiroli and other speakers had effectively rebutted that misconception. Nevertheless, Lord Hannay was certainly right to discuss the difficult policy choices with which the reformed European institutions are now confronted. Nor will the External Action Service be able to play a constructive role without efficient administration and a professional approach to its responsibilities. Both Professor Whitman and Professor Haseler had rightly urged their listeners to look behind the catchphrase "grand strategy", and ask what the content of this strategy might be. Professor Whitman favoured a European grand strategy, but saw difficulties in its definition. Professor Haseler was sure that Britain's attempts since 1945 to develop a national grand strategy were misconceived. Whatever the difficulties, the speakers at the conference seemed agreed that a European grand strategy was the only one that might make sense for the United Kingdom.

## **Part four: Citizenship and the Lisbon Treaty: Can the British ever be European citizens?**

Conference held on 20<sup>th</sup> January 2011

### **Summary**

Ms Georgia Georgiadou, Policy Officer from the Citizenship Unit of the Directorate-General Justice at the European Commission, began the conference by presenting a legal analysis of European Union citizenship and describing how precisely the European Commission views that citizenship. She also detailed the actions that the Commission is taking to make the idea of European Union citizenship more meaningful and relevant to the daily lives of its citizens. Richard Laming, Chairman of the Federal Union, reflected upon differing concepts of citizenship prevalent in the United Kingdom and regretted that in this country European Union citizenship is neither widely recognised nor widely appreciated. The third speaker, Professor Jo Shaw, Head of the College of Humanities and Social Sciences and Professor at the University of Edinburgh, discussed the notion of European Union citizenship as an as yet unfinished concept. The final speaker, John Palmer, a member of the Federal Trust's governing Council, discussed European Union citizenship in terms of shared political experiences. He argued that the politicisation of the European Union will increase the demand for EU citizenship rights; and create a corresponding need for the Europeanisation of the party political process itself.

### **EU citizenship: Development and definition**

Ms Georgiadou began by recalling that citizens of the member states of the European Union first acquired European citizenship through the ratification of the Maastricht Treaty in 1992. Hitherto, their status had been merely that of citizens of the individual member states, but the Maastricht Treaty went further, adding a new identity of citizenship at Union level. In so doing it confirmed the emancipation of the European project from one which had previously operated against a purely economic background and in which individuals were regarded primarily as economic actors. The Maastricht Treaty asserted the notion of the individual within the new European Union, irrespective of his or her economic status. This notion of

European Union citizenship has empowered Europeans by circumscribing the hitherto unfettered competences of the individual member states and has also importantly reinforced a sense of belonging to the European Union - a common European Union identity based upon a core of rights-based values. The European Court of Justice has declared citizenship as the fundamental status of citizens of the member states. This declaration was not merely a rhetorical statement. Previously the Court had embraced and observed the principle of international law according to which the acquisition and loss of nationality in the Union's member states was deemed to fall exclusively within the competence of those member states.

Moving on to the Treaty of Lisbon, in force since December 2009, Ms Georgiadou said that it has enhanced the legal status of European Union citizenship, adding the notion of autonomy to that of citizenship. Previously, citizenship of the Union was simply a consequence of national citizenship, but now it is additional to national citizenship. The status of European Union citizenship is further reinforced by the sections of the Lisbon Treaty relating to democratic principles (Articles 9, 10 and 11) and those relating to non-discrimination measures (Articles 18 and 19.) The Treaty of Lisbon also introduces the useful innovation of the Citizens' Initiative, which reinforces the capacity of EU citizens to petition EU institutions. Finally, the Charter of Fundamental Rights legally reinforces the basic rights enjoyed by EU citizens.

The European Commission plans, according to Ms Georgiadou, further to reinforce European Union citizenship rights. This strategy includes the creation of a citizenship portfolio in the European Commission and the implementation of the report entitled "Dismantling the obstacles to EU citizenship rights", issued on 27th October 2010. This report sets out twenty-five measures intended to resolve practical and procedural problems faced by European Union citizens, for instance when they are living, studying or working abroad in other EU member states; or when they are shopping online for products from other European Union member states.

Enforcement actions that the European Commission will take to promote European Union citizenship across the member states include the proposing of new Directives and infringement procedures; facilitating best practices among national administrations through the Open Method of Co-ordination; awareness campaigns channelled through a new European Union website: <http://ec.europa.eu/youreurope>; five hundred Europe Direct

centres across the member states; and the holding of a European Union Year Of Citizenship in 2013. The European Commission will also issue a report on consulate rights in March 2011. All these initiatives were designed to give expression to the pledge of European Commission President José Manuel Barroso, that "Europe's raison d'être is to empower Europeans".

