

How to lose friends and influence – the UK and the new EU member states

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'Britain's strong relationship with the new countries has been safeguarded,'¹ Prime Minister Tony Blair argued in the wake of the deal on the EU's financial perspective for 2007–2013. After more than six months a deal had finally been reached that was acceptable to all 25 member states, and it had been agreed under the UK Presidency of the Union. Mr Blair had some cause for celebration. But at what price? The UK had been forced to give up a large part of its rebate and failed to secure any meaningful reform of the Common Agricultural Policy, which had been one of its 'red lines', and the plaudits for brokering a deal all went not to Mr Blair but to the new German Chancellor, Angela Merkel. Worse still, during the course of negotiations, the UK profoundly upset colleagues from the new member states, suggesting they take a cut in funding. Have relations been irreparably damaged? What can be done to ameliorate matters? This paper considers the difficulties facing the UK in brokering a deal on the budget and assesses the impact Blair's actions have had on relations with the new member states.

Relations with accession states

The UK has been one of the keenest of advocates of EU enlargement under both Labour and the Conservatives. During the 1990s, Prime Minister John Major foresaw EU enlargement as far as the Urals. No-one could explain how he proposed to persuade the Russians that their country should be divided, but the message was clear enough: a wider Europe would inevitably mean a looser Europe and should therefore be encouraged. Tony Blair was equally enthusiastic about enlargement to the east and south-east. His 1999 call for Romania and Bulgaria to join was a rallying cry that gave real hope to those states, while opening up accession negotiations with Turkey was one of the key goals of the UK Presidency of the Union. Mr Blair's support for enlargement fitted with his more positive attitudes towards integration; he felt that EU membership was beneficial for the UK and what was good for the UK would be good for other states, who should thus be helped to accede. Yet, a degree of cynicism continued regarding the UK's attitudes to Europe: didn't she simply want enlargement in order to weaken the Union? Or to secure a Europe where more of the member states shared her values, including economic liberalisation and commitment to NATO and the United States?

CONTINUED OVERLEAF

EDITOR'S NOTE

This is the nineteenth in a series of regular *European Policy Briefs* produced by the Federal Trust. The aim of the series is to describe and analyse major controversies in the current British debate about the European Union.

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Nevertheless, in its first term, New Labour made real strides in improving its relations with existing EU states and the would-be members. Mr Blair recognised that if Britain was to punch at or above its weight in Europe, it needed to have allies. He thus set about reforming the way the UK dealt with other member states, requiring that his ministers, MPs and civil servants strengthen their links with colleagues in other national capitals. The intention was that when the UK wished either to push for or oppose EU legislation, it would know where its allies were. This 'new bilateralism' played well in national capitals across Europe as Britain seemed finally to have engaged fully with the European Union.² True, there were some residual concerns that the shift in policy style was simply to ensure that the UK had at least one veto partner on every issue but by and large officials in the other EU-15 countries felt that the UK was now a constructive partner, and they frequently signed up to joint initiatives.

The reactions in Central and Eastern Europe were even more positive – in the UK they had an ally and an advocate. Germany and the Scandinavian countries were also keen advocates of enlargement, but it was the UK that explicitly sought to foster good relations with the accession states, perhaps because it had fewer historical and geographical ties that would have made relationships more automatic. In any case, the candidate states were keen to work with any country that seemed to offer support. As one former Hungarian official put it, 'Before accession the UK was seen as a friend. It was an ally and no-one asked why. The motives didn't matter.' It is unlikely that other accession states probed any deeper: their ambition was to join the Union and if the UK would help, so much the better. Undoubtedly, though, the UK was hoping to secure its position post-enlargement and could reasonably have been expected to find staunch allies in the new member states from Central and Eastern Europe, given its support for their accession and the apparent policy convergence on economic matters and the trans-Atlantic relationship (Cyprus is a rather different case, since relations with the UK soured following the referendum on the Cyprus Question in 2004 and are only gradually being repaired).

