

# THE CONTINENT OR THE OPEN SEA

## Does Britain have a European future?

David Rennie





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## ABOUT THE AUTHOR

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# 1 Introduction

The British are unfit to join the European Common Market because they differ “profoundly” from continental Europeans, Charles de Gaulle declared in 1963. Britain trades, it does not farm, he complained. Britain is “insular, maritime and linked by her exchanges, her markets and her supply routes to the most diverse and often the farthest-flung nations.”

De Gaulle was not wholly wrong about the British – the UK does differ profoundly from much of continental Europe. It has been an awkward member of the European club since it joined.

Where de Gaulle was wrong was about the European Union, and what it would become. After decades of internal modernisation and external shaping by globalisation, today’s EU as a whole is more about trade than farming. Its internal or single market – the most ambitious free-trade area in history – is connected by exchanges and markets and supply routes to every corner of the earth.

That should make Britain a more contented and constructive member of the EU, it might be supposed. Instead, in most respects, Britain’s relationship with the EU is entering a period of uncertainty and instability without precedent.

Most British voters never fell in love with the idea of Europe. They have never believed that their country’s fate as a global actor is irrevocably bound up with the success of the European project.

Britain’s EU membership, even among those keen to remain inside the club, has long resembled an accounting exercise more than an affair of the heart. It involves a weighing of the economic advantages (above all from membership of the single market) with the costs –

whether from lost sovereignty, the burden of contributing to an EU budget popularly assumed to be riddled with corruption, or from European regulations presumed to be more burdensome than anything the free-market minded British would craft, if left to their own devices.

Now that binary calculation – is Britain paying too dearly for the prize of access to European markets? – is being complicated by a new question: is being part of the European economic bloc much of a prize at all?

Formerly, eurosceptic members of parliament (MPs) who wished to stir a crowd might talk of a federal superstate in Brussels trampling upon ancient British freedoms. Now, with doom-laden headlines about the single currency filling the press, the most potent lines of attack assert that the continent of Europe is a sclerotic, greying, slow-growing, over-regulated irrelevance in a world soon to be dominated by China, India and other emerging giants.

<sup>1</sup> Douglas Carswell,  
*'Euroscepticism among  
Conservative MPs',  
BBC Radio 4,  
October 17<sup>th</sup> 2011.*

In the words of one Conservative MP who advocates complete withdrawal from the EU, “Far from joining a prosperous trading bloc, we shackled ourselves to a corpse.”<sup>1</sup>

Most MPs would not go that far. But the debate about Europe is being re-shaped by a sense that Britain urgently needs new sources of economic growth, and that Europe is unlikely to provide them. Worse, European neighbours are increasingly seen as standing in the way of a British recovery.

The cheerful glee with which some in Britain called for the euro to break up may have subsided, to be replaced with a more sober sense of the consequences of a disorderly break-up. The British government says that it supports deeper political and economic union among the countries that share the single currency, seeing no other way of avoiding a collapse of monetary union.



But that does not mean that ministers in London are relaxed about the eurozone forming a more closely integrated core. In particular, there are fears that its members may ‘caucus’ together and push for forms of regulation or protectionist barriers that actively harm British efforts to harness growth in emerging markets worldwide.

In short, the debate has moved beyond familiar arguments about British sovereignty, and onto the territory of Britain’s long-term economic survival.

Few in London, including in the upper reaches of the Conservative-Liberal Democrat coalition, venture to predict with certainty the nature of Britain’s future relationship with the EU. Senior figures talk of waiting to see what happens within the eurozone. Some wonder aloud if the single market itself will survive in its current form.

In Parliament, MPs talk of harnessing a moment of upheaval in Europe to secure a looser relationship with the union. The tea rooms, bars and terraces of Westminster seethe with schemes, as competing groups draw up wish-lists of British demands.

As ever, there is a touch of solipsism to the political debate at Westminster. Britain is hardly alone in fretting about the consequences of eurozone integration for the integrity of the single market. Nor are the British unique in their hopes of increased exports to fast-growing emerging powers. Lots of countries chafe at some of the rules that come with single market membership.

Yet for all that, Britain is different. No other large member is as grumpy. No other big economy is as keen to explore a much looser, trade-based relationship with the single market. No other country worries as much that the rules of single market membership are a brake on economic competitiveness (indeed plenty of others worry that the single market is excessively focussed on competition).

This report attempts a survey of Britain's ambiguous relationship with Europe – how it began, how it evolved, and how eurozone integration may soon strip away that ambiguity, and force the British, possibly against their will, to choose whether to stay inside the project, or leave.

This report begins with a brief history of Britain's membership, and its rather unhappy beginnings. It examines some major successes for British policy in Europe, but concludes that a (somewhat) more British Europe has not made Britain more European.

A second section examines the state of the European debate within Britain's political parties. Related sections sketch a map of British euroscepticism (and its most significant groups and factions), and set out the central features of the eurosceptic agenda.

A brief account follows of the December 2011 European Council, and of David Cameron's decision to veto a proposal to enshrine a fiscal compact for eurozone members within the EU treaties.

The report ends by asking if there are constructive things that the British government could do to improve relations with the rest of the EU. This includes a discussion of the real possibility that one or more of the main political parties will offer a referendum on EU membership in its next general election manifesto. And because this author believes that, on balance, Britain should seek to stay within the club, the report offers tentative recommendations for changes that might improve the relationship. But he is also under no illusion that such adjustments will inevitably work. Britain is not about to walk out of the club, but it could yet fall out.

## 2 Britain: A latecomer to the European project

Every country has its own relationship with the EU. France and Germany chose Europe as their vehicle for reconciliation and – in the case of France – as a lever for continuing to exercise global clout. Other members have long sought better governance from Brussels technocrats than they would receive from despised local politicians. Some countries were too small to fancy going it alone, whether as trading entities, diplomatic powers or as sovereign states overshadowed by large and occasionally menacing neighbours (meaning Russia, notably, for many ex-communist countries). Young democracies saw Europe as a guarantor of modernity and openness and as a bulwark against a slide back into tyranny.

Britain is almost alone among the 27 members in remembering the Second World War with unqualified pride (Malta is another). It is alone in seeing its alliance with America as an alternative lever for preserving global influence. Britain never chose Europe as its team. Europe's success is not seen as a prerequisite for British influence around the globe. Europe's failure would be a tactical challenge, but would not be felt as a profound humiliation.

British supporters of deep political union in Europe – a dwindling group who could probably fit inside a single, decent-sized concert hall – sometimes point to the 1946 Zurich speech in which Sir Winston Churchill urged the formation of a United States of Europe as evidence that European federalism has authentically British roots. In reality, Churchill's enthusiasm for European integration did not extend to wanting Britain to be a part of it. From the outset, he made clear that Britain and its empire would be merely friendly onlookers and sponsors of the European project.

Indeed in 1944, nearly two decades before President De Gaulle accused Britain of clinging to an essentially “maritime” worldview, Churchill beat him to it, telling the then General De Gaulle on the eve of the Normandy landings: “Each time we must choose between Europe and the open sea, we shall always choose the open sea.”

In essence, the view of the British war leader was that closer political integration among a core of European states was a necessity, but that Britain should have no part of it.

As Peter Mandelson, a former EU trade commissioner and British cabinet minister, noted in a lecture to Oxford University on May 4<sup>th</sup> 2012, that early ambivalence was cross-party. His own grandfather, Herbert Morrison, deputy prime minister in the Labour government of Clement Atlee, decided against British entry to the European Coal and Steel Community in 1950 on the grounds that “the Durham miners wouldn’t wear it”.

Yet over time, as continental economies grew and the protected markets of Britain and its former empire stagnated, new generations of British leaders began to fear being left outside a more united Europe. That led a series of prime ministers (most of whom had seen the horrors of European war at first hand) to seek a seat for Britain at the European club table.

Yet British accession was accompanied by sighs of resignation. In 1975, the year of Britain’s only referendum on Europe, British voters looked at themselves and saw a sick man of Europe. After decades of post-war decline and a disastrous detour into state planning and corporatism, Britain felt less dynamic than its rivals on the European continent. In that spirit, and without any enthusiasm for ever closer union, the British signed up to European economic co-operation.