## **European citizenship and the British**

For Richard Laming, citizenship is not merely a legal or political concept, but can also be said to have an emotional or even moral dimension. At a United Kingdom level, the concept of European Union citizenship is not widely understood, this being in part a result of the United Kingdom's historically "reluctant" relationship with the European Union itself, but also for more deep-seated reasons, which raise "difficulties and confusions" among the British electorate in respect of this issue. Ms Georgiadou had spoken of EU citizenship as being a concept intended to engender a sense of "belonging" to an institution which transcends national boundaries. In an institution as large as the European Union there is certainly an important need to be able to connect the supra-national dimension to that of the individual by making this dimension relevant on a day to day basis.

Richard Laming feared however that making this connection would not be an easy task in the United Kingdom. A particular barrier to the self-perception of the British as citizens of the European Union is that many Britons tend to see themselves even at the national level as subjects of the British monarchy, rather than as citizens of the United Kingdom. This is in part a result of the widespread use in the United Kingdom of the term "the Crown" as official shorthand for "Crown in Parliament", the embodiment of constitutional power in this country, expressed via the democratically elected House of Commons. There is also in the United Kingdom very little tradition of education on a broad basis about constitutional matters in general and (until very recently) about the concept of citizenship in particular. It should also be recalled that whereas the concept of "rights of citizenship" is one familiar in the European context, the British political system has no such obviously equivalent concept. The absence of a written British constitution, which might be a natural source of "citizenship rights", is highly relevant in this context. The recent change in government has not appeared appreciably to alter the executive's approach to the question of EU citizenship. Differences of opinion in relation to this matter tend to exist at least

as much within British political parties as between them - certainly in respect of the two largest political parties.

European Union citizenship was considered by Richard Laming in his speech under four basic headings: shared justice, shared influence, shared identity and shared resources

### *Shared justice*

Before the Treaty of Lisbon, co-operation in this policy area remained largely a matter of intergovernmental co-operation. The Trevi and Prüm conventions, for instance, relating to collaboration between police and security officials, did not generally involve a contribution from national parliaments or from citizens from the European Union member states as a whole. The Lisbon Treaty however brings matters of internal security largely within the ambit of the "Community method", with fuller involvement of the European and national parliaments. Within this new legal context, the Union is currently seeking to enhance judicial co-operation through measures which are designed to improve the mutual recognition of the legal systems. In respect of family law, the Union is promoting marriage and divorce procedures for European Union citizens who do not live in their country of national citizenship; and there is discussion of possible enhanced co-operation between twelve of the European Union's member states on this issue, co-operation in which the UK would probably not participate. In respect of criminal law, the Stockholm programme puts forward measures to strengthen the rights of criminal suspects who are being transferred within the Union under the European Arrest Warrant, not least by insisting on their right to interpretation and full translation of court proceedings. Under the Lisbon Treaty, the Charter of Fundamental Rights becomes legally enforceable in the European Union, except in respect of opt-outs for the UK and Poland.

In the United Kingdom, the political establishment continues to be suspicious of the Charter of Fundamental Rights, the European Court of Justice and European Union law in general. At the popular level, the view is widespread that the European Union is a distinctly "foreign" body, all too ready to "intervene" in national affairs. In 2014 the UK will need to decide whether to opt into or opt out of important segments of European legislation relating to internal security. In principle, proposals for closer collaboration with our European neighbours on matters of internal security might be

attractive to British public opinion. In reality, such proposals are likely to remain problematic for the UK. Fear of the costs supposedly associated with regulatory compliance under European legislation may well outweigh the perceived benefits in the public mind.

### *Shared influence*

Many national governments are reluctant to promote the vision of European Union citizenship as a forum of shared influence. European Parliament elections enjoy markedly lower turnout than parliamentary elections at national level across European Union member states. Members of the European Parliament and European Commissioners are generally far less well known than national politicians, partly at least because they are not as available in their home countries for appearances in the national media. The notion that European Commissioners are independent - a formal requirement of the European Union treaties - from the member state which nominated them has also encouraged a sense of distance between the Commission and citizens. Unfortunately, mobile European Union citizens can vote only in municipal, not national elections in the member state in which they choose to reside.

Following the Treaty of Lisbon, the powers of the European Parliament are significantly enhanced. The Treaty points towards a greater role for the Parliament in the election of the President of the European Commission, possibly through presidential nominees put forward by the parties during the European Elections. Other helpful innovations of the Treaty are the requirement for the Council of Ministers to legislate in public; and the Citizens' Initiative, which has the potential to bring together citizens from different European Union member states who have similar political interests.