Yet the experience since enlargement suggests that the warm relations that the UK hoped to forge with the new member states have not flourished. Initially, the new member states were very grateful to

the UK for having supported their application. Given the congruence of interests over economics and foreign policy, the opportunity was there for the UK to consolidate its position and perhaps even to become the leader of the 'new Europe'. It was not taken, in part because the UK failed to cultivate these emerging links and in part because the new members did not appreciate sufficiently the increasingly pragmatic nature of business in the EU. As early as the IGC on the future of Europe, the newcomers began to express concerns about the UK's 'goal-oriented' approach.³ They rapidly recognised that despite the UK's overtures and apparent support, it would only really be there for them if it wanted something in return. The UK made frequent efforts to get the new member states on-board, seeking support for a variety of initiatives, but it was not so forthcoming when it came to their priorities. The UK's positive image was tarnished as the new members realised that it could not be relied upon to support their priorities; now a bigger issue was to challenge the relationship: money.

Budgetary affairs

The Union determines its finances on a multi-annual basis. The current arrangements, designed to permit enlargement, were agreed in Berlin in spring 1999. They are due to end on 31 December 2006 and the subsequent financial perspective was deemed to be of vital importance, not least by the new member states, which were hoping for additional financial support, particularly via structural funds. Existing member states, especially the net contributors, were cautious about the reforms. A 'one per cent club' emerged, comprising the UK, France, Germany, Austria, Sweden and the Netherlands, arguing that the EU budget should be capped at one per cent of EU gross income. This was in stark contrast to the European Commission, which was talking about a much more ambitious 1.24 per cent of gross income, which would have facilitated more generous payments to the new members. Inevitably the net beneficiaries were hoping for a maximal budget settlement, with Spain reluctant to see the loss of the transfer payments that it was used to receiving and the new members keen to reap the financial benefits of membership which they felt were their due, and a necessary part of the solidarity which should prevail in the Union.

The Commission drew up proposals for the period 2007 to 2013 in early 2005 but discussions were postponed until after the UK general election and the French and Dutch referendums on the Constitutional Treaty. If agreement was to be reached it needed to be achieved within a small window before the end of the Luxembourg Presidency, so the argument went, since the UK would have immense difficulty playing the honest broker in budget negotiations. Despite the best endeavours of Luxembourg's premier, Jean-Claude Juncker, the financial perspective was not agreed under the Luxembourg Presidency. Most members could live with the proposals but there was an impasse since unanimity is required to pass budgetary agreements. Two issues remained on the table: the UK rebate and the costs of the Common Agricultural Policy (CAP). Britain and France were at odds, the former demanding that the CAP be reformed, the latter that the UK rebate be slashed. The Brussels Summit ended without agreement, much to the dismay of the new members. So keen were they to see an agreement that they remained in the meeting room suggesting that they would take a cut in payments if that would mean a deal could be reached. It was not to be and the baton of the EU Presidency passed to the UK.

The Presidency apparently started well, with Mr Blair's rousing speech to the European Parliament, but there was little optimism that the UK could secure a deal on the budget. Whereas Luxembourg had seemed well-placed to mediate a deal, the UK's interests were such that surely it would be better for it to fight its corner under the Austrian Presidency, unencumbered by the duties of the Presidency. However, the British Presidency was rapidly criticised for being unambitious and for achieving little. Apart from opening negotiations with Turkey, itself a policy that did not find universal favour across the EU, what legacy would the UK leave? The one hope for the UK was to secure a deal on the EU budget. The signs were not auspicious. For five months nothing happened. Gordon Brown attended ECOFIN meetings but refused to discuss the Budget.