In the decades after accession, the dominant tension in EU-UK relations was a tug between two forces, both of which made Britain an outlier in the club. Successive British governments have long

displayed unusual enthusiasm for economic openness – whether backing the single market project, cheerleading for enlargement of the union, or tolerating foreign ownership of even iconic British assets, from Mini motor cars to railway lines or London’s fleets of red double-decker buses. In contrast with that economic internationalism, the British political classes, backed by the media and public opinion, have long displayed unusual hostility to foreign encroachments on judicial, parliamentary or governmental sovereignty.

In part this is down to a complex blend of pragmatism and exceptionalism. On the one hand, it is widely accepted that the British are best-off letting Germans or Japanese run their car factories (a pragmatic view reinforced by memories of the actual cars produced by the British car industry in the dying days of the 1970s and 1980s). On the other, it is a commonplace of parliamentary debate or newspaper editorial opinion that the British rule of law needs no improving from outsiders. In day-to-day dealings with the EU, that sense of exceptionalism is buttressed by a conviction that Britain joined, late, a club in which power and money were already being divided up on other countries’ terms (and later, by the widespread sense that British voters had been tricked into an ever closer union on false pretences of joining a purely economic club).

## **The great British budget disaster**

There was much to those suspicions of a club constructed on others’ terms. The structures of the EU budget – and in particular, mechanisms earmarking large sums for subsidising small, inefficient farms of the sort common in France but rarer in Britain – may or may not have been a plot to make Britain pay a lot when and if she finally joined. But that is certainly what it felt like.

Until the 1995 enlargement of the union, Britain and Germany were the only two large countries that always paid a large net contribution to the EU budget, year in year out. In Germany this could be presented to voters, more or less explicitly, as just

reparations for wartime wickedness. But in Britain, from the Treasury to Margaret Thatcher's Downing Street, the notion that Europe cost a lot of money had a big influence on political thinking, more especially when, in the early 1980s, it looked as if Britain might soon be the biggest net contributor of all.

Gradually, the idea set in stone that when other nations spoke of their selfless desire for 'more Europe', this concealed thoroughly selfish interests, starting with a grab for the money of those, like Britain, who could be forced to pay up.

In the latter days of Thatcher's premiership, growing hostility to the European project was fuelled, in general terms, by the determination of continental partners to pursue monetary union and deeper integration. It was stoked in particular by the realisation that Jacques Delors, the French socialist turned president of the European Commission, was determined to use European regulation to level up employment and social rights across EU labour markets – even as the Thatcher government was ending a historic and bloody fight to diminish the power of Britain's over-mighty trade unions. The spectacle of a gathering of British trade union bosses singing "Frère Jacques" to the visiting Commission president was enough to convince the Conservative leader that her painful efforts to liberalise Britain were being menaced by a European threat of socialism by the back door.

### **Mrs Thatcher's handbag: A weapon wielded with prudence**

Yet well into her time as prime minister, Mrs Thatcher (as she was then) saw the merits in pragmatic engagement with other influential players. It was Thatcher who urged Conservative members of the European Parliament to join the umbrella party for centre-right and Christian Democratic parties in that assembly, the European People's Party (EPP) – even though the EPP contained many politicians of an openly federalist bent. Edward McMillan Scott, a former leader of the Tories in the European Parliament (who more

recently defected to the Liberal Democrats in protest at orders from today's party leaders to leave the EPP) recalls being urged by Thatcher to keep her Conservative euro-troops "where the Germans are" – that is, by sticking close to the mighty German Christian Democratic Union (CDU).

Though it was seen as startlingly eurosceptic at the time, Thatcher's 1988 speech on Europe to the College of Europe in Bruges – with its declaration that "We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level, with a European super-state exercising a new dominance from Brussels" – was also an affirmation of Britain's interest in an effective, powerful European alliance. In her own words: "on many great issues the countries of Europe should try to speak with a single voice. I want to see us work more closely on the things we can do better together than alone. Europe is stronger when we do so, whether it be in trade, in defence, or in our relations with the rest of the world."

John Major, Thatcher's Conservative successor, sought a bargain with Europe: to offer British support for deeper integration in return for opt-outs, notably the British right to refuse to join European monetary union. In 1992, he struck a deal for Conservative MEPs to sit in a formal alliance with the EPP group in the European Parliament.

Yet that bargain was fragile. A deeply damaging episode saw Major painstakingly negotiate a British opt-out from the Social Chapter, a set of social and employment rights in the Maastricht treaty, only to see social and employment rights imposed on Britain by the European Commission by a different legal route, this time as 'health and safety' measures that could be approved by a majority vote against British wishes. It is impossible to overstate how a whole generation of British officials and diplomats were marked by the Social Chapter ambush, a former UK ambassador to the EU says: it was felt as a devastating act of bad faith.

## The emergence of a more 'Anglo-Saxon' Europe

Yet even amidst such unhappiness, successive British governments achieved two big, mutually reinforcing wins: first, the deepening of the single market, and later, the enlargement of the EU to take in the countries of the former communist bloc. Both developments nudged the Union in the direction of Anglo-Saxon openness, free trade and inter-governmentalism. Both pushed the project away from rival visions of the EU as a deeply integrated, statist United States of Europe.

There was nothing accidental about these victories. Margaret Thatcher's conscious support was integral to the creation of the single market, with the then prime minister accepting a limited move to majority voting as a necessary price to pay to dismantle national barriers to trade.

The Union was always divided by different understandings of competition. For the British and other free-market minded allies, competition is an intrinsic good. For a camp that includes the French, many southern members and European trade unions, competition is at best a necessary evil. For the British and their allies, competition's opposite is a monopoly, or protectionist stagnation. For the second camp, competition's opposite is solidarity, and a secure, regulated European social model.

For members of that second camp, market-opening was a threat that had to be offset by large transfers of structural funds (that is, aid to pay for infrastructure and economic modernisation) from the richer, more competitive members to weaker and poorer states. Harmonisation of national standards towards an EU norm amounted to a second grand bargain. Harmonisation lowered barriers to cross-barrier trade, but also guaranteed that EU opening would not amount to a race to the bottom on social, environmental or other standards.

Enlargement, meanwhile, was a threefold victory for Britain. It shored up the British vision of Europe as a market of nation-states.



It successfully widened the union so that it could not be deepened into the federal union feared by successive British governments (not least because after years of Soviet occupation, several of the newcomers shared British wariness about calls to pool sovereignty). Finally, it recruited hungry, low-cost new members with an interest in competition: in effect bringing globalisation within the borders of the single market.



# 3 Britain's political parties and Europe

Fast-forward to 2012, and a paradox becomes apparent. Europe has become more 'Anglo-Saxon' (up to a point). But this does not seem to have helped Britain become more 'European'. Indeed, the central pillars of a more British Europe – the single market and EU enlargement – are in danger of being repudiated by the very British parties that originally advocated them.

## **The Conservative Party: Misremembering Thatcherism**

David Cameron, the prime minister, is leader of the most eurosceptic Conservative Party ever. Even Mrs, later Lady, Thatcher had to reckon with a clutch of convinced pro-Europeans in her cabinet, whose resignation would have greatly damaged her. Today, Conservative MPs willing to defend the European status quo – as opposed to those who want a looser relationship – can be counted on one hand. One, the justice secretary Kenneth Clarke, still sits in the cabinet. His resignation over a European question would not damage Cameron.

By instinct, Cameron is said to find the horse-trading and navel-gazing of European politics exasperating. If he does not trumpet his dislike of Brussels, it is mostly a reflection of his belief that 'banging on about Europe' is a vote loser with the broad middle of the electorate, who are thereby reminded of the in-fighting and divisions of the Major years and the often intemperate tone of the European debate under Major's successors as Tory leader, William Hague, Iain Duncan Smith and Michael Howard.

Hague, now serving as foreign secretary in Cameron's coalition government, was elected Tory leader while still in his thirties. He

fought (and badly lost) the 2001 election against Tony Blair wrapped in the national flag, vowing to “save the pound”, to rein in European meddling and to tighten British border controls against asylum seekers and illegal immigrants.

Howard’s 2005 election platform was less explicitly anti-European in tone, instead favouring more generalised appeals to voters angry about immigration (and thus by extension the EU’s role in weakening British border controls).

The party’s triple defeats, in 1997, 2001 and 2005, led to Cameron’s selection as Conservative leader on an explicit pledge to modernise the party and ‘detoxify’ the Tory brand with centrist voters. Cameron’s allies argued that the Conservatives were seen as the ‘nasty party’ of British politics. They pointed to opinion polls showing that even when individual Tory policies chimed with the public’s preferences, once they were revealed as Conservative ideas, those same policies were rejected.