United Kingdom involvement in the European Union political system is noticeably weak. The Conservative party does not want to be part of the main centre right political grouping in the European Parliament and has chosen, controversially, a different alignment in Strasbourg. The reporting of European Union matters across the UK media is also of generally low quality. Many British media companies are closing down their Brussels outlets because of the low level of interest in and awareness of European Union affairs on the part of the British public - an almost self-perpetuating downward spiral. There is also a low level of recruitment of United Kingdom citizens into European Union institutions as a whole. Although the

UK constitutes some 12% of the European Union in population terms, there is only a 5% level of representation measured by staffing levels in EU institutions.

### *Shared identity*

With regard to notions of shared identity, some tangible symbols of the single market and the identity of the Union as a whole are shared amongst European Union citizens. The euro is through the day to day reality of its usage a powerful unifying symbol, even outside the Eurozone. The EU anthem and the distinctive EU flag also help to reinforce a European identity. Moreover, the Union continues to run a wide range of cultural and educational exchange programmes. Unlike the Constitutional Treaty, the Treaty of Lisbon makes no reference to the EU's anthem and flag, but the use of these symbols will of course continue in practice.

The British still tend not as a whole to see themselves as European citizens. Debates in this country on such questions as the European Union budget and the Common Agricultural Policy make clear the tendency of many British voters to see themselves as systematically estranged from the rest of the European Union. According to UK government figures, sixty-two per cent of the British population claim only to speak English. The British government avoids using the European flag unless it is obliged to do so. On a practical level, the UK remains outside the Schengen system and of course also remains outside the euro currency area.

### *Shared resources*

Despite British reservations, reservations shared by other net contributor countries, the European Union can to some extent already be regarded as a monetary transfer union. About two-thirds of the European Union Budget is redistributed through such policies as the Common Agricultural Policy and other structural funds. This is a process of redistribution likely to be reinforced by the current process of reform within the governance of the Eurozone. At the international level, the Eurozone crisis risks hampering European Union efforts in relation to current global climate change negotiations. The negotiations on the European budget which are now beginning are likely to prove difficult for the United Kingdom in particular. Because Britain remains outside the Eurozone, the direct effect on it of changes in the governance of the Eurozone will however be restricted.

## European citizenship: An unfinished concept?

Professor Shaw began by stressing that the concept of European Union citizenship was a relatively new one, one still in course of evolution and one in the development of which the European Court of Justice would have a central role to play. In the British context, some might question whether the British could ever regard themselves as European Union citizens. A “notorious” Eurobarometer poll is often quoted to show that some twenty-five per cent of United Kingdom nationals do not want to be EU citizens in any shape or form. This finding does not mean that British nationals do not wish to take advantage of benefits from the European Union such as cross-border consumer protection, the removal of border controls or the facilitation of trans-boundary family issues. If political discourse about the EU were to concentrate more on such practical benefits to the citizen, that might well encourage a more positive view of EU citizenship in the United Kingdom. It would be futile to deny however that for many British observers the consequences of British membership of the European Union are predominantly conceived in negative terms. Many issues relating to free movement in particular within the European Union are presented by the British mass media in a hostile, even menacing manner.

According to Professor Shaw, there are essentially four areas of European Union law relating to free movement that continue to remain problematic for the United Kingdom: The first is that of the rights under British law enjoyed by non-European family members residing in the UK with a head of household possessing EU citizenship. The second is that of the access to welfare benefits enjoyed by EU citizens residing in the UK. The third is that of “delinquent” EU citizens in the UK, such as immigrants who are perceived to have contracted ‘sham’ marriages as a means to facilitate entry and access to welfare benefits, or those deliberately becoming destitute to facilitate their return to their country of origin. The fourth is that of the varying rights of European Union citizens from the new eastern European member states, who are currently subjected to a range of transitional arrangements as to their residence rights in other European Union member states.

The United Kingdom is not the only member state of the Union concerned about the implications of an enhanced concept of EU citizenship for questions of free movement and access to the benefits of national citizenship. Professor Shaw’s conclusion was that the European Court of Justice will therefore play a crucial role over the coming decade in teasing out the legal and

political consequences of the still unfinished concept of “EU citizenship”.

## **European politics and European citizenship**

For John Palmer, the notions of identity and rights – and their relationship to citizenship - can at times be somewhat elusive. They are also subject to continual change. This is not necessarily because of formal decisions, but rather the result of the changing realities of economic and political life. For instance, in the United Kingdom, health, education, social and retirement care rights are interpreted very differently today to the way they were interpreted ten or twenty years ago. They are also subject to different interpretation in different areas of the country. It would not be an exaggeration to say that the frontiers between identity and rights are today merging to an ever greater extent.

The full range of the implications arising from greater shared sovereignty under the Lisbon Treaty has yet to be fully explored. With the global financial crisis, there are increasing pressures for further European political integration in the Eurozone. The Lisbon Treaty and changes in the Eurozone have clear consequences for the definition of identity, rights and democratic accountability. Whilst there will no doubt be many debates over the timing and the precise scope of such changes, there is no doubt of the importance of what is taking place.