The EU Budget has long been a problem for the UK. Its terms of accession ensured that it became a large net contributor, despite being one of the poorest member states at the time. The issues at stake then centred on 'justice' as far as the UK was concerned; it was paying in far more than it got back from the Union – in contrast

to all the other states except for Germany. France, supported by Germany, argued vehemently that there was no principle of *juste retour* and the UK should grin and bear the costs. Only after five years of wrangling under Mrs Thatcher was a satisfactory deal reached at the Fontainebleau Summit in June 1984, at which Britain secured an annual rebate of about two thirds of its net contributions. Even then, a deal was only reached because the UK's agreement was needed to raise the budgetary ceiling, which other states wanted.

The key issues did not disappear after the Fontainebleau agreement and, as more countries became net contributors, the UK rebate became increasingly anomalous. The Netherlands and Sweden sought to reduce their contributions, while Germany, formerly the EU's paymaster, called for a cap on the budget. France continued to assert that there was no such thing as *juste retour* in the EU and demanded that the UK's rebate be cut by EUR 14bn. For once it had a strong card to play – the UK's rebate was due to rise considerably between 2007 and 2013, as new member states benefited from structural funds and British net contribution rose. Surely now was the time for the UK to put its money where its mouth had been and pay towards the enlargement it had so actively sought?

The irony was surely not lost on the new member states. Those countries that had been keenest on enlargement – notably Germany and the UK – were reluctant to help shoulder the financial burden once matters got down to hard cash. Certainly, the British position seemed to undermine any suggestion that the UK was the newcomers' best friend and ally. But the UK was in a difficult position – it needed to reconcile the views of the one per cent club with the ambitions of the net beneficiaries, not to mention the Commission and European Parliament, which favoured a much more generous budget in order to facilitate more EU level activity. More precisely, the British government had to broker a compromise among the EU-25 and persuade the hostile press and official opposition at home that it had achieved a good deal for the UK. Such concerns had constrained the New Labour government's European policy from the outset but now they were compounded by the attitudes of the Chancellor of the Exchequer. Mr Blair committed himself to safe-guarding the UK rebate, but was willing to countenance some reduction in

it. It became increasingly clear that Gordon Brown, his likely successor as Prime Minister, was opposed to the deal that Mr Blair was finally to make. But if Mr Blair had lost support at home, would he be able to secure a satisfactory deal at the European level and thus help reinforce relations with the new members?

Rumours flew in late November that the UK would offer to accept a reduction in its rebate in return for a full review of agricultural spending and a 10 per cent cut in the structural funds, much of which would negatively affect the new member states, with the net budget at 1.03 per cent of gross European Union income, compared with the 1.06 per cent under discussion in June. It immediately became clear that such proposals would please no-one: the new member states were angered at the idea that they should receive less than previously offered, and particularly aggrieved that such a proposal should have come from the UK. Had it come from France, not noted for its support for enlargement or for smaller and newer member states, the suggestion might have been understandable, if not acceptable, but from Britain it was a political disaster. The French clearly felt that an EUR 8.5bn cut in the UK rebate was inadequate and Commission President Barroso, Mr Blair's ally on so many other issues, made explicit his opposition to such proposals, having previously called on the UK Presidency to deliver on promises made to the newcomers.⁴ Blair appeared to be isolated, as the French were only too keen to highlight at every opportunity.

Reactions in Central and Eastern Europe were swift and negative, with Poland and Hungary particularly opposed. Poland's new Prime Minister Marcinkiewicz asserted that his country, which was likely to lose about EUR 6bn under the proposals, would find any cuts 'unacceptable' and threatened to veto the financial perspective if necessary: 'We will agree only to a budget that is good for Poland'.⁵ The Hungarian Prime Minister, Ferenc Gyurcsany, was also quick to criticise the British proposals, arguing that meanness on the part of the richer member states could lead to divisions in Europe, a view shared by the Budget Commissioner, Dalia Grybauskaitė, who said that the proposals would 'destroy the principle of solidarity'. One side effect of the British approach was to unite the Central Europeans, with the leaders of the Visegrád Four (V4) sending an open letter to remind Blair of the promises made on

enlargement.⁷ In writing, the leaders sought to exert moral leverage on the UK, stating, 'We are confident that we can count on the commitment of the UK as was the case in the pre-accession period' but behind the scenes they and their compatriots were far more critical of the UK Presidency.⁸