Downplaying Europe as an issue, Cameron talked up his environmental credentials, inviting the press to watch him ride a husky-sledge in the Arctic to inspect global warming for himself. He called for the British to show more understanding for troubled young tearaways, and signalled support for gay marriage. Yet, ironically, it was during that same contest for the leadership that Cameron made a fateful promise to pull Tory MEPs out of the EPP grouping – a promise made at a specific moment when he badly needed to woo right-wing colleagues.

The EPP withdrawal is hard to defend if judged purely in terms of British national interests. Turning his back on Thatcher’s perception that it pays to be “where the Germans are”, Cameron is now absent when centre-right party leaders from the largest countries in Europe gather for EPP summits in advance of European Councils, caucusing and taking big decisions together, notably on appointments to top European jobs. Some of Cameron’s closest ideological allies in

Europe, such as Fredrik Reinfeldt, the Swedish prime minister, remain in the EPP.

Instead, Cameron's Conservatives now sit in the European Conservatives and Reformists (ECR) Group, an awkward, British-dominated alliance with eurosceptics, nationalists and social conservatives from east and central Europe, Belgium and the Netherlands. The group includes only one other party that is in power at the national level (the Czech Civil Democratic Party), and several of its member parties boast just one MEP apiece.

Yet to an extent, ECR membership is as much a symptom as a cause of British isolation from the European mainstream. The EPP group is dominated, in the European Parliament at least, by politicians whose corporatist and federalist views are utterly out of tune with even a modernised Conservative Party.

In Brussels, it is too often assumed that British euroscepticism is of a piece with continental varieties of scepticism about the EU – that is, that it is all about angry nationalism. This is too glib. To understand Mr Cameron's dilemma, it is worth imagining the sort of centrist voter he set out to woo when 'detoxifying' the Conservative brand.

Imagine a middle-aged professional, who works for a multinational company. He has eastern European colleagues whose work ethic he admires (indeed he has fond memories of attending a colleague's wedding in Poland). He supports free trade. He worries about climate change, although not quite enough to stop driving his beloved car. His brother-in-law, a teacher, is gay and would like to marry his partner. Our specimen voter, deep down, is a bit queasy about such a wedding. But he is not religious, and he concedes that his brother-in-law is a good uncle, and by all accounts a good teacher. Culturally, our voter loves long-haul holidays and, at home, is proud of his exotic taste in food.

In almost any other EU country, such a liberal, centrist, metropolitan type would fit into the most pro-European voter blocs in his electorate. In Britain, it is perfectly possible for such a voter to be a deep-dyed eurosceptic. That asymmetry explains the oddness of the ECR grouping. To find partners on the continent who matched them on the defining issue of hostility to European integration, Cameron's Conservatives had to head deep into the continent's angry, nationalist right, straying far from the rest of their modernising agenda.

Today's Conservative leaders have a further problem to manage. In the British Parliament, the rank-and-file of the Conservative Party increasingly define themselves by their hostility to Europe.

Twenty years ago, a Tory euro-rebellion in the House of Commons was not an event for faint hearts. Michael Spicer, a serial rebel in the days when Major's government nearly tore itself apart over Europe, recently published his diaries of that time. Lord Spicer, as he now is, notes that: "It is hard to describe the enmity which built

<sup>2</sup> *Lord Spicer, 'I met with Portillo...he'll be a difficult PM', Daily Telegraph, March 25<sup>th</sup> 2012.* between Conservative MP and Conservative MP. Eurosceptics would not sit at the same table as europhiles and vice versa. In the voting lobbies it was not unknown for one Tory MP to spit at another."<sup>2</sup>

If today's Conservative splits are more genteel, one simple reason is that fewer than half a dozen Conservative MPs vocally support deeper EU integration, and most of them are nearing retirement. Some younger MPs may express exasperation with colleagues demanding the return of screeds of powers from Brussels, but only quietly and in private. Conservative constituency associations are deeply eurosceptic, making it hard to be selected as a candidate with anything other than uncompromising views. In addition, upcoming boundary changes will leave all MPs needing the approval of their local party associations to stand for election again, which will pile further pressure on moderates and pragmatists.

A central plank of modern Tory euroscepticism is the role that Europe played in Thatcher's loss of office. A defining heroine to today's Conservative MPs, Thatcher was in part forced from office by colleagues dismayed by her growing hostility to Europe in the latter days of her premiership. In retirement she concluded that she had been betrayed over the creation of the single market and that British sovereignty had been eroded too far. Market access would have been secured more safely by the use of global free trade rules, she declared.

That inheritance has pushed today's Conservatives into a paradoxical relationship with the single market. With free trade, open markets and undistorted competition all key to the post-Thatcherite Tory identity, the majority of today's Conservative MPs regard the internal market as the most obvious net positive of EU membership. But many of the same MPs routinely denounce supra-national regulation by unelected Brussels bureaucrats at the European Commission as an evil. They are unwilling to accept the blunt political reality: that without supra-national regulators to police competition policy, state aid payments and non-tariff barriers to trade, the single market would not last long.

Cameron is perfectly capable of setting out a robust defence of the single market when needed. On the fateful day of the October 2011 rebellion in the House of Commons (discussed below), he told MPs:

“A lot of companies come and invest in Britain not just because of our economic strengths, our flexible labour markets and all the rest of it, but because of access to the world's biggest single market, which is important for investment into Britain by American, Japanese and other firms, creating the jobs and wealth that we need.”<sup>3</sup>

*<sup>3</sup> Hansard, 'House of Commons debates', October 24<sup>th</sup> 2011.*

But a growing number of MPs take a more sceptical view, and explicitly reject the grand bargains underpinning the creation of the single market.

For instance, Andrea Leadsom, a backbench Conservative MP, has suggested that, after national elections, incoming governments should be free to ignore existing EU laws that they dislike, saying:

“The EU still holds to directives and measures signed 40 years ago. It is ludicrous to say you can change national governments every five years but that you can never change anything that comes out of Europe. You can go from a right-

<sup>4</sup> *Martyn Brown, ‘It’s time to reclaim powers, urges new iron lady’, Daily Express, January 6<sup>th</sup> 2012.*

wing government to a left-wing government but you cannot change anything from the EU, even though it accounts for about half of the laws of the land.”<sup>4</sup>

These comments were reported approvingly in the tabloid press, with headlines dubbing the MP a new Iron Lady. Yet if Leadsom’s suggestion were ever followed, it is hard to see the single market surviving the year. Once each political party, in each of the union’s member countries, was free to make electoral promises to unpick bits of the European grand bargain that no longer appealed, the lumpy, imperfect knitting of European legislation would unravel at remarkable speed.

Yet Leadsom is not an extremist in Conservative terms, saying that she favours continued membership. An investment manager before entering Parliament, she talks of Britain enjoying green, amber and red colour coded choices when it comes to changing relations with Europe. Green reforms are those which Britain can implement unilaterally. Amber ideas would require negotiations with other countries, but include some “pretty low-hanging fruit”, she told the *Guardian* newspaper in April 2012. Red options are those requiring treaty change, and if Britain were simply to demand every red option on its wish-list, it would effectively be leaving the EU. Instead, Leadsom calls for a combination of green, amber and red changes that would transform the relationship without triggering a departure from the club.



George Eustice MP, a prominent eurosceptic from the 2010 Tory intake, was a press secretary to David Cameron when the Conservatives were still in opposition. In his assessment, about 30 of the 306 MPs on the Conservative benches of the House of Commons would leave the EU immediately. About another 150, Eustice among them, take the view that Britain's relationship with the EU must be substantially renegotiated, "and if that's not possible, then membership is not sustainable."

Just over 100 or so MPs, Eustice suggests, are "broadly sceptical but wouldn't die in a ditch over it. They want powers back but would not want to leave." Overt pro-Europeans "can be counted on one hand," he says.

Many Conservatives do not trust their party leadership on Europe. Many Tory MPs are – wrongly – dismissive of the EU Act that was passed in 2011, refusing to believe its promise of a referendum on any new EU treaty that passes competences from Westminster to Brussels.

In fact, a glance at the small print of the EU Act suggests it is designed to do more or less what it says. As drafted, it leaves only very limited wriggle-room for future ministers to avoid a referendum in the event of a new EU treaty. That should not be a surprise: senior Conservative ministers such as the foreign secretary, William Hague, are convinced that the British public will not tolerate any further transfers of power to Europe.

