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The UK Presidency of the European Union 2005

Introduction

On 1st July 2005 the United Kingdom will take over the rotating Presidency of the European Union for the first time since 1998. This Policy Brief will consider the questions likely to dominate the work of the British Presidency, and the progress the British government may hope to make on them.

Although the country holding the Presidency has a certain opportunity to shape the Union's course during its six months in office, its room for independent manoeuvre should not be exaggerated. Unexpected crises, whether external or internal, can easily divert the Presidency's energies from its favoured agenda. Moreover, in order to improve the continuity and coherence of the Union's work, member states now closely co-ordinate the work of successive Presidencies.

In December 2003, for instance, the next six holders of the EU Presidency adopted a Multi-Annual Strategic Programme for the years 2004 to 2006. More specifically, at the end of 2004, Luxembourg and the UK agreed an operational programme for 2005, the year in which they both hold the Presidency. This agreed rhythm of work, together with the challenging political background provoked by the French and Dutch referendums, will certainly influence the British Presidency just as much as the priorities the British government might like, or have liked, to set itself.

Priorities of the UK Presidency

The United Kingdom has spoken publicly of two priorities it will be pursuing during its Presidency, economic reform and the European Union's position in the wider world. Both are traditional preoccupations of this Labour government, the latter reinforced by Britain's Presidency this year of the group of eight leading industrial countries known as the 'G8'.

Economic reform

Regulatory Reform

Central to the British government's economic analysis is the view that European business needs to bear a lesser regulatory burden than it does now if the European Union is to become more internationally competitive. Even before its Presidency began, the British delegation presented to the Competitiveness Council in June its work programme on 'better regulation'. According to the British Chancellor, Gordon Brown, regulatory reform will also be at the heart of the work of the ECOFIN Council during the British Presidency. More specifically, the UK will work towards the adoption by all 25 member states of the 'Six Presidencies' initiative 'Advancing Regulatory Reform in Europe', which was agreed in December 2004 by the countries holding the consecutive presidencies 2004-2006 (Ireland, Netherlands, Luxembourg, UK, Austria, Finland). This initiative is designed to tackle the administrative costs of regulation, to ensure regulation does not hinder competitiveness, to simplify existing regulation and to strengthen the overall European regulatory framework.

The deregulatory programme for the British Presidency is likely to embrace three main elements, agreed with the preceding Luxembourg Presidency. These elements are the Better Regulation Action Plan, the continuing review of existing European regulatory legislation and the greater use of 'impact assessments'.

CONTINUED OVERLEAF

EDITOR's NOTE

This is the thirteenth 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.

We would welcome comments on and reactions to this policy brief. Other Policy Briefs are available on the Federal Trust's website **www.fedtrust.co.uk/policybriefs**

Brendan Donnelly (Director, Federal Trust)

The Better Regulation Action Plan was adopted by the Commission in 2002 and followed in March 2005 by a Communication from the Commission, which was strongly welcomed by the UK government. This latter document proposes to improve European regulation, by closer co-operation between the Commission and national regulators and better communication between European and national regulators and relevant stakeholders.

In parallel with the Action Plan, the British Presidency will continue its work on the review of existing regulatory legislation, which started under the Irish and Dutch Presidencies of 2004. Priority areas have already been identified under these previous Presidencies, but the UK is looking to make further progress in this field. In particular, Chancellor Gordon Brown announced that, starting during the British Presidency, the Lamfalussy Committee on banking, securities and insurance will report annually to the ECOFIN Council on proposals to reduce burdens on business.

A third priority as part of the regulatory reform package will be further promotion of the use of impact assessments in all Council formations, to ensure that the competitiveness effects and the expected administrative burden of proposed measures will be considered before legislation is adopted. The British Presidency will also continue to work towards the establishment of a European methodology for the measurement of administrative burdens imposed by EU legislation.

As part of this drive towards an improved regulatory framework the British Presidency is planning to organise a major two-day conference on Better Regulation in September 2005.

Single Market legislation

Services Directive

An important but controversial piece of legislation on which agreement could not be reached under the Luxembourg Presidency is the proposed 'Services Directive'. This legislation aims to establish a single, EU-wide market in services to complement the existing largely completed single market in manufactured goods. The British government sees the creation of a single market in services for the EU as crucial for improving European economic performance and firmly supports the Commission's proposed Directive. However, there is fierce opposition to some aspects of the proposed Directive, particularly from France.

