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European Newsletter

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This monthly Newsletter monitors and analyses institutional and political developments in the European Union. Regular features will focus on the rotating EU Presidencies, any developments relevant to the future of the European Constitutional Treaty and other news from the European Union's institutions. This Newsletter follows earlier series which have offered UK perspectives on the debate about the EU Constitutional Treaty. It is designed to offer contrasting views on a number of different policies and questions. Back issues are available at www.fedtrust.co.uk/european_newsletter.

Contents

1. Editorial	1
2. Hong Kong: The EU's urgent present	2
3. News from the institutions	3
4. The European debate in the UK	4
5. News from the Federal Trust	5

1. Editorial: Tough Times for Mr Blair

This British Presidency of the European Union has not been an easy time for Mr Blair. Even if, as seems unlikely, a compromise can be achieved at this month's European Council on the Union's budget over the next seven years, Britain's diplomatic position within the European Union will be weaker at the end of its Presidency than at the beginning. The budgetary dispute has of course played some part in this disappointing outcome, but other factors have also made their contribution.

British politicians and officials entered upon the British Presidency in a disorientated condition. They had originally viewed the British Presidency of the Union as an opportunity to set the scene for a successful British referendum on the European Constitutional Treaty in the course of 2006. The disappearance of this long-term goal after the French and Dutch referendums deprived the British Presidency of what might otherwise have been its guiding principle.

The gleeful reaction of Mr Straw in particular to the French and Dutch referendum results was politically perfectly understandable. But the British government's escape from having to fight a probably unwinnable referendum on the Constitutional Treaty in 2006 was a distinctly mixed blessing for the British Presidency. Many other member state governments have been offended by what they regarded as the indecent indifference with which the British Presidency has ignored and suppressed debate on the Constitutional Treaty's future over the past five months. In this matter, they have seen the Presidency as acting in its own national interests rather than in the interests of the Union.

The Federal Trust for Education and Research

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...is a think tank that studies the interactions between regional, national, European and global levels of government.

Founded in 1945 on the initiative of Sir William Beveridge, it has long made a powerful contribution to the study of federalism and federal systems.

Nor has the British government made much headway as President in its desire to give the European Union's economic philosophy and policies a more liberal and reformist tone. Mr Blair's speech to the European Parliament in July was widely hailed, not just by his political supporters, as an inspiring presentation of his modernising message. But unsurprisingly the message has proved easier to proclaim than to implement. There is a spectrum of economic philosophies within the European Union, of which the British model is only one, and not necessarily the most attractive to all observers.

The pointless Hampton Court summit was an appropriate symbol for the limited ability of the British Presidency to shape the important, but complicated debate surrounding Europe's economic future and the European Union's contribution to it. Few participants will have felt that they left Britain much wiser than when they arrived. Much resentment has been generated in continental Europe over the past five years by the hectoring and patronising rhetoric in which British spokesmen have portrayed the improved relative performance of the British economy. This impression will not have been dissipated by the British Presidency.

Over the past few days, British spokesmen have been at pains to stress that an agreement on the European budget was, in their view, attainable but far from certain. It is clearly irksome to the Prime Minister that his last major opportunity to dominate the European Union's stage should be taken up by undignified haggling over money. Even so, a settlement on the European budget would provide at least some positive conclusion to what is widely seen as an ineffective and unproductive Presidency.

If this settlement is achieved, however, it will not be achieved without cost. The new member states of the Union have been greatly offended by the British proposals to cut expenditure in the European budget that would have enabled them to improve their inadequate domestic infrastructure. Much of the work of alliance-building with such countries as Poland and the Czech Republic has suffered a severe, possibly irreparable setback.

Future historians may well look back on this British Presidency of the European Union as an entirely appropriate climax of Mr Blair's European policy since his election in 1997. Had circumstances been more propitious, the Presidency might have been an occasion for him to move closer towards his goal of a European Union in which Britain was more comfortably able to recognize itself and its own aspirations.