The EU Act is in effect a British Veto Act. It is almost impossible to see a referendum on a new EU treaty being won in Britain (as opposed to an in-out referendum on membership, which might be winnable). To a degree that few MPs seem to appreciate, the effect is to bolt Britain to the EU's legal status quo, at a time when the tectonic plates of the project are in motion.

### *The October rebellion*

In October 2011, a day after a European Council in Brussels, 81

Tory MPs defied instructions from their party leadership to back a non-binding backbench motion calling for British voters to be offered a referendum on leaving the EU, staying or renegotiating the terms of membership. It was the largest revolt of Cameron's time as leader and the largest ever rebellion over Europe against a Conservative prime minister (though the government won because Labour abstained). The rebellion left deep scars on Downing Street and government whips. In a bid to placate the October rebels moments before the vote, Cameron came close to endorsing their strategy of taking the eurozone crisis hostage. Suggesting that he differed from them merely on details of timing and tactics, he told MPs:

“Fundamental questions are being asked about the future of the eurozone and, therefore, the shape of the EU itself. Opportunities to advance our national interest are clearly becoming apparent. We should focus on how to make the most of this, rather than pursuing a parliamentary process for a multiple-choice referendum. As yesterday's Council conclusions made clear, changes to the EU treaties need the agreement of all 27 member-states. Every country can wield a veto until its needs are met. I share the yearning for fundamental reform and am determined to deliver it.

To those who support today's motion but do not actually want to leave the EU, I say this: I respect your views. We disagree not about ends, but about means. I support your aims. Like you, I want to see fundamental reform. Like you, I want to re-fashion our membership of the EU so that it

<sup>5</sup> *Hansard, 'House of Commons debates', October 24<sup>th</sup> 2011.*

better serves our nation's interests. The time for reform is coming. That is the prize. Let us not be distracted from seizing it.”<sup>5</sup>

However, political momentum on the Conservative benches does not belong to those who would like to trigger an immediate referendum crisis and move towards the exit. The October 2011 rebellion was

swelled by backbench anger at what is seen as Cameron's rather aloof and high-handed style of party management.

## The Labour Party: Misremembering Blairism

If Tory enthusiasm for Margaret Thatcher's great European creation – the single market – is cooling, the opposition Labour Party has also moved sharply away from the open-borders stance taken by its former leader, Tony Blair. Nowhere is this clearer than in relation to that other big British 'win': the EU's enlargement.

Anxiety about the 'squeezed middle' of mid- and low-paid salaried workers, seen as victims of globalisation, has led to some senior Labour figures publicly questioning a key Blair-era policy: the opening of British labour markets to workers from the eight ex-Communist nations who joined the union in 2004. Some Labour MPs, including the shadow chancellor of the exchequer, Ed Balls, have gone further and called for Britain to tighten the rules governing the free movement of workers, a founding principle of the club.<sup>6</sup>

<sup>6</sup> Ed Balls, 'We were wrong to allow so many eastern Europeans into Britain', *The Guardian*, June 6<sup>th</sup> 2010.

Such rhetoric is popular. A big development in British public opinion about the EU is the identification of 'Europe' with immigration. On British doorsteps, MPs of all parties report voter complaints about eastern Europeans, who are accused of taking jobs, school places and housing – though such generalised grumbling often co-exists with admissions that individual eastern European colleagues are hard-working and law-abiding.

The Labour leader, Ed Miliband, whose own grandparents were Polish refugees, told the BBC in April 2011 that the previous government "got it wrong" on immigration, and "clearly underestimated the number of people coming in from Poland". Labour, he suggested, had no choice but to address voters' fears that incomers were putting pressure on wages and housing – though

<sup>7</sup> Nick Robinson, 'Ed Miliband: We got it wrong on immigration', BBC, April 19<sup>th</sup> 2011.

“some of that is real and some of it isn't,” as he delicately put it.<sup>7</sup>

If politicians sound queasy when bashing eastern European migration, it is with good reason. It is true that British authorities bungled early predictions that tens of thousands of eastern Europeans might arrive after Britain opened its labour markets (while all other large economies maintained transitional controls involving work permits and quotas for selected trades). In the event, an estimated 1.5 million eastern migrants headed to Britain (though perhaps half later returned home). All transitional controls on a new member's citizens must lapse seven years after that country joins the club, so the last restrictions on workers from the 2004 Big Bang enlargement have now ended. But many western European countries, including Britain this time, imposed a whole new round of seven year restrictions on Bulgaria and Romania, when those two countries joined the EU in 2007.

But against that, studies have found only a limited impact on wages from migration, mostly affecting the lowest paid: the National Institute of Economic and Social Research estimates that the 2004 influx to Britain depressed real wages over the long run by 0.36 per cent.

Most important, labour curbs within the EU were always something of a political fantasy. All EU countries granted Poland and the other newcomers in 2004 free rights of entry and residence (but not the right to work). Once poorer neighbours enjoy free movement, the most likely consequence of closing legal routes to work is an expansion of the black market for casual, untaxed labour. This happened in Germany, home to an estimated 400,000 Poles despite tough restrictions. Moreover, the self-employed are excluded from EU transitional controls: “self-employed” easterners in Germany duly doubled in number after 2004.

Such futile door-slamming after the event brings costs. Germany tried offering incentives for graduates from the east to enter its

labour market after 2004, but such incentives could not counter its image as a closed country – a reputation that put off precisely the younger, better-educated migrants that most governments want. In contrast, Britain became known for openness, attracting a much bigger share of young, skilled migrants and graduates than Germany did: a British win, as this author argued in *The Economist* in May 2011.<sup>8</sup> Small wonder that instinctive internationalists such as Ed Miliband sound so awkward when addressing anti-immigrant sentiments among voters: they know that they are talking economic nonsense.

To be fair, the Conservatives, with their belief in free trade and flexible labour markets, have tied themselves up in similar knots about EU immigration. Ministers have denounced Mr Blair's market-opening in 2004 as a "huge mistake" and called on employers to hire British applicants when possible, while praising the economic contributions of individual migrants.<sup>9</sup> The circle has to date been squared by ministers charging that EU immigration under successive Labour governments acted as a sticking plaster covering up deep structural flaws within the British economy, without ever suggesting that the freedom of movement of workers should be reviewed as a fundamental principle.<sup>10</sup>

Yet as the opposition Labour Party tries to capitalise on deepening public disenchantment with the Conservative-led coalition government, the temptation pander to eurosceptic instincts on the left will only increase.

As noted earlier, some leading members of the opposition Labour Party have flirted with denouncing the EU principle that workers should be allowed to circulate freely within the single market. The trade unions who provide the bulk of the party's funding were far from united in their embrace of the party's Blair-era enthusiasm for open

<sup>8</sup> *The Economist*, 'Britain's got (foreign) talent', May 5<sup>th</sup> 2011.

<sup>9</sup> BBC, 'Duncan Smith urges firms to hire unemployed Britons', July 1<sup>st</sup> 2011.

<sup>10</sup> Chris Grayling, 'Minister's speeches', Department of Work and Pensions, November 17<sup>th</sup> 2010.

borders and free trade. Some on the left would also like to see the party adopt more hostile positions towards a European project that they see as enforcing a damaging doctrine of spending cuts and austerity.

Shadow Chancellor Balls (a former right-hand man to Gordon Brown) takes vocal pride in his role in preventing Britain from joining the single currency.<sup>11</sup>

<sup>11</sup> BBC, 'MPs approve £9bn increase in IMF lending capacity', July 12<sup>th</sup> 2011.

In June 2011, in what looked a lot like an act of political opportunism, Labour MPs joined 32 Tory euro-rebels in a vote against increasing Britain's contributions to the International Monetary Fund – even though the increase in question had been initially proposed by the previous Labour prime minister, Gordon Brown. Labour leaders argued in June 2011 that they had been making a principled stand on behalf of the IMF, whose proper mission was to prop up countries with funding crises, not rescue the single currency.

More recently, Balls has declined to say whether Labour would support the government in the event of a further House of Commons vote on IMF funding, remarking in February 2012 that Labour needed “to see the colour of the eurozone's money before

<sup>12</sup> Ed Balls, 'George Osborne is finally agreeing with the principled position Labour took on IMF funding last summer', Shadow chancellor blog, February 26<sup>th</sup> 2012.

additional funding from Britain to the IMF can be agreed”, and arguing that the IMF should not be plugging gaps in the eurozone's bail-out fund, when that was more properly the job of the European Central Bank.<sup>12</sup> Tory MPs have told sympathetic Conservative-leaning newspapers that – in the event of Labour abstaining or opposing the government in a Commons vote on increased IMF funding – the government would face a real risk of defeat.<sup>13</sup>

<sup>13</sup> Robert Watts, 'David Cameron under fire from MPs over Europe', Daily Telegraph, March 31<sup>st</sup> 2012.