Indeed, during the recent French referendum, the Services Directive played a prominent role. Although the draft Directive had already been proposed by the Commission under the existing treaties, many of those opposing the Constitutional Treaty claimed to see in this Directive an example of the 'neo-liberal' economic policies now being pursued by the European Commission. Particular fears were expressed that the Directive's 'country of origin principle' would unreasonably expose French workers to cheap Eastern European competition and that the Directive would expose highly-prized French public services to the unregulated free market. France successfully gathered support from several other member states for its opposition to the Commission's draft, leading the European Council to state at its March meeting that the proposed Directive should be drafted in a way which opens the services market with 'respect for the European social model'. Until now, the European Commission has not proposed any specific changes to the Directive.

This primarily (but not exclusively) French hostility to the principles on which the Services Directive is founded may well create a political difficulty for the British Presidency. After its serious political defeat in the referendum on the European Constitution, the French government will probably wish to be seen by its national audience as standing up against any excessively 'Anglo-Saxon' approach to European integration. The Services Directive will be an important theatre of battle between the 'social' and the 'liberal' approaches to Europe's economic future.

Working Time Directive

During the Luxembourg Presidency EU member states failed to reach agreement on the revision of the Working Time Directive and further discussions on this legislation will therefore fall within the UK Presidency. The British government is particularly eager to retain the possibility of the 'individual opt-out' available in the current Directive, which allows workers and their employers to agree contractually on a working period of more than 48 hours a week. In its proposed amendment to the current Directive, the Commission put forward tighter restrictions on the use of this opt-out, while the European Parliament decisively voted for abolishing the individual opt-out entirely. The Council has failed to reach agreement on an amended proposal by the Commission in June, which restricted yet further the conditions for an 'individual opt-out'. Discussions will therefore continue under the UK Presidency. The British government will be hopeful that under its chairmanship it may be able to bring the issue to a conclusion in a way favourable to itself and the other (primarily new) member states which share its views.

Other single market issues

The UK government is eager to promote the implementation of the 1999-2004 Financial Services Action Plan (FSAP) in order to make progress on the integration of the financial services market. The focus will be on the implementation of the remaining issues of this Action Plan, which were identified in the joint Luxembourg-UK Presidency work programme, such as directives on capital adequacy, cross-border mergers and transfer of the registered office. Under the British Presidency the Council will also need to discuss the 'post-FSAP' strategy, and in particular respond to the recently published Commission Green Paper on the EU Financial Services Policy for the coming five years.

On a further aspect of the single market the Chancellor Gordon Brown has announced that the British government is planning to tackle the issue of distortive state aids and will hold a conference at the beginning of its Presidency on this issue.

Europe in the world

Foreign Policy

As President of the European Union, the British Presidency will be responsible for opening accession negotiations with Turkey on 3rd October. The UK government has always been a staunch supporter of Turkish EU membership, but the political background to these negotiations has now become considerably more difficult: in both France and the Netherlands, opposition to Turkish membership of the EU was an important contributory factor in opposition to the European Constitutional Treaty. Although the French President, Mr. Chirac, has been supportive of Turkish EU membership, his prestige has clearly suffered from the 'no' vote in the French referendum. Moreover, the current German government, which has supported Turkish accession to the EU, is almost certain to lose the elections in September. Its likely successor, a Christian Democrat-led administration, has said it will not prevent negotiations taking place with Turkey, but remains hostile to full Turkish membership of the Union. It will require considerable diplomatic finesse for the British government to reconcile its continuing enthusiasm for Turkish membership of the EU with the diminishing enthusiasm of some among its most important European partners.

The start of accession negotiations with Croatia, originally envisaged for March 2005, was postponed by the Luxembourg Presidency, in view of what it saw as insufficient co-operation from the Croatian government with the United Nations War Crimes Tribunal. The review process assessing whether sufficient progress has been made to allow talks to start will continue under the British Presidency, with the next assessment scheduled for July. In the meantime Croatia will maintain 'official candidate' status. Fears have been expressed by some commentators that the general unease about future (or even already accomplished) enlargement of the European Union which shaped the recent referendums in France and the Netherlands could adversely affect the long-term prospects for Croatia to join the Union, with dangerous potential consequences for the stability of the Western Balkans.

Trade and Aid

In the area of trade and aid policies the UK's agenda for its Presidency will be shaped particularly by the preparations for the WTO Ministerial Meeting, which will take place in December 2005 in Hong Kong. One of the main issues for discussion at this meeting will be the European Union's 'sugar regime', which the WTO's judicial body has deemed to be in violation of WTO rules. The reduction of export subsidies on sugar is currently under discussion within the European Union, but so far EU agriculture ministers have failed to agree, with important unresolved issues between them, such as the level of intervention prices, the level of compensation payments and the regime's quota system. The British Presidency will naturally wish to secure agreement before the December meeting, but the challenging nature of this topic does not only arise from this tight deadline. The issue is politically contentious, as it combines the two sensitive issues of agricultural reform in the EU and development policy. An issue in the debate of particular interest to the British and other European governments will be the maintenance of the current preferential status for African, Caribbean and Pacific sugar producers, with whom the EU shares a long history of sugar trading relations.