In parallel to the pressures for a more integrated Eurozone area, there are today similar pressures for a progressively more integrated European foreign policy beyond the confines of the currently intergovernmental Common Foreign and Security Policy. Such changes are driven by external pressures, for example contracting national budgets at a time of considerable fiscal tightening for foreign and defence ministries in all the European Union member states - with the notable exception of Poland.

There is a considerable risk that the European Union could ultimately face a democratic dilemma as a result of pressures for further European political integration. These pressures are made more difficult to confront by the currently weak legitimacy of the European democratic institutions. The European Parliament notoriously suffers from weakened legitimacy through progressively lower voter turnout, but there is a “missing actor in the European polity” namely the European voter. There is a lack of choice at the European political level, a lack conditioned by the preponderance

within the European institutions of the philosophy of consensus. Whilst in the earlier stages of the process of European foundation and evolution there was a very definite desirability of this consensus, as the European Union has developed, there has emerged a need for clearer choices to ensure proper democratic legitimacy. One should not vote simply "for" Europe, but rather what kind of Europe one wants. Normally in elections a sense of distinct choice is a key element in the democratic process.

The lack of "conflict" between opposing visions, hitherto regarded as a virtue in the context of the powerful post-war consensus, has led to a vacuum at the heart of the European debate. The negative reporting of the media on European issues has to an extent merely reflected this lack of choice. Where no genuine political debate is taking place, it is tempting simply to concentrate on unpleasant or problematic aspects of the Union's workings.

There is an urgent need for an open debate between the parties within the European Parliament and the citizens of the European Union regarding their various visions of Europe. European citizens fail to identify properly with the European Union political process. This is demonstrated not only by low voter turnout rate across the European Union at European Parliamentary elections, but also by the way in which European Elections are conducted in exclusively national terms, reinforced by the tendency to use those elections simply as a means to lodge a protest vote against the existing national government. There is an imperative requirement to address urgently the failure of the "Europeanisation" of the party political process. This failure is now an intolerable obstacle to the desirable development of the European Union's governance. The parties in the European Parliament should at the next European Elections certainly put forward to the voters their candidates for the European Commission Presidency. In parallel, national parliaments should also do a much better job of holding national governments to account. This accountability is all the more essential given the central role of national executives in the Council of Ministers and the European Council. New networks between the different national parliaments and the European Parliament also need to be created.

## **Conclusion**

Can the British ever be European citizens? For the Chairman, the confused nature of this debate in the United Kingdom was perhaps partly due to the fact that the notion of citizenship at a national United Kingdom level is itself at a relatively early stage of evolution. There is however undoubtedly a specifically European aspect to this discussion in the United Kingdom. The suspicion harboured by many in the United Kingdom towards all the policies and institutions of the European Union renders in their eyes the notion of "European citizenship" a profoundly suspicious one. The absence in the United Kingdom of the concept of inalienable rights of citizenship and a written constitution to define them is a further relevant factor in this context. There is however a widespread British tendency to see most if not everything which comes from the European Union as a threat rather than a benefit, and European citizenship cannot be an exception to this tendency. Whether this tendency derives from a particular robust sense of British national identity, or on the contrary from a fractured and incomplete sense of British national identity, is a question for another conference.

## **Part five: Concluding reflections**

### **Summary**

Before the General Election in May 2010, many commentators predicted that in the event of a hung Parliament differences in their policies towards the European Union would be a substantial barrier to the forming of a coalition between the Conservative Party and the Liberal Democrats. After the formation of the Coalition in May 2010, there were similarly many who predicted that European policy would be a point of recurrent friction between the parties in government. Both these predictions have been confounded by events. European policy does not seem to have been a difficult issue upon which to reach agreement in the negotiations for the formation of the Coalition. Nor have European questions in the first twelve months of the Coalition's existence been issues of noticeable controversy between the partners.

To some extent, this rapprochement between Conservative and Liberal Democrat parties on European policy can be ascribed to converging tactical assessments between the leaders of the two parties. Mr. Cameron made it clear in the period before the General Election that he did not want the early months of a new Conservative government to be overshadowed by European controversy; nor has he ever entirely shared the view of his more radical Conservative colleagues that unbridled hostility to the European Union is a prolific vote-winner for his party. Mr. Clegg for his part is obviously eager to present his party as a credible and substantial party of government, one capable of moving beyond its traditional defining pieties, of which Europe has certainly always been one. As Mr. Cameron believes that an unhealthy preoccupation with the supposed iniquities of the European Union has on the whole damaged his party electorally in recent years, so Mr. Clegg probably believes that his party has been damaged electorally by the perception of its indifference towards these supposed iniquities.