Ed Miliband, who defeated Balls to become Labour leader in autumn 2010, has also seized the chance to attack David Cameron

for his handling of relations with the EU. Among other things, he has accused him of bungling the December 8<sup>th</sup>-9<sup>th</sup> summit (of which more later).

In January 2012, employing a surprisingly eurosceptic turn of phrase, Miliband told a television interviewer that Cameron had sold Britain “down the river” and failed to secure protections for the country when eurozone nations agreed the fiscal pact among themselves.<sup>14</sup>

<sup>14</sup> *Christopher Hope, 'Ed Miliband: David Cameron has sold Britain down the river in Europe', Daily Telegraph, January 31<sup>st</sup> 2012.*

However, later the same day, speaking in the House of Commons, Miliband used milder language to criticise Cameron for leaving Britain with less influence in the EU “than we have had for a generation”.<sup>15</sup>

<sup>15</sup> *Hansard, 'House of Commons debates, January 31<sup>st</sup> 2012.*

Senior Labour officials briefed that their leader had deliberately avoided repeating language that could be construed as anti-European. Miliband was and would remain a strong supporter of European co-operation, they insisted, and would not be tempted to stray from that position in pursuit of tactical victories over the Conservatives.

There is no reason to doubt the sincerity of such aides. The Labour leader is a longstanding pro-European. But others in his party are less convinced, urging Miliband to use Europe to stir up dissent within the Conservative Party, and between the Tories and their Liberal Democrat coalition partners.

A senior Labour source reports that some in the party wanted the leadership to be more opportunistic in October 2011, and to ally themselves with Tory eurosceptics in the division lobbies, in the vote that saw 81 Tory MPs rebel over whether to hold a referendum on EU membership. Yet the Labour source argues that this could have been counter-productive. Had Tory rebels known that Labour MPs were going to be whipped to vote against the government, the

source says, then many of the 81 would have abstained or simply absented themselves from Parliament. By standing back from an internal Tory squabble and abstaining, “we probably maximised the Tory rebellion,” says the source.

A final twist of political arithmetic makes it hard to predict how the Labour Party will handle Europe between now and the next general election. Though Miliband has high hopes of securing an outright majority after the next election, there are still large parts of the country, notably in south-east and south-west England where Labour holds almost no seats. It cannot be ruled out that Labour will find itself needing to form a coalition with the Liberal Democrats.

### **The Liberal Democrats: A very British political party**

The Conservatives’ junior coalition partners, the Liberal Democrats, are the most pro-European national party in British politics. The importance of that fact can be exaggerated.

Nick Clegg, the party’s leader and deputy prime minister, acts more as an emergency brake on government EU policy than as a hand on the steering wheel. Behind the scenes, he speaks out in favour of engagement over confrontation.

Clegg enjoys and cultivates links with other European political leaders, putting his fluent Dutch, French and Spanish to use. Speaking in The Hague in March 2012, Clegg put down a marker that his party opposed Tory talk of withdrawal from European co-operation on criminal and justice police (of which more later). He praised the European Arrest Warrant for helping to serve cross-border justice on serious criminals, from terrorists to serial killers

<sup>16</sup> Nick Clegg, ‘Deputy prime minister’s speech in The Hague’, Cabinet Office, March 7<sup>th</sup> 2012.

and armed robbers. But he conceded that the warrant was being used in trivial cases too, and needed improvements so that “citizens can have confidence in the system.”<sup>16</sup>



Clegg, a former member of the European Parliament, is no starry-eyed euro-federalist. He is on the free-market liberal edge of his party, a broad church that stretches from social democracy to something not a million miles from centrist Toryism.

In his time as a member of the European Parliament, Clegg stood out for his impatience with his colleagues' incessant calls for "more Europe". He even wrote a Centre for European Reform essay saying that the EU should do less, but better.<sup>17</sup> An eye-witness who watched Clegg at a multinational dinner for MEPs in Strasbourg recalls the intakes of breath when he impatiently demanded to know what business the EU had trying to regulate national working times, for example.

<sup>17</sup> Nick Clegg, 'Doing less to do more: A new focus for the EU', CER essay, September 2000.

Even Liberal Democrat ministers to the left of Clegg, like the business secretary, Vince Cable, can sound thoroughly British when provoked by unusually illiberal European decisions. In May 2012, Cable wrote an article in the *Daily Telegraph* sharply criticising the "heavy-handed, one-size-fits-all approach" taken by the EU to such pieces of legislation as the "wasteful" Working Time Directive (WTD), which sets a 48-hour limit to the average working week. This originally well-intentioned directive, Mr Cable wrote, now:

"...incorporates the idea that is most clearly expressed in the French 35-hour week: that work should be compulsorily restricted and shared out, whether or not it suits the needs of individual workers or firms. Not only is this dreadful economics, it is also deeply illiberal. It suppresses the right of workers to choose how long they work to earn overtime, to help their company safeguard employment by working flexibly, or simply because they enjoy and take pride in what they do."

Despite constant pressure from Brussels, Britain had successfully fought to protect the right of individual British workers to opt out

of the WTD. Noting that Britain had allies among a 15-nation “Like Minded Group” of mostly Nordic and northern EU members opposed to excessive regulation, Mr Cable vowed to continue that fight. He also pledged to ensure that Whitehall officials sought where possible to “roll back” and blunt the impact of “damaging” rulings by the European Court of Justice, including one recent ruling that employees should be given extra holiday time as

<sup>18</sup> *Vince Cable, ‘The tide is turning against EU bureaucracy’, Daily Telegraph, May 8<sup>th</sup> 2012.*

compensation, if they fall ill or are injured during their planned vacations – a ruling that the business secretary predicted would “simply strangle small businesses”.<sup>18</sup>

Some of the current crop of 57 Liberal Democrat members of the House of Commons, notably those with seats in the south west of England, must contend with rather eurosceptic farmers and fishermen, and are duly critical of Brussels. A senior Liberal Democrat explains that among the party faithful, a belief in Europe has as much to do with cultural identity as ideology. Lots of Liberal Democrats define themselves in opposition to the big two parties, he says: one of the things that they are not is nationalist Tories, and so that means they are pro-European.

Most crudely of all, as the Liberal Democrat part of the coalition increasingly pursues a policy of ‘differentiation’ against the Tories, Clegg would rather not emphasise Europe as an area of difference. The Liberal Democrats have been only too happy to pick public fights with the Conservatives over reforms to the National Health Service, because that allows them to portray themselves as a bulwark against Tory heartlessness. There are very few votes to be won picking a fight in defence of the EU.

## **The United Kingdom Independence Party**

Withdrawal from Europe is the signature policy of the United Kingdom Independence Party (UKIP), which received 16.5 per cent of the vote at the 2009 European Parliament elections, securing it 13

seats in the European Parliament (though it won only 3.2 per cent of the vote at the 2010 general election, and holds no seats in the House of Commons).

Yet the party needs to be understood in broader terms. A survey of UKIP candidates and supporters by political scientists at the University of Leicester notes that when asked in 2010 what they thought was the single most important issue facing the country, “UKIP voters were most likely to cite immigration as the most important issue, followed by the economy and then Europe”.<sup>19</sup>

<sup>19</sup> Philip Lynch, Richard Whitaker and Gemma Loomes, ‘The UK Independence Party: Analysing its candidates and supporters’, *University of Leicester*, March 2011.

A complementary, plausible analysis by a Conservative commentator, James Bethell, links the rise of populist movements like UKIP to a section of the election he dubbed ‘ANTI’ voters in a 2010 paper. This referred to voters who are: politically Angry, economically Neglected, socially Traditional and Immigration focussed.<sup>20</sup> The Bethell paper was backed by extensive professional opinion polling and focus group research among UKIP voters. In one such focus group lasting two hours, the organisers deliberately did not mention Europe, and nor did the UKIP participants.

<sup>20</sup> James Bethell, ‘ANTIs – what next for the voters Westminster left behind?’, *www.Nothing-British.com*, 2010.