As it is, circumstances (some of which he has created) have conspired to highlight in the European budgetary negotiations a peculiarly intractable question from which at best Mr Blair can emerge with an honourable compromise, but where he runs a real risk of defeat, even humiliation.

Brendan Donnelly
The Federal Trust

2. Hong Kong: The EU's urgent present

Europe's role in the world has long been a central element of the debate about the future of the European Union. Protagonists in this discussion were quick to highlight the new role of EU Foreign Minister that would have been created if the now defunct European Constitution had been ratified.

Supporters argued that this new position would have enhanced the EU's ability to create and present a coherent common foreign policy to its strategic partners around the world. Critics cited it as another example of the Union seeking to usurp the role of the member states and take a step towards a 'United States of Europe'.

On both sides of the argument about the new post to be created by the Constitution, few gave much thought to the one seat already created within the European Union's institutional structure that provides its occupant with the mandate to negotiate with other countries on behalf of the EU's Members. This position, the European Commissioner for Trade, results from the fact that the Union already has sole competence to negotiate trade agreements on behalf of the Union.

In early December all eyes will turn to its current holder, Peter Mandelson, to see if he can present a common European position at the vitally important WTO Ministerial Meeting taking place in Hong Kong. Whether he can or cannot will give a strong and very public indication of the EU's current capacity to act as a single player on the world's stage.

In November 2001, in the aftermath of the terrorist attacks in New York, the world's trade ministers met in Doha, Qatar and agreed to launch a new round of global trade negotiations. This was the first time that talks like these had been launched under the auspices of the World Trade Organisation. Negotiations were set to be concluded in an unprecedented number of areas by the end of 2004.

Since then progress has been agonisingly slow. Negotiating deadlines in all but the smallest of areas have been missed, and at one stage talks collapsed when ministers failed to reach agreement on the way ahead at a meeting in Cancun, Mexico.

During this difficult period the EU has seen a change in personnel. The outgoing Commissioner, Pascal Lamy, has taken up the position of Director-General at the WTO. His replacement Peter Mandelson, who arrived in Brussels following a previously successful stint as the UK's Minister of Trade, has sought to maintain the EU's high level of ambition for these negotiations. With deadlines again looming he now faces the unenviable task of trying to maintain a common negotiating position that is supported by each of the EU's Member States.

The sticking points in the negotiations are primarily in the area of agriculture, traditionally the main area of frustration for the EU's trading partners. For 40 years the EU's Common Agriculture Policy has been seen as the major obstacle that has blocked efforts to further liberalise trade. Its combination of subsidies and high tariff barriers, previously created to support European agriculture in the post-war period, are seen by many to distort trade to the detriment of agricultural exporters from developed and developing countries and

to disadvantage net food importers.

Both the developing world and net food importers complain of what they see as EU prices in agricultural goods at an artificially high level. Many EU policy-makers recognise that the CAP's original aims and rationale are no longer relevant. Reform efforts have therefore been initiated at various stages in the last few decades, with the most recent changes being introduced in 2002.

These reform efforts have allowed the EU to table a more ambitious position in the WTO's negotiations than ever before. Their last contribution to these talks came in November 2005. Many observers recognised that this offer represented the most significant changes to the way that the EU manages agricultural trade since the mid-1990s and the conclusion of the last round of world trade negotiations, the Uruguay Round.

The EU's trading partners were less impressed. They have subsequently argued that the EU has to go further if they are to reciprocate by lowering their tariffs for industrial goods or allow EU's services industry companies to gain access to markets overseas.

In turn, the EU has said that it cannot table a revised offer until it first sees what its trading partners can do in these other areas. At the time of writing this is where negotiators find themselves as they travel to Hong Kong. The talks appear stalled, the result of a classic impasse.

Finding agreement amongst the 148 member of the WTO is always difficult. Trade negotiations pit domestic interests in different countries against one another. They also provoke disagreement within countries and sometimes even in the same company. Different departments in the same firm can find themselves on either side of the debate as they seek to protect their position in their home market at the same time as striving for market access elsewhere.