Another external event which will impact on the agenda for the British Presidency is the review of the United Nations Millennium Declaration, which will take place in September 2005. The joint Luxembourg-UK operational programme for 2005 had stated a commitment to reaffirm and achieve the United Nations Millennium Development Goals for development aid. The Luxembourg Presidency was successful in securing in the earlier months of 2005 a commitment by EU member states to work towards a new collective EU target of spending 0.56 per cent of GNI on overseas development aid by 2010. The British Presidency of the Union will be looking to build on this progress, both within Europe and within the G8. Some success has been achieved within the latter forum, with an agreement to write off the debts of some of the world's poorest countries. Differences clearly remain, however, between the United States and its European partners (particularly Britain) on broader questions of development policy such as the British proposal to create an 'International Finance Facility' to facilitate the flow of funds for development aid.

Environment

The environmental agenda of the British Presidency will reflect the increasingly important part that environmental questions play in international affairs. On such questions, differences of view tend to surface between the United States and its European allies rather than within the European Union.

During the UK Presidency the issue of climate change will play a prominent role, as the Union prepares for the next meeting of the United Nations Framework Convention on Climate Change, due to take place at the end of November. The UK will be in charge of preparing and co-ordinating the EU's position ahead of this meeting. It is likely to focus on medium- and long-term targets and post-2012 strategies, based on the Commission Communication published earlier this year. It will build on the conclusions of the Spring Council in March, where EU member states already discussed a target of reducing emissions by 15-30 per cent by 2020. The British government may also lobby for broader participation in the Kyoto Protocol, possibly using EU summits with China, India and Russia taking place during the UK Presidency to address the issue of climate change.

Within the EU framework the UK is likely to advocate extending the scope of the EU's emission trading scheme to further sectors. The Commission is due to publish its proposals on this issue in the autumn. The British Presidency will also aim to bring to a conclusion discussions on legislation aiming to reduce the emission of fluorinated greenhouse gases, which is currently being debated in the European Parliament.

A further controversial environmental topic for the British Presidency will be the continuation of the Luxembourg Presidency's work towards agreement on the 'REACH' Directive. This Directive on the Registration, Evaluation, and Authorisation of Chemicals is a highly contentious issue, setting on a clear course of confrontation environmentalist and business lobbies. The British government is likely to try to achieve an agreement which will balance the highest possible level of environmental safety with as small as possible an administrative and fiscal burden on business. The 'REACH' Directive is a discussion not just of interest to traditional environmentalists. The 'Lisbon agenda' has as one of its specific goals sustainable economic progress in Europe through the development and application of 'cleaner' and more 'energy-efficient' technologies.

Crisis management

The ratification process of the EU Constitution

As President of the European Union, the United Kingdom will have to deal with the medium-term consequences of the negative votes on the European Constitutional Treaty in the French and Dutch referendums. Although member states will officially discuss their response to these events at the last meeting of the Luxembourg Presidency on 16th and 17th June, it is difficult to conceive of an outcome to that meeting which will not require further work on the ratification procedure (even if only formally to terminate it) under the British Presidency. The British government has indefinitely postponed its own referendum procedure to ratify the Constitutional Treaty, and has made little secret of its belief that the Treaty is now fatally compromised. If after the European Council meeting of 16th and 17th June certain other governments decide to go ahead with their own national referendums on the Treaty, the British Presidency may find itself in the anomalous position of commenting in the name of the Union on the results of referendums which, as a national government, it regards as futile. It might be, however, that the British government would prefer to find itself in this anomalous position rather than have to supervise the discussions of, for instance, a reconvened Convention or a quickly convened Intergovernmental Conference. Although the British government is probably, on balance, glad that the referendums in France and the Netherlands fell out as they did, it will not be eager to provoke any contentious or wide-ranging discussion of the future direction of the European Union, beyond its traditional advocacy of deregulatory economic reform for and through the Union.

Budget

An example for the second kind of restriction posed on the possibility for the holder of a Presidency to determine the agenda may be the discussions on the Financial Perspective 2007-2013. Although the Luxembourg Presidency will at the EU summit on 16th and 17th June try to reach political agreement by all member states, this looks currently unlikely to happen. In this case negotiations on this politically very sensitive issue will have to continue under the UK's Presidency. Since an agreement on the Financial Perspective will still need to be accepted by the European Parliament and requires full adoption by end of 2006 there are concerns that time is running out. The urgency of the issue is reinforced by the fact that EU leaders are aware that failure to reach agreement now would send another signal of crisis and turmoil in the EU to the world, after the two 'no' votes on the EU Constitution.