The party’s leader, Nigel Farage, has worked to broaden the party’s policies. In addition to leaving the EU, UKIP supports a flat tax, tough curbs on immigration, a doubling of prison places to support a policy of ‘zero tolerance’ on crime, a return to academically selective grammar schools, a 40 per cent increase in defence spending and the repeal of a smoking ban in pubs: all appeals seemingly aimed at disgruntled Tory traditionalists.<sup>21</sup>

<sup>21</sup> UK Independence Party, ‘UKIP policies: What we stand for’, November 28<sup>th</sup> 2011.

Yet first-past-the-post electoral rules make it dauntingly hard for small parties with diffuse geographical support, such as UKIP, to win seats in the House of Commons. Though UKIP came second at the

2009 European elections and reportedly has hopes of topping the ballot at the 2014 European elections, most MEPs struggle to gain media coverage in Britain, making the European Parliament a poor power base.

As a result, UKIP's influence on British policy towards Europe is mostly indirect. Amidst considerable evidence that UKIP draws a disproportionate share of its support from disaffected Conservative

<sup>22</sup> Iain Martin, 'The rise of UKIP is a nightmare for David Cameron', *Daily Telegraph*, April 12<sup>th</sup> 2012. voters, a section of the Tory right cites the threat from UKIP as grounds for the Conservative leadership to take a much more robust line on the EU and immigration.<sup>22</sup>

Yet such advice is disputed, with some centrists arguing that – even if votes for UKIP cost a number of Conservative MPs their seats at the

<sup>23</sup> Tim Bale, 'Right to reply: UKIP won't prevent a Tory majority', *The Spectator*, April 11<sup>th</sup> 2012. 2010 general election – a more fiercely eurosceptic message would have done more harm than good to the party's national campaign.<sup>23</sup>

The debate is likely to continue, with UKIP achieving roughly 10 per cent support in several opinion polls throughout spring 2012. The party sucked enough support away from Tory councillors at local elections in May 2012 to be blamed for Tory losses in such true blue Conservative strongholds as Thurrock in Essex or Tunbridge Wells in Kent. Such results are more than enough to worry Conservatives desperate to achieve an overall majority at the next general election.

## 4 The sub-structure of British euroscepticism

The organisational foundations of British euroscepticism extend well beyond parliament. In addition to the political parties, other players – the media, think-tanks and lobby groups – have all played a decisive role in shaping the opinions of the broader public, and consequently the manner in which Britain conducts its national conversation on the EU. There is little question that the tone of that conversation is markedly more eurosceptic than in other EU member-states.

### **The British press: Sniping from the safety of home**

Britain remains home to some of Europe's most eurosceptic newspapers, though only the Express group (publishers of the mid-market *Daily Express* and *Sunday Express* and the mass-market *Star* tabloids) supports outright British withdrawal.

A development worth noting is the gradual retreat from Brussels by British newspaper editors, who have been abolishing staff posts and closing offices in the institutional capital of the union. In part this is driven by the same financial pressures reducing foreign coverage around the globe. But it is also partly an expression of British disdain for the project itself.

There is still a market for trenchant columns by newspaper commentators, perhaps accusing Germany of turning the eurozone into a “Fourth Reich” (the *Daily Mail*, August 17<sup>th</sup> 2011). But when it comes to the news pages, there is a hunch that – to quote a newspaper executive defending the closure of a Brussels staff bureau – true eurosceptics hate Europe so much that they never want to read about it.

Whatever the cause, in 2005 there were six British daily newspapers with permanent staff correspondents in Brussels. Some now use freelance correspondents, but publishing their articles represents an additional cost for editors. In contrast, the salaries and office rents of staff correspondents, who are not paid per article, represent a hefty sunk cost, giving London-based editors an incentive to carry their reports even when they fall under the Brussels heading of ‘important but complicated’.

Today, just three daily British newspapers have staff correspondents covering Brussels, and one of them is based partly in Paris. Much day-to-day British coverage of the EU has moved correspondingly from the foreign news pages to the opinion columns and blogosphere.

Among Conservative MPs, activists and Westminster-based political journalists, the news and comment website, Conservative Home, is

<sup>24</sup> *Tim Montgomerie, ‘Building a Conservative majority: Holding a referendum on election day’, [www.conservative-home.blogs.com](http://www.conservative-home.blogs.com), March 7<sup>th</sup> 2012.*

influential. Its editorial line is eurosceptic, with the editors recently speculating as to whether a referendum on EU membership, held on the same day as the next general election, might drive up turn-out among Conservative voters.<sup>24</sup>

### **Think-tanks and pressure groups: Shaping the eurosceptic agenda**

In Parliament, a particular premium is attached by ministers and whips to a handful of Conservatives who are eurosceptic and who understand the EU, but who are willing to give the government time and some leeway in the pursuit of that ‘golden opportunity’ to seek a looser, trade-based relationship.

One such MP is Chris Heaton-Harris, a former two-term member of the European Parliament, who has founded a European Research Group of MPs, pressing for Britain to assert its national interests more robustly.

Dominic Raab, a former Foreign Office lawyer, has gained a significant media profile campaigning on such issues as extradition to other EU countries. He is also a prominent spokesman for the scores of Conservative MPs who would like to see Britain assert its right to ignore unpopular rulings from the European Court of Human Rights, the judicial arm of the Council of Europe and guardian of the European Convention on Human Rights (ECHR). Though the Council of Europe predates and is wholly separate from the EU, for Conservatives in the House of Commons and in the press, the ECHR and EU are all part of the same enraging narrative, involving unelected European judges and officials from countries that barely knew the word democracy a few years ago, passing judgement on Britain, the mother of parliaments and birthplace of the Magna Carta.

### *The Fresh Start project*

The best-connected new eurosceptic grouping in the Conservative parliamentary party is the Fresh Start project, whose inaugural meeting in September 2011 attracted more than 100 MPs,<sup>25</sup> a number boosted by supportive comments a few days earlier from the Conservative foreign secretary, William Hague, that attendance would not be “career suicide”. In an interview with *The Times*, Hague further said that Britain had done well to stay outside the single currency, and suggested that it might stand aloof from more policy areas in the future, adding: “In fact we may get ahead as a result of being outside [such areas].”<sup>26</sup>

<sup>25</sup> Anthony Browne, ‘Last night in the Thatcher room, a new eurosceptic movement of Tory MPs was born’, *www.conservative-home.blogs.com*, September 13<sup>th</sup> 2011.

<sup>26</sup> BBC, ‘William Hague being held back by Lib Dems on Europe’, September 10<sup>th</sup> 2011.

A ‘Green Paper’ published by the Fresh Start project in March 2012 supports continued membership of the EU, but questions the high value traditionally attached to single market membership – especially at a time when the government’s fiscal austerity programme rules out stimulating the economy with cash, leaving de-regulation as perhaps the main tool for boosting growth:

“...there is a growing feeling among policy-makers and MPs that the UK is increasingly constrained by rules locked in at the EU level...

The need for many countries around the EU to deleverage in the wake of the debt crisis, the considerable austerity at national level and the poor demographic profile of much of Europe is likely to reduce the growth opportunities for British firms in European markets, compared to the opportunities of the past. In particular, the scale of the ongoing economic and eurozone crisis is likely to have a restrictive effect on growth in the euro area and possibly elsewhere in the EU...

In 1990, the EU was 27 per cent of world output (in US dollars, at purchasing power parity). By 2002 the EU was still 25 per cent of world output – only a small drop. But by 2016 the EU is forecast to account for just 18 per cent of world output – a dramatic and rapid relative decline...

While trade with its European partners remains important to the UK and will do so for the foreseeable future, securing access to the single market for British businesses should not come at the expense of Britain’s ability to compete in fast growing and emerging markets elsewhere...

In light of the issues set out above, the UK urgently needs to examine each facet of its relationship with the EU, prioritising the areas that are most in need of change, whilst balancing this process against what can be achieved and at what political price.

It is clear that any attempt to re-negotiate or repatriate powers will be a significant challenge, given that in most cases this will require agreement from other national governments and, in some policy areas, a comprehensive approach will require re-negotiation of the EU treaties or a new EU budget



deal. It is also clear that if a UK Government is successfully to repatriate powers, it needs to have leverage with its EU partners, be willing to spend a lot of political capital, and may have to make other concessions in return.”<sup>27</sup> *Fresh Start ‘Green Paper’, March 2012.*

While the most hard-line eurosceptics want to leave the EU now and are willing to risk an in-out referendum to achieve it, many mainstream Conservative MPs suspect that such a vote would result in a decision to stay in the club.