In this instance countries behave in the same way; they have both offensive and defensive interests. Nowhere is this more obvious than in the EU, where national interests often run up against broader European aims and objectives. At no time were these difficulties brought more under the spotlight than when, in

response to the EU tabling an ambitious offer on agriculture, 13 member states (informally led by France) sent a letter to Peter Mandelson warning him that he was very close to exceeding his mandate.

France, the largest beneficiary of CAP-related payments, is understandably anxious that the EU could make concessions in areas that would damage its farmers, a strong constituency in French politics. The French government also argues that agriculture is an integral element of European security and a defining aspect of European cultural heritage that would be damaged by further reform of the CAP. France is supported by a coalition of member states. For example, some of the new members joined the EU in May 2004 with the promise that their farmers too would receive support from the CAP.

Other member states quietly hope for a more ambitious deal to be done at the WTO. They argue that the CAP, which accounts for nearly 40 per cent of the EU's budget, reflects outdated policy objectives that ought to be replaced by reform efforts to improve economic growth and job opportunities across the EU.

It will be in hotel somewhere in Hong Kong that these two contrasting views on the economic future of Europe will meet in the guise of an informal Council of European Trade Ministers. At the WTO Ministerial Meeting, Peter Mandelson will be required regularly to consult with this body on the status of the talks and how the EU ought to proceed. It is only if he can keep the 25 member states together that he will be able effectively to negotiate on behalf of the Union. If he does not, then the WTO negotiations face collapse, and the recriminations within the EU could spread far and wide.

The stakes could not be higher in Hong Kong. The European Constitutional Treaty contained proposals for the future. Hong Kong represents the EU's urgent present.

Alexis Krachai
The Federal Trust

3. News from the institutions

Over the past weeks, the EU has come closer to agreement on two important dossiers, the chemicals legislation REACH and mandatory data retention. On perhaps the most important issue, the EU budget, it seems that a deal in December is still far from being reached, as the reaction to the UK's proposal from the other member states fell well short of enthusiasm.

Indeed, the UK's offer (for details see preceding article) was received with almost universal criticism. Commission President José Manuel Barroso said that the British proposal was for a 'mini-Europe, not for the strong Europe we need'. Even before the proposal had been released, a Commission spokesman criticised it, commenting: 'You all know the old story of Robin Hood and the Sheriff of Nottingham. The President has made it very clear that he does not expect the British Presidency to take the role of the Sheriff of Nottingham, taking from the poor to give to the rich.'

As the Commission has no vote on the budget, its criticism may be seen as inconsequential. However, most member states were equally critical of the UK's proposal. France and Germany have apparently already called for new proposals from the Presidency. Jacques Chirac argued that the UK should extend its commitment to fund enlargement beyond 2013, while the German Foreign Minister branded the current suggestion as 'unacceptable'. The Italian Foreign Minister commented that his government had 'a negative opinion on the entire proposal'.

The new Polish Prime Minister Kazimierz Marcinkiewicz also said that the draft was unacceptable, arguing that it 'is not based on solidarity'. Similarly, the Danish Prime Minister Anders Fogh Rasmussen saw the proposal as insufficiently 'solidaritarian'. On the other hand, Sweden has signalled that the UK's offer may not reduce the budget enough and that it is far too 'pro-British'. Thus, the differences between the 25 member states still seem very large, and German Chancellor Angela Merkel is probably right to predict that negotiations will be 'very, very tough'.

However, there was progress on somewhat less divisive issues facing the European Union. On 17 November, the European Parliament approved by a large majority legislation on the registration, evaluation and authorisation of chemicals (REACH). This directive follows from a fundamental review of European chemical policy and will require safety assessments of around 30,000 chemicals by a new European Chemicals Agency. The legislation was extremely controversial and pitted environmental and consumer rights groups against the companies that produce and use chemical products.

In the end, the three main party groups - the centre-right European People's Party, the Party of European Socialists and the Alliance of Liberals and Democrats for Europe - struck a deal, ensuring that the legislation passed by a comfortable margin. However, the proposal was immediately criticised by industry groups, who complained of over-regulation, and by environmental and consumer groups, who argued that the agreement did not go far enough. REACH has now been passed to the Council of Ministers, which seems likely to approve the law.