Given this background, it is not difficult to see why, from their differing starting-points, both leaders of the Coalition could find advantage in attaining a workable *modus vivendi* with each other on European policy. Their compact has led to a European policy for the United Kingdom which over the past twelve months has been, at least in the short term, on the whole less confrontational than many in Brussels and elsewhere had feared from an

incoming Conservative administration. It is a policy which is pragmatic in the sense that it seems to eschew any general guiding principle, either of commitment to or estrangement from the European Union. Most strikingly, the policy varies greatly from sector to sector of European activity. It is at least arguable that the Coalition's European policy in its first year represents a continuation of rather than any definite break with the patchy and uncertain approach to European issues which the New Labour government manifested in its later years.

In his defining speech on European policy of 4<sup>th</sup> November 2009, Mr. Cameron warned against the danger and futility of an immediate "bust-up" with Britain's European partners if the Conservative Party won the forthcoming General Election. He has certainly been successful since May 2010 in avoiding any such "bust-up". He was probably helped in achieving this ambition by the unclear outcome of the General Election. The Coalition agreement was conspicuously silent about the most provocative demand of the Conservative manifesto in the General Election of 2010, that for the "repatriation" to the United Kingdom of shared European powers on social and employment issues. Mr. Cameron may well have been relieved to rid himself of such an unrealistic commitment, blaming for the benefit of suspicious Conservative backbenchers his apparent change of heart on the supposed intransigence of the Liberal Democrats. As Prime Minister, Mr. Cameron has had little to say on European issues, and his ministerial colleagues have usually avoided aggressive or dismissive rhetoric about the European Union. Conservative ministers attending their respective Councils of Ministers have been eager to present a generally moderate and accommodating view of British European policy. Indeed, there have been a number of specific issues upon which Britain's partners have been pleasantly surprised by the political choices of the Coalition government.

## **European financial regulation**

Prominent among the latter has been the question of European financial regulation. Mixed messages had emerged from the Conservative camp on this matter before the General Election, with some in the City and Mr. Cameron's party urging him to stand firm in rejecting any enhanced role for European institutions in the supervision of the British financial system. Indeed jealousy of the City of London and a fundamental misunderstanding of the way financial market worked were seen by a number of Mr. Cameron's colleagues in the Conservative Party as the motivating forces

behind the new European structures of financial supervision. Mr. Osborne was reluctant to associate himself unambiguously with this hostility. In an interview with the Financial Times on 6<sup>th</sup> December 2009, he said that he would be prepared to “trade” with others in the European Union to protect the interests of the City.

In the event, European financial regulation was not a matter much discussed in the General Election campaign. Since the Election, Mr. Osborne and his colleagues in the Treasury have shown little or no reluctance to participate in the new European regulatory system. Many of the most important decisions about the system had anyway been taken by the time Mr. Osborne became Chancellor of the Exchequer; and he may well have been reluctant to open himself to criticism from the Labour Party and others that in resisting European regulation he was simply doing a good turn to the traditional backers of the Conservative Party in the much unloved City of London. Mr. Osborne’s willingness to be conciliating in this area of policy may also have been coloured by the knowledge that decisions on the supervision of financial services within the European Union are normally taken by majority voting, rather than by unanimity. Even had Mr. Osborne been inclined to reject the new institutional architecture of European financial supervision, he would have found it difficult to secure allies for the necessary blocking minority.

## **External relations and defence**

Another pleasant surprise for Britain’s partners in the Union and for many contributors to the Trust’s conferences over the past year has been the willingness of the Coalition to work within the framework of the Lisbon Treaty on external policy and in parallel to develop dramatically British military collaboration with France. In the uniformly hostile Conservative analysis of the Lisbon Treaty, criticism of the provisions concerning the Union’s external relations has always been particularly prominent. Little trace of this hostility however has been found in the speeches and decisions of the new Foreign Secretary, William Hague, traditionally a fierce critic of the Lisbon Treaty. Without disavowing his disapproval of the Treaty, Mr. Hague has promised that the Foreign Office will be active in working with the new European External Action Service, not least by encouraging British diplomats to spend time on secondment to the new Service. British dealings with Baroness Ashton, the Union’s High Representative for External Affairs

appointed under the preceding Labour government, have been reasonably constructive over the past year. National governments have not always gone out of their way in recent months to make Baroness Ashton's daunting new task easier, and there have been unflattering comments about her performance from a number of national capitals. Without wishing to be seen as her champion, the British government cannot fairly be accused of having made her anyway difficult situation less tractable.