George Eustice MP, a co-founder of the Fresh Start group, explains that in referendums voters tend to stick with the status quo and the “devil that they know”. If Tories really want to take powers back from the EU, they have to become smarter about chalking up incremental victories, he suggests.

The Fresh Start group is drawing up a wish list of concessions that it would like to see form government policy now, and/or appear in the Conservative manifestos at the next European election and general election. There is a strong but not exclusive focus on economic deregulation and freeing Britain from the perceived ‘shackles’ of continental employment, social and financial regulations.

The guiding principle of the Fresh Start Project is that, to have a hope of taking on China and other emerging rivals, the EU needs to move away from the expensive harmonisation of labour laws, social rights or financial regulations. Instead, Conservative MPs believe that the EU should embrace beneficial competition between different members.

Asked whether member-states such as France or Germany would be likely to accept a change that critics would present as an Anglo-Saxon race to the bottom, Eustice replies that if Europe wants to become competitive, and if the EU can accept a floating exchange rate (that is to say, the pound) within the single market: “I don’t see

why it's a big deal to allow a country to have slightly looser employment laws.”

### *Open Europe*

A central role is enjoyed by Open Europe, a think-tank and campaigning group with the stated mission of saving Britain's membership by substantially reforming it, in the direction of a looser, more trade-focussed relationship with the EU.

Though not linked to any one political party, Open Europe's frequent pamphlets – on such subjects as EU structural aid for poorer regions, police and judicial co-operation, financial regulation, employment and social laws or the free movement of workers – are used as a basis for debate by the Fresh Start project, and by a parallel all-party group involving a small number of Labour eurosceptics.

Founded in 2005 and funded by private donations, some of them also big Conservative Party donors from the world of business, the think-tank has significant influence in the British press via its briefings and a daily round-up of pan-European news headlines (ideal for monolingual British newsrooms). In recent times it has worked to shake off an early reputation as a partisan campaign group, which concentrated exclusively on negative aspects of the European project, and on feeding attack lines to the British tabloid press.

Today, its subjects for research are still chosen to advance a distinctly Anglo-Saxon vision of a deregulated, market-based Europe, but the unremitting hostility of earlier reports has been more muted under its current director, Mats Persson, a Swede. To its credit, it has eschewed the nationalism of many eurosceptic groups, strongly defending such liberal principles as the free movement of migrant workers around the EU. Many of its papers on EU policies make their way straight into MPs' speeches and questions in the House of Commons. Though it remains as much a campaign group as a think-tank, it cannot be ignored.

“The way it works is, Open Europe publishes a pamphlet and then we discuss it,” says Fresh Start’s Eustice. “A lot of the genesis of the ideas is coming from Open Europe. We hope to see some of those in government policy or in the manifesto.”

## Public opinion: Overwhelmingly suspicious of the EU

The British public are uniquely hostile to the EU. The latest Eurobarometer poll (fieldwork conducted November 2011) confirms that familiar finding, with just 17 per cent of British respondents expressing trust in the EU, down seven points on the previous survey (Question 10.8), and 13 per cent saying they have a broadly positive view of the EU, a drop of nine points. No other country approaches such levels of disdain.<sup>28</sup>

<sup>28</sup> *European Commission, ‘Standard Eurobarometer 76’, Autumn 2011.*

A 2012 poll by Populus, commissioned by Policy Network, a left of centre think-tank, found that culturally, politically and economically, the British feel that they have more in common with the Americans (49 per cent) and Australians (28 per cent) than the French (11 per cent) or Germans (10 per cent).<sup>29</sup>

<sup>29</sup> *Richard Bridger, ‘Policy Network: Europe Questions’, Populus polling, April 30<sup>th</sup> 2012.*

As it happens, the British are to an extent deluding themselves on this last, cultural point. Britain and America are close allies at the governmental level. Thanks to the English language that they share, American films on show at a British cinema do not feel like foreign imports, in the same way that they do at a French or German cinema. But when it comes to attitudes to religion, gun ownership, capital punishment, social welfare, the environment or the desirability of free, universal public healthcare, the British are more European than they realise.

So far, so familiar. Yet other trends in British public opinion are new, and significant. Although the British government remains a leading advocate of further EU enlargement, including for Turkey,

public support for such enlargement is slipping. The latest Eurobarometer (Question 16.3) finds only 29 per cent of the British in favour of future enlargement, a drop of nine points on the previous poll (though that result needs to be seen in the context of the economic downturn and mounting hostility to immigration in general).

Large majorities of British voters have told opinion pollsters that immigration is too high since the 1960s. What has changed is the importance voters attach to the issue. As the Migration Observatory at Oxford University notes:

“Immigration and race relations were rarely mentioned by respondents as one of the “most important issues” facing the country prior to 2000. As recently as December 1999, fewer than 5 per cent of Ipsos-MORI’s monthly sample gave a reply that had to do with race relations or immigration. But since then, immigration has become one of the most frequently named issues.”

Furthermore, drawing on large comparative surveys such as ‘Transatlantic Trends’, an annual research project by the German Marshall Fund of the United States, the Oxford observatory concludes that:

“People in Britain are more likely than the people of other nations to view immigration negatively – to see immigration as a problem rather than an opportunity... Immigration is also more often viewed as a salient and pressing political

<sup>30</sup> Scott Blinder, ‘UK public opinion towards immigration: Overall attitudes and levels of concern’, *The Migration Observatory, University of Oxford*, May 27<sup>th</sup> 2011.

problem in Britain than elsewhere. More people in Britain than in several comparable countries rank immigration as the single most important issue facing their country, and more claim that parties’ positions on immigration will influence their vote.”<sup>30</sup>

The British are also unusually hostile to the idea of European oversight of immigration, with 18 per cent of British respondents telling the 2011 Transatlantic Trends survey that they backed the setting of migration quotas at the EU level – compared to an EU average of 42 per cent (for comparison, 35 per cent of Germans favoured an EU role in setting national immigration targets, and 60 per cent of Italians).<sup>31</sup>

*31 German Marshall Fund of the United States, 'Transatlantic trends: Immigration', December 15<sup>th</sup> 2011.*

In a final notable trend, opinion polls show marked British confusion about globalisation and free markets. The British are gloomy about the state of their national economy, but – depending on the question asked – send mixed signals about whether they blame outside forces or domestic agents.

Asked by the latest Eurobarometer poll if globalisation is an opportunity for economic growth (Question 19a.5), 50 per cent of the British said yes (a drop of two points on the previous survey), putting the UK in the same middling camp as Malta, Ireland or Estonia – far ahead of France and southern Europe but behind the Germans, Dutch or Scandinavians in enthusiasm for global trade.

When asked a specific question about an emerging giant, the British were a touch more optimistic. Thus the Transatlantic Trends 2011 survey (Question 22) found a majority of the British agreeing that trade with China is more of an economic opportunity than a threat (an opportunity, said 58 per cent of the British, compared to 57 per cent of Germans and just 32 per cent of French respondents).<sup>32</sup>

*32 German Marshall Fund of the United States, 'Transatlantic trends: Key findings', 2011.*

When asked by Transatlantic Trends if EU membership had helped or harmed their national economy (Question 29) just 46 per cent of the British said that membership was a help (compared to 76 per cent of Germans).

But when a separate comparative survey, the Pew Global Attitudes Project, asked voters across the world in 2011 who they blamed for their economic woes (Questions 6 and 7), British anger was more domestic than international in its focus. Three quarters of those Britons who said their country's economy was bad blamed banks and other financial institutions while 70 per cent blamed their

<sup>33</sup> *Pew Research Center, 'China seen overtaking US as global superpower', July 13<sup>th</sup> 2011.*

national government and just 9 per cent blamed the EU. That compares with 34 per cent of French respondents, and 21 per cent of Germans who were willing to blame the EU.<sup>33</sup>

### The 'English question'

The British are also becoming less British, or at least readier to identify themselves as English, Scottish, Welsh or Northern Irish. A resurgent sense of English identity is in some ways merely an inevitable response to the devolved powers secured by Scotland, Wales and Northern Ireland under the Labour government of Tony Blair. But researchers make a convincing case that, in recent opinion surveys, there is a correlation between strongly-felt "Englishness" and a sense of being poorly represented by current political structures.