Rather belatedly, in early December, Mr Blair began a series of meetings (in Budapest to see the leaders of the Visegrád Four and in Tallinn with the Baltic leaders) aimed at securing support for his proposals, prior to launching an official proposal. His efforts seemed to bear some fruit as the language from Warsaw in particular became more emollient but the new members could still not accept the UK's proposals, while some of the more federalist members from 'old' Europe stressed that a budget of 1.03 per cent of gross income was too low. In a move reminiscent of the Nice Summit, where he fought for enhanced representation for Romania, Belgian Prime Minister Guy Verhofstadt called the anticipated proposals 'unacceptable'.⁹ When the British proposal was finally made public on 5 December, the French, Poles and Commission all argued likewise. The UK had succeeded in sending one of its apparently natural allies, Poland, into the arms of its natural opponent on such matters, France.

Of course, Europe often creates strange bed-fellows, and the 2007–2013 financial perspective was no exception. Cyprus, already a net contributor, might logically have been expected to side with the UK and the 'one per cent club' on budgetary questions. Yet, ongoing differences regarding the 'Cyprus question' pushed Cyprus towards France, an ally on that question, but with markedly different economic interests. France and Poland came together for entirely negative reasons – the former wanted the UK to slash its rebate even further, while the latter wanted spending levels to be revised back to the levels proposed by Luxembourg in June. In the spirit of the dictum 'my enemy's enemy is my friend', the two made common cause, despite earlier hostilities. Along with the vast majority of countries, they rejected the UK proposals, when they were finally launched on 5 December 2005. Here the Swedish objections summed up the problems as seen by the new members, as well as by those who favour solidarity within the EU, 'it wants to see old members pay for new not vice versa'.¹⁰ Germany also criticised the proposals as offering too little

to the new members, although Frau Merkel did not attack the proposals as vehemently as some, paving the way for her to play a pivotal role in the final negotiations.

In the days following the formal British proposal positions gradually changed and, with the exceptions of Poland and Lithuania, the new members, mindful of the imperative to secure a deal, began to nuance their rhetoric, though it remained unclear until the last moment whether agreement could be reached. The Polish press showed the dangers very explicitly: 'no budget deal would see Blair attacked by 'old' Europe as well as UK opposition forces, while new members would 'turn their back' on their erstwhile ally.'¹¹ At 2.30 on the morning of Saturday 17 December 2005, a financial perspective was agreed but only thanks to actions of Angela Merkel, who acted as a mediator between Mr Blair and M. Chirac and also offered additional funds for Poland. The agreement ensured a slightly larger budget than the UK and other net contributors had really wanted, that Britain would give up more of its rebate than Blair had put on the table (EUR 10.5bn between 2007 and 2013) and fudged the issue of reform of the CAP, offering a review in 2008, but no pledge for fundamental reforms.

The deal could be sold in the UK as Britain shouldering its share of the burden for enlargement, since it was agreed that the UK would not get a rebate on the expenditure for the new member states. The new member states were ultimately pleased with the outcome, which safeguarded the payments they needed and gave them greater flexibility to spend EU monies. Tony Blair could be partially satisfied: the UK Presidency would not go down in history as a disaster. Nevertheless, although the new members were broadly satisfied with the end result, the credit went to Frau Merkel, while the protracted build-up to the Summit had also strengthened France's relations with Poland. Moreover, the summit had shown which states were committed to solidarity with the new members and which were reluctant. The UK was clearly in the reluctant category, its 'generosity' forced out of it. Thus, the key achievement seemed to be to reinforce relations among other member states, with Britain remaining somewhat isolated. Having fallen out with M. Chirac and with Frau Merkel's predecessor, Gerhard Schröder, Mr Blair had succeeded in damaging relations

with the new member states, without even cutting a deal that would win support at home.