On 2 December, the Justice and Home Affairs Council agreed on a proposal on mandatory retention of data on telephone and internet communications in order to combat serious crime. The legislation was a matter of deep disagreement, with Ireland, Poland, Slovakia and Slovenia opposing the final draft. Outside the Council, the issue of data retention has also been divisive, as the Commission, the Council and the EP have all taken different sides of the argument. The EP is now under pressure to decide quickly to agree to the new proposal even though it perhaps restricts personal liberties more than the EP would have wished.

Finally, EU national parliaments have decided to strengthen their oversight of EU policy-making by introducing a procedure very similar to the 'early warning procedure' contained in the Constitution. On 17 November, the Conference of Community and European Affairs Committees (COSAC) agreed to

implement a provision to make sure the EU respects the principle of subsidiarity in its legislation. All proposals slated for 2006 will be examined by national parliaments. However, there will be no legal requirement for the Commission formally to react to the opinion of national parliaments.

Overall, it seems that the EU is pressing ahead with important policy decisions even though there may be deadlock on the EU budget and indecision on the future of the Constitution. Given that the institutions are clearly continuing their work in more or less their usual way, talk of a 'crisis', while frequent, may be an exaggeration.

Markus Wagner
The Federal Trust

[BBC News, 'UK under attack on EU budget deal', 6 December](#)

[Euractiv, 'Parliament back safety assessment of chemicals', 17 November](#)

[EUpolitix.com, 'EU heads for data retention deal', 2 December](#)

[Euobserver.com, 'National parliaments to show Commission yellow card', 18 November](#)

4. The European debate in the UK

Prime Minister Tony Blair is in a no-win situation on the EU budget negotiations. If he reaches a deal at the European Council on 15/16 December, he will be lambasted in parts of the British press for 'surrendering' to the EU by 'selling out' British taxpayers. If the UK fails to secure a deal, however, the British Presidency will be described as a 'failure' and as a sign of Mr Blair's declining influence in Europe. The Prime Minister will surely face strong criticism from David Cameron, the new Conservative leader, although he may be careful not to appear too Eurosceptic as he has faced internal dissent over his plans to quit the European People's Party in the European Parliament.

On 5 December, the UK finally tabled its proposals for the EU budget, which would be cut to 847bn euro from 871bn euro for 2007-2013. The British net

contribution over the seven years would be 58bn euro, roughly the same as France and Italy and down from the 70bn euro UK net contribution proposed at the European Council in June by the Luxembourg Presidency. The British net contribution of 58bn euro is 8bn euro greater than it would have been under the present British rebate arrangements. Mr Blair has said he is prepared to accept changes in the arrangements in order to help pay for the costs of enlargement.

However, the overall reduction in the EU budget would mainly be financed by cuts in the structural funds allocated to the 10 new member states that joined in 2004. In return, the accession countries will be given more time and better conditions in which to spend EU money.

Predictably, the Prime Minister was immediately attacked for giving up part of Britain's 20-year-old rebate, fought for by Margaret Thatcher in 1984 in Fontainebleau. The *Daily Telegraph* described the UK's budget proposal as 'a move that will cost the taxpayer billions of pounds', while *The Sun* commented that 'the PM caved in to France by failing to slice a penny off bloated handouts to farmers across the Channel'. According to Neil O'Brien of the new think-tank Open Europe, 'Tony Blair managed an astonishing triple whammy. He has surrendered part of the rebate, alienated long-standing friends in eastern Europe and utterly failed to reform the grotesque CAP' (*The Sun*, 6 December). The Conservatives accused Tony Blair of giving up part of the rebate without achieving any kind of commitment on reform of the Common Agricultural Policy (CAP).