In the same way as the new Coalition government "inherited" Baroness Ashton from its predecessor, so negotiations for greater Anglo-French military also began under the preceding Labour government. It may be wondered whether the Coalition's first Secretary of State for Defence, Dr. Fox, would have been willing on his own account to begin such negotiations. It would certainly have been open to the incoming Coalition to terminate or retard the negotiations in process. That it did not do so reveals an important streak of pragmatism in the approach of the Coalition to European questions. The criticism of the new arrangements from certain Conservative backbenchers, congenitally suspicious of closer ties with France, will understandably be taken as an encouraging sign by those eager to promote closer defence co-operation within the European Union. The powerful arguments in favour of greater Anglo-French defence co-operation can with only a very little adaptation be applied to European defence co-operation on a wider front, and to many other areas of policy beyond defence.

Some caution however is appropriate in our assessment of the Coalition's approach to the Union's external relations and to enhanced military collaboration with France. The Conservative critique of the innovations regarding external relations in the Lisbon Treaty was always greatly overstated. For many years to come, the major states of the European Union will continue essentially to decide their own foreign policies, with only marginal constraints placed upon their freedom of action by the workings of the European Union. Politeness to and about Baroness Ashton and the External Action Service is no great sacrifice for Mr. Hague and his colleagues to make. The new institutions set up by the Lisbon Treaty are still in their early infancy and national administrations, particularly from the larger countries of the Union, are jockeying for position and positions. These administrations are acutely aware that the early years of new organisations are the ideal time to ensure strong national representations within them.

That British ministers should now be stressing the desirability of strong British representation within the European External Action Service will seem

encouraging to some commentators, but this aspiration continues to sit oddly in the mouths of those who a year ago were denouncing precisely this Service as a building-block of the European superstate. The United Kingdom over the past thirty-five years has demonstrably failed to secure adequate representation for itself and its officials over the whole spectrum of official responsibilities within the European institutions. The appalling public image of these institutions in the United Kingdom, reinforced by the repeated utterances of many leading British politicians, has been one important reason for this failure. This image is unlikely to be reversed by occasional speeches from ministers in the Coalition whose current responsibilities dictate in the short term a more measured presentation of European issues. There is no compelling reason to believe that over time British representation in the External Action Service will be noticeably more substantial than it has been in other European institutions. Those who hope and those who fear that British influence will be predominant in the Service may well be allowing their wishes or fears to be the fathers of their thoughts. It would hardly be surprising if the External Action Service eventually takes its place in British public perception as yet another component of the hostile, incompetent and distant machine supposedly working against British interests in Brussels.

If confrontation with the reality of the evolving Action Service and the existing role of the High Representative have encouraged Conservative ministers to take a more relaxed view of the Lisbon Treaty, no such adjustment has been necessary in the context of Anglo-French military collaboration. It cannot be stressed too often that this collaboration exists purely at the bilateral level and has no institutional European component. It would have been open to the French and British governments to conclude at least part of their collaborative arrangements under the mechanisms of "structured cooperation" envisaged in the Lisbon Treaty, or to hold out the prospect of their being willing to do so in due course. But they have not done so. At least as plausible an argument can be constructed for seeing the remarkable intensification of Franco-British defence collaboration as a replacement, at least in the short term, for "a European defence identity" as to see it as the latter's precursor. It is undoubtedly true that a commonality of perceived interests in military matters between France and the United Kingdom is a precondition of anything that could plausibly be described as a "European defence identity". But the size of the step taken last year by the French and British governments towards the construction of this identity and the probability of this initial step's being followed by other leaps of conception should not be overstated.

## **The other side of the coin**

If the preceding aspects of the Coalition's policy can be regarded as definitely or at least potentially constructive in the European context, the Federal Trust's conferences over recent months have also highlighted a number of respects in which a very different judgement of the Coalition's approach to European issues seems appropriate. In three crucial areas of European policy, namely the European budget, the euro and the EU Bill, positions have been staked out or are being staked out by the Coalition which will have considerable implications for Britain's role within the European Union for many years to come. These implications are overwhelmingly more consistent with the Conservative Party's recent approach to European policy than they are with traditional Liberal Democrat ideas on this subject. In so far as future historians discern in the European policy of the Coalition any qualitative shift in the nature of British membership in the European Union, it may well be to these issues that they direct their particular attention.

Mr. Cameron's first foray into European budgetary questions, at the European Council in October 2010 was a stark reminder of the emotions this question arouses in the Conservative Party. Nor can it be said that he appeared to handle the matter with any great competence, appearing to suggest in the House of Commons that he would be able to block at the European Council any increase in the European budget for 2011 when compared with that of 2010. Since this increase had already been agreed against British protests earlier in the year, Mr. Cameron was reduced to claiming that the small agreed increase was a triumph for British negotiating tactics and that he had gained considerable support in the European Council for the British goal of freezing the European budget during the next Medium Term Financial Perspective, which begins in 2014. Mr. Cameron and Mr. Osborne will be under great pressure from their most Eurosceptic backbenchers to adopt the most restrictive approach possible to the negotiations surrounding the next Perspective. When the last Financial Perspective was agreed in 2006, the negotiations could only be successfully concluded after significant late concessions by Mr. Blair. It is difficult to believe that similar concessions can be forthcoming from the Conservative Ministers who will be representing the United Kingdom in the Budget Council over the coming years.