However, there are concerns that it would be difficult to reach agreement under the British Presidency. One of the biggest stumbling blocks in the budget negotiations is the British 'rebate', which was achieved by Margaret Thatcher in 1984 as compensation for the United Kingdom's large net contribution to the European budget. There is unanimity among the UK's partners that this rebate needs either to disappear or at least be substantially reduced, particularly in the light of Britain's greater relative prosperity within the Union compared with its position twenty years ago. The British government argues in response that the United Kingdom is still a large net contributor to the EU budget, and this imbalance springs primarily from the unsatisfactory workings of the Common Agricultural Policy, the reform of which has been a long-standing British objective. The French President Chirac has been one of the most outspoken critics of the rebate, calling for a British 'gesture of solidarity' to give it up. The newest member states of the Union have been similarly unsympathetic to the British case, since the present method of calculating the British rebate impinges negatively upon their own net contributions to the European budget. Although there have been suggestions that the British government might be willing to move to meet the specific complaints of the newest member states, there seems no immediate prospect of a resolution to this political impasse, which has acquired for the parties involved a symbolic significance beyond its strict economic importance.

There is also a more general conflict on the EU budget between richer and poorer member states. EU enlargement has increased the number of potential beneficiaries of EU cohesion policies, but there is reluctance in several of the 'old' poorer member states, who are currently net recipients from the European budget, to adjust the Union's finances in favour of the new member states. At the same time the six biggest net contributors to the budget– including the UK – wish to limit their payments and have called for a cap of the budget at 1 per cent of GNI. The Commission in contrast had proposed a budget of 1.24 per cent of GNI. Ahead of the discussions at the summit in June the Luxembourg Presidency has tabled a compromise, envisaging a total budget slightly above the 1 per cent mark, freezing the British rebate at current levels and phasing it out in the medium-term. Some member states recently indicated their willingness to compromise on their positions, yet whether EU governments will reach agreement before the start of the UK Presidency remains to be seen (as of 17th June).

If this is not the case, the UK may find itself in an awkward position. Traditionally the country holding the Presidency has taken the role of 'honest broker' during its six month term, trying as much as possible to subordinate its own national interests to the service of the Presidency. The delicacy and the centrality of the dispute concerning the British budget rebate may strain this convention to breaking-point. Purely from the point of view of running the British Presidency, the British government would find it easier to spend its six months leading the European Union if a political agreement on the European budget could be achieved under the Luxembourg Presidency. It could then devote its administrative energies to negotiating and adopting the detailed legislation necessary to implement the agreed Financial Perspective.

Other policy areas

In other areas of the Union's activity, the British Presidency government will continue on the path sketched out by its predecessor. An area of abiding importance for the future development of the Union is that of justice and home affairs. The British Presidency is likely to continue working towards the implementation of the 'Hague Programme', which was adopted under the Dutch Presidency in November 2004 and outlines the EU's objectives for 2005-2010, aiming to create an 'area of freedom, security and justice'. The main focus of this programme is on the issues of immigration and asylum, the fight against organised crime and the fight against terrorism. During the Luxembourg Presidency member states have already adopted an action plan on the 'Hague Programme', based on a Commission Communication setting out specific measures and a timetable.

Justice and home affairs figured largely in the British government's operational programme agreed with the preceding Luxembourg Presidency. Of the initiatives contained in the programme, the Luxembourg Presidency has already achieved agreement on the retention of telecommunications data for the purpose of the fight against crime and terrorism. On other initiatives, such as the European Evidence Warrant, discussions will still need to be continued under the British Presidency.

Conclusion

When the British government decided in April 2004 that it would submit the European Constitutional Treaty to a British referendum, it had in mind a timetable whereby this referendum would be held in the first half of 2006. On this timetable, the Labour Party would have been reelected in a General Election held in the first half of 2005 and would use its Presidency of the European Union to prepare the ground for holding a successful referendum on the Treaty shortly after the Presidency finished. Some, but not all of this timetable has come to pass.

There must be some doubt whether even if the French and Dutch referendums had endorsed the Constitutional Treaty, the British Presidency could in any case have fulfilled the role allocated to it of converting a sceptical British public opinion into supporters of the European Constitution. Even before the referendums in France and the Netherlands, British governmental sources were highly pessimistic about the possibility of winning a British referendum. This pessimism led in its turn to reduced expectations of the political benefits which might accrue even from a successful British Presidency of the European Union. The British government will certainly use its Presidency of the European Union to press its agenda of economic reform. It will also seek to establish a useful synergy between its simultaneous Presidencies of the G8 and the European Union. But it already has two crises, the European budget and the blocked ratification process of the Constitutional Treaty, with which to deal in its Presidency. In an enlarged European Union seeking for more efficient administrative structures, this coming Presidency may well be the last British Presidency of the European Union. But the last British Presidency, if such it is, may well be also the most turbulent.

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