Lessons to be learned

In the increasingly fluid context of EU politics, where long-term, stable coalitions seem to have been replaced by ad-hoc coalitions that emerge on specific policies and disappear almost immediately, the UK's 'promiscuous' bilateralism could have been an ideal tool for doing business. Traditional coalitions are weaker than in the past and new ones seem to be transient and issue-specific at best; various groupings such as V4 and the Baltics function on some issues, but they are not as effective as, say, the Benelux and Franco-German axes have traditionally been. The UK's attempts to strengthen its bilateral relations with the new member states could have been an effective strategy. Like the UK, they typically seek allies on a case by case basis, and the UK's pragmatism (some might call it 'utilitarianism') is in many ways matched by that of the new member states, especially those that are tinged with Euroscepticism and seek to maximise their national interest, rather than focus on the grand European picture.

However, the difficulty for the UK is that it has come to be seen as unreliable by new member states. This is not just the result of the budgetary proposals, although they did not help, but rather a longer-term problem that has arisen because the new members feel that the UK is a good friend when it wants something, but cannot be relied upon if another country is looking for support. This unwillingness to reciprocate, coupled with the ill-considered proposals for the budget will make it difficult for the UK to rebuild its relations with the new members, who feel that the UK has let them down. The EU is essentially an iterative game and once countries gain a reputation for being unreliable partners which do not deliver, it becomes much harder for them to form effective alliances in future negotiations. This was already a problem for the UK prior to the negotiations on the financial perspective; the negotiations have simply made it worse.

At present, the new member states continue to believe they can work with the UK on an ad-hoc basis, but the government must be aware that any further loss of trust would make its position extremely difficult. It must begin to offer meaningful support

to those new members and cannot rely on any residual halo effect from having supported their membership in the past. To misquote Emmanuel Kant, 'Never treat a state as a means only, but always as an end in itself' – the UK should take this advice before it is too late. And if Gordon Brown is to replace Blair as Prime Minister, he will need to make real efforts to court colleagues from the new member states. He would be well-advised to start now in the ECOFIN Council.

Notes

¹ 'EU averts crisis as budget talks end in success', EUobserver, available at <http://euobserver.com/19/20582?print=1>

² For a detailed discussion of the new bilateralism, see Julie Smith and Mariana Tsatsas, *The New Bilateralism: the UK's Relations within the EU* (London: RIIA, 2002).

³ My thanks to Manja Klemencic for this insight.

⁴ 'UK's EU budget proposal to urge spending cuts', EUobserver.com, available at <http://euobserver.com/843/20419?print=1>, accessed on 5 January 2006.

⁵ EU Observer Press Review, 28 November 2005, available at <http://euobserver.com/844/20425/?print=1>, accessed on 5 January 2006.

⁶ 'Blair budget plan may cause East-West divide', EUobserver.com, available at <http://euobserver.com/9/20444/?print=1>, accessed on 6 January 2006 and EU Observer Press Review, 02 December 2005, available at <http://euobserver.com/844/20468/?print=1>, accessed on 5 January 2006.

⁷ EU Observer Press Review, 30 November 2005, available at <http://euobserver.com/844/20442/?print=1>, accessed on 5 January 2006.

⁸ 'Blair budget plan may cause East-West divide', EUobserver.com, available at <http://euobserver.com/9/20444/?print=1>, accessed on 6 January 2006.

⁹ EU Observer Press Review 5 December 2005, available at <http://euobserver.com/844/20477/?print=1>, accessed on 5 January 2006.

¹⁰ EU Observer Press Review 6 December 2005, available at <http://euobserver.com/844/20483/?print=1>, accessed on 5 January 2006.

¹¹ EU Observer Press Review 14 December 2005, available at <http://euobserver.com/844/20545/?print=1>, accessed on 5 January 2006.