Mr. Cameron is certainly not wrong to discern some sympathy in the European Council for a generally restrictive approach to the next Financial Perspective. Domestic austerity, growing unwillingness by richer countries

to see the European budget as a mechanism of financial redistribution and some doubts about the general effectiveness of European spending are all factors likely to ensure that Mr. Cameron and Mr. Osborne have allies in their desire to cap as far as possible any increases in the European budget. A number of specific problems however will present themselves for the British negotiators over the coming years.

Traditionally, the United Kingdom has liked to present itself as a particular ally of the Central and Eastern European countries who have joined the Union over the past decade, and these countries will suffer disproportionately from reductions in spending programmes. The British budgetary abatement is widely resented by other member states, with its potential reduction being seen as one way of reducing their net contributions. Every member state, including Britain, will be looking to minimise the domestic economic impact of cuts in the European budget; British negotiating inflexibility in response to backbench concern from London risks making necessary compromise on budgetary issues especially difficult for the representatives of the Treasury and the Foreign Office over the coming years. Because the next Financial Perspective can only be agreed by unanimity, the Coalition government will probably be able to block any settlement on the Perspective which might be unacceptable to the House of Commons. But the stage seems set for a bruising conflict of an uncertain outcome, which is likely to damage yet further popular perceptions of the Union in this country and undermine the confidence of Britain's European partners in the United Kingdom as a serious and constructive negotiating partner.

## **The euro has not gone away**

According to the Coalition agreement, the United Kingdom will not join, nor make any preparations to join the euro during the expected five years of the Coalition's life. The authors of the document will have understood that the second half of this undertaking was just as important as the first. If no preparations of any kind can be made for Britain to join the euro in this parliament, then that is tantamount to decision not to join the euro in the next ten years. Any new government elected in 2015 and wishing to join the European single currency would require most of its first period in office to lay the political and economic groundwork for British membership of the single European currency. It may be that in any event Britain could not have joined the euro in any circumstances over the next five years. To prescribe any possible preparation over the coming five years for it to happen

after 2015 is however to add a further set of barriers to any eventual British membership of the Eurozone. The last Labour government's approach to the euro was widely criticised for its uncertainty and ambiguity, both by advocates and opponents of British accession to the single currency. But neither Mr. Blair nor Mr. Brown ever took so dramatically marginalising a step for Britain within the European Union as to rule out British membership of the euro for such an extended period of time.

Over the months since the signing of the Coalition agreement the members of the Eurozone have entered upon an accelerating process of reform, in which the institutional structures of the single European currency are being fundamentally recast. If Britain had been a country unsure about whether and in what circumstances it would join the euro, as it was under successive New Labour governments, its influence on this process of reform would have been limited. Now that the Coalition government has declared its hand on this matter so clearly, with the Conservatives being against British membership in any circumstances and the Liberal Democrats prepared to accept a delay for the indefinite future, British influence on this question has become non-existent. Britain joined the European Community in 1973 not least to exert appropriate influence within its decision-making fora on matters likely to be of vital concern to the United Kingdom. It is difficult for anyone to doubt that the restructuring of the Eurozone is precisely such a matter. It is true that there have been in recent months a number of indications that the British government is increasingly aware of the interdependence of Britain's economic stability and that of the Eurozone. Some Conservative backbenchers have been disappointed by their government's willingness to play for this reason a constructive, if marginal role in the Eurozone's support for Greece and Ireland. But the unwillingness of Mr. Cameron and Mr. Osborne to follow the advice of their most radical Eurosceptic colleagues by remaining entirely aloof from the problems of the Eurozone cannot conceal the qualitative shift which has taken place in Britain's position within the European Union over the past year. In what is incomparably the most important current range of decisions for the Union, those relating to the single currency, Britain is now a simple spectator. Those whose long-term goal is for Britain to leave the European Union have registered an important success in this unmistakable affirmation of British detachment from its European neighbours.