The *Financial Times* saw the British proposal in different terms, arguing that it 'diverts billions of euros from poor eastern European countries to the UK Treasury'. As the overall budget of the EU will be lower under the UK proposal, the British contribution will actually be 12bn euro less over the seven years than under the proposal made by the Luxembourg presidency in June. At the same time, the new member states would have to accept 14bn of the envisaged 24bn euro reduction in EU spending through reduced funds available for their

road and environmental schemes.

Other commentators added a more sympathetic tone to the debate on the budget. Labour MEP Richard Corbett argued in *The Guardian* (1 December) that the onus should really be on France to agree to a reform of the CAP rather than on the UK to give up its rebate. In his view, Tony Blair is caught between the temptation to earn easy backbench cheers by refusing a disadvantageous budget deal and the desire to make a deal that would end talk of Britain's isolation in the EU. In general, Richard Corbett argues, it must be remembered that the economic significance of the budget negotiations is 'paltry [as] the entire EU budget is only around 1 per cent of GDP - small change in macroeconomic terms'.

Philip Webster in *The Times* (2 December) was also understanding of Mr Blair's problems with the EU budget. As the UK has always been a supporter of enlarging the EU, Britain has to be willing to help fund enlargement, so this is, for Webster, a valid use of the UK's budget rebate. Giving up on the rebate in order to fund the CAP would, however, be indefensible.

If Tony Blair does manage to reach a deal at the European Council, the agreement will be subject to a variety of different interpretations, not all of which will be based on the actual compromises made. It will be interesting to see how the UK's proposals will be modified in advance of the meeting and whether these changes are received with any more enthusiasm. The new budget outline will surely propose a revision of the CAP before 2013, a suggestion that will not be welcomed by France.

Whatever the result of the negotiations, it seems certain that the Prime Minister will be attacked,

especially as the (at least in Britain) almost universally unpopular CAP seems protected from immediate far-reaching reform. Of course, this is partly as a result of the agreement on the future of the CAP accepted by Mr Blair himself in 2002.

Markus Wagner
The Federal Trust

- [UK budget proposal, 5 December](#)
- [Financial Times, "Cynical" EU budget targets new members', 5 December](#)
- [The Sun, 'Blair surrenders to EU', 6 December](#)
- [The Daily Telegraph, 'Blair ready to surrender EU rebate with no payback' 30 November](#)
- [Richard Corbett, 'France holds the key', The Guardian, 1 December](#)
- [The Times, 'Blair in a "tight spot"', 2 December](#)

5. News from the Federal Trust

Recent publications

Policy Brief No. 17: Unemployment and Fiscal Policy in the European Union

John Grieve Smith, Robinson College, Cambridge University

This Policy Brief discusses the need for a more expansionary approach to fiscal policy to combat the persistently high levels of unemployment in many parts of the EU. This will require amendment to the Stability and Growth Pact. Harmonisation of taxes will limit individual countries' room to manoeuvre, but provide opportunities to make tax changes on a European scale. Any attempt to conduct fiscal policy on such a scale raises the question of a European

Budget and the issues considered in the 1977 MacDougall Report. This in turn raises constitutional issues about the most effective way of taking budgetary and fiscal policy decisions at a European level.

Available for download at www.fedtrust.co.uk/admin/uploads/PolicyBrief17.pdf.

Policy Brief No. 18: Fresh Faces, Tired Policies? The German 'Grand Coalition' and the EU

Markus Wagner, Research Associate, The Federal Trust

This Policy Brief argues that despite the change in government, Germany's position in the EU will not change much. While plans for domestic economic reform are limited rather than radical the new government's approach to the Lisbon Agenda and the EU budget will remain largely unchanged. Broad continuity will also characterise the new government's stance on foreign policy and EU enlargement. The coalition's strong commitment to the EU Constitution may however come as a surprise.

Available for download at www.fedtrust.co.uk/admin/uploads/PolicyBrief18.pdf.

Forthcoming events

16 January 2005: The Austrian Presidency of the European Union: Prospects and Ideas

An evening discussion organised in co-operation with Chatham House.

For further details please email mark.spokes@fedtrust.co.uk.
To register please email INewton@chathamhouse.org.

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