## The EU Bill and what it implies

A similar desire to reinforce British marginalisation within the European Union underlies the provisions of the Coalition agreement relating to referendums in the United Kingdom on future changes to the European treaties. These provisions have now found expression in the EU Bill currently before the House of Lords. The EU Bill stipulates that for all intents and purposes any deeper British participation in treaty-based European integration will be dependent upon a referendum, in which existing popular prejudices against the Union and topical political issues of the day unrelated to Britain's position within the Union will inevitably be decisive in the likely outcome. The text of the Coalition agreement and the relevant clauses of the EU Bill to referendums takes as its explicit starting-point the proposition that deeper British participation in the European Union is of its nature a process whereby British power and sovereignty is "transferred" away from the United Kingdom and "surrendered" to the European Union. Any of the traditional notions of "sharing" British sovereignty, of allowing Britain to participate in a "wider" sovereignty, or of "reinforcing" British sovereignty through international action are entirely alien to the Bill's philosophy and rhetoric. European treaties have on this analysis one typical effect and one only: they deprive the British people of "their" sovereignty and give it to "others". Since the central political and institutional rationale of the European Union lies precisely in the pooling of national sovereignties to ensure their more effective, peaceful and rational exercise in future, it is difficult to see how the reductionist rhetoric of the EU Bill is intellectually compatible with Britain's present membership of the European Union, let alone its participation in future European developments.

Mr. Cameron denies and Mr. Clegg would no doubt be horrified by the accusation that the Coalition's European policy is a stepping-stone to British withdrawal from the European Union. The underlying assumptions of the European Union Bill currently under consideration point in a very different direction. The Bill marks an important staging-post in a process of British detachment within (and perhaps eventually from) the European Union. Some commentators have been inclined to present the document as an embarrassing necessity which can soon be forgotten about and in any case is unlikely to have any tangible effects over the lifetime of the Coalition. The EU Bill, however, is not directed towards the actions of the present government. The Conservative Party, as leader of the Coalition government, has made it clear that it will not accept any changes in the

European treaties that could trigger a referendum. The EU Bill is directed towards future governments, who might be inclined to pursue a less distrustful policy towards our closest allies in the European Union than that implied in the text of the Coalition agreement.

A striking phrase which appears in both the Coalition agreement and the EU Bill is that of a “referendum lock”. It is clear from this formulation that the Agreement’s signatories have little interest in the holding of European referendums for their own sake, as exercises in participatory democracy, but only see them as instruments to constrain future British participation in European integration. The instrumental nature of this policy is well exemplified by the intention of the Coalition to exempt Accession Treaties from the need for a precedent national referendum in the United Kingdom. There can be no logical justification for the withholding of a national referendum on that issue by those who favour such a referendum on much less significant developments in European integration. Long after this present Coalition government has disappeared, it aspires to exercise a restrictive influence on all future British governments in their European policy. Both in its general rhetoric and in its specific provisions, the EU Bill has a good chance of doing precisely that.

## **The coming years**

The general title of this Federal Trust project was formulated as a question, asking whether the new Coalition government offered the chance of a new approach to European policy by the British government. It will be clear from the reports of our conferences and from this review of their conclusions that no simple answer can be given to that question. In some respects the European policies of the Coalition government are demonstrably a continuation of the choices adopted by New Labour under Mr. Blair and Mr. Brown. European financial regulation, European external policy and defence collaboration with France have all been areas of political decision-making where the Coalition has followed the paths sketched out by New Labour. Even on European budgetary questions it cannot be said with certainty that New Labour would have followed policies radically different from those which the Coalition seems likely to embrace. Mr. Blair’s willingness to compromise on the Financial Perspective in 2006 came as a surprise to many commentators and it cannot be entirely excluded that Mr. Cameron and Mr. Osborne may produce a similar surprise in the parallel negotiations of 2013.

But if there is continuity in the approach to the European Union between New Labour and the Coalition, there are also important discontinuities, notably in the EU Bill and policy on the euro. The effects of Coalition policy in these two fields is less obviously dramatic than would have been an attempt to repatriate social and employment powers or to refuse to participate in the mechanisms of European financial regulation. But over time, the implications of these two decisions are and will be considerable. In one of the project's conferences, the question was raised whether the Conservative approach to European policy could be summarised in the slogan "so far and no further". It is difficult not to see in the EU Bill and the Conservative rejection of British membership of the euro in any circumstances powerful proof that the cited slogan does accurately describe the Conservative attitude to Europe. The Coalition, although not an exclusively Conservative administration, seems likely to leave powerful traces of this attitude as an inheritance for its successors.



Over the past year, the Federal Trust and Global Policy Institute have been working in partnership with the Representation of the European Commission in London on a project to analyse the European policies of the Coalition government during its first twelve months in office. This report brings together the conclusions of the project and reports on the proceedings of the individual conferences held in the context of the project. The report concludes that the first year of the Coalition's European policy has been more pragmatic and harmonious than might have been feared. It warns however that in the longer term the Coalition is storing up considerable difficulties for itself and the country by the opportunistic European policy it is following.



9 781903 403891 >