<sup>34</sup> *Richard Wyn Jones, Guy Lodge, Ailsa Henderson, Daniel Wincott, 'The dog that finally barked: England as an emerging political community', Institute for Public Policy Research, January 2012.*

In January 2012 the Institute for Public Policy Research (IPPR) published a report describing signs of an English backlash against devolution, entitled: "The dog that finally barked".<sup>34</sup>

Fully 59 per cent of English voters told the IPPR that that they did not trust the UK government "to work in the best long-term interests of England", while the proportion who felt that Scotland was given more than its fair share of UK public spending had doubled since the year 2000. Overall, the researchers found that, though most voters continue to claim dual identities involving a measure of Britishness, "the more strongly English a person feels the more likely they are to believe that the current structure of the post-devolution UK is

unfair”, and to support radical changes, such as the creation of a new English Parliament.

Such English disgruntlement has consequences for the European debate. Peter Kellner, the founder of the YouGov polling organisation recently identified a wrinkle in British public views of the union. In late 2011, YouGov looked at how the British might divide in a referendum on EU membership for *Prospect* magazine. Before putting its question about the EU, YouGov first asked respondents how Britain should relate to the rest of the world.

As Kellner reported later: “We offered two options: ‘Many of the world’s problems can be tackled only if Britain joins forces with other countries, and often agrees to compromise in order to secure international agreement’; or: ‘The value of international agreement is often overstated. With very rare exceptions, Britain should do what it thinks right, regardless of what other countries decide.’” The survey further asked voters to identify themselves as mainly English, Scottish, Welsh, Irish, British or European. Kellner takes up the story:

“A mere 2 per cent said they were ‘European’. Most, 63 per cent, said they were ‘English’, while 19 per cent regarded themselves as ‘British’. When we compared the attitudes of ‘English’ compared with ‘British’ respondents, we found something odd. ‘English’ voters want to leave the EU by a margin of 58-26 per cent – but ‘British’ voters favour remaining members by 46-37 per cent. And while ‘English’ voters overwhelmingly prefer an isolationist foreign policy, ‘British’ voters divide fairly evenly between going it alone and doing compromise deals to tackle world problems. (The views of ‘Scottish’ voters are closer to ‘British’ than ‘English’; we had too few ‘Welsh’ respondents to be sure of their stance.)

All told, our poll suggests that our views on EU membership are shaped to a significant extent by how we in these islands

<sup>35</sup> Peter Kellner, 'Wary of Europe?', *Prospect*, December 2011.

think of ourselves. What distinguishes people who call themselves 'English' is a passion for keeping other countries at arm's length."<sup>35</sup>

## The People's Pledge

Further pressure is being applied by outside campaign outfits such as the People's Pledge, a non-party group calling for an in-out referendum on EU membership. The group intends to hold scores of mini-referendums in the constituencies of MPs defending small majorities who have refused its invitation to back a national vote on Europe. To date, 64 MPs, most of them Conservatives, have signed the group's pledge.

On April 5<sup>th</sup> 2012 People's Pledge persuaded more than 14,000 voters in an ultra-marginal Conservative seat, Thurrock, to vote in a mini-plebiscite (an impressive 30 per cent turnout for a private initiative). Thurrock voters supported an in-out EU referendum by a margin of nine to one.



## 5 The eurosceptic agenda in Britain

In most EU member-states, euroscepticism tends to be underpinned by a combination of economic populism and nationalism. The 2012 French presidential election campaign, for example, saw politicians on both the right and the left competing to denounce those aspects of the European project that encourage free trade and open markets, and calling for the EU to become more ‘protective’. In this respect, Britain is quite different.

### **An economically liberal euroscepticism**

Although British euroscepticism is also turbo-charged by nationalism and populism, it is rarely of the economic variety. The same Conservative politicians and media commentators who blame EU membership for holding the British economy back are often making a pro-business case against inflexible EU employment and social rules and against financial regulations that curb the freedoms of the City of London. That leaves deregulation-minded eurosceptics in a curious political position: noisily claiming a popular mandate to speak for the honest yeomen of Britain, who have had enough of Brussels meddling, while advocating supply side measures likely to appeal most to businesses or employers’ federations.

A favourite fact cited by those defending the single market’s importance notes that, despite much wishful thinking about increased exports to China and other emerging giants, the United Kingdom has – until recently – traded more each year with Ireland than it does with Brazil, Russia, India and China put together. At the top of the coalition government, that statistic is cited as a mark of failure. In his March 2012 annual budget statement, the Conservative chancellor of the exchequer, George Osborne, set out

a strategy of opening British markets to Chinese inward investment, and making the City of London a favoured trading hub for Chinese, renminbi-denominated financial instruments. Osborne told the House of Commons:

“Over the last decade, our share of world exports shrank as Germany’s grew. We sold more to Ireland than to Brazil, Russia, India and China – put together. That was the road to Britain’s economic irrelevance. We want to double our nation’s exports to one trillion pounds this decade... we’re

<sup>36</sup> *George Osborne, ‘Budget statement by the chancellor of the exchequer’, HM Treasury, March 21<sup>st</sup> 2012.*

actively seeking investment from overseas pension and sovereign wealth funds – and working to develop London as a new offshore market for the Chinese currency.”<sup>36</sup>

That mention of offshore trading in the Chinese currency is significant. Within the Treasury and Downing Street, there is talk of the City of London becoming a financial capital for the fast-growing BRICS nations (Brazil, Russia, India, China and South Africa). That dream is seen as threatened by hostile European countries, who cannot resist trying to rein in the reckless Anglo-Saxons of the City of London. Particular opprobrium is aimed at the Frenchman Michel Barnier, the EU commissioner for the internal market and services, accused in Whitehall of instinctive hostility to financial markets, and of allegedly pursuing policies that suit the narrow interests of the French financial industry.

Cameron and his ministers have sought to make an ally of the European Commission under its president, José Manuel Barroso – a Portuguese Anglophile with a relatively liberal streak – and to work with Brussels on deepening the single market in such areas as services and cross-border digital commerce.

In the autumn of 2011, a trio of British ministers travelled to Brussels for day-long discussions with Barroso and senior Commission officials about the importance of ‘better regulation’. In

his statement to the House of Commons on the European Council of October 23<sup>rd</sup> 2011, Cameron told MPs:

“...the way to make the whole of the EU, including the eurozone, work better is to promote open markets, flexible economies and enterprise. That is an agenda that Britain has promoted, under successive governments and successive prime ministers, but it is now an agenda that the European Commission is promoting, too. We have many differences with the European Commission, but the presentation made by the Commission at yesterday’s Council about economic growth was exactly what we have been pushing for, driving home the importance of creating a single market in services, opening up our energy markets and scrapping the rules and bureaucracy that make it take so long to start a new business.”<sup>37</sup>

*<sup>37</sup> Hansard, ‘House of Commons debates’, October 24<sup>th</sup> 2011.*

However, that love-in has been cooled by British dismay at the readiness of the Commission to overlook its own 2011 impact assessment predicting potentially high costs if Europe were to push ahead with a Financial Transaction Tax (FTT). The 2011 impact assessment estimated that an FTT levied on bond, derivative and some currency transactions could reduce growth by 1.8 per cent of economic output in the long term, and potentially cost hundreds of thousands of jobs.

Following vocal opposition from Britain but also from other countries such as the Netherlands, the Commission returned to the fray in 2012 with a revised impact assessment estimating that extra government spending, based on FTT revenues, would prompt so much economic growth that lost revenues in the financial sector would be largely offset. In a less than helpful intervention, the EU commissioner for tax, Algirdas Semeta, said in January 2012 that Britain might be hit by such a ‘Tobin tax’ even if it refused to join such a scheme. The reason was that the ‘residency principle’ would apply – meaning that trades carried out by EU-incorporated banks in London would be subject to the tax. That, he said, would lead to

revenues being collected in the City of London, but distributed to other EU members without Britain receiving a penny.

British frustrations spilled into the open in December 2011, when Osborne told the London *Evening Standard* newspaper:

“Proposals for a Europe-only financial transactions tax are a bullet aimed at the heart of London. Even the European Commission admit that it would cost hundreds of thousands of jobs. This Government is all for making the financial sector pay more in tax... But the idea of a tax on mobile financial

<sup>38</sup> *George Osborne, 'Fix this euro crisis with the smack of firm government', Evening Standard, November 14<sup>th</sup> 2011.*

transactions that did not include America or China would be economic suicide for Britain and for Europe. The EU should be coming forward with new ideas to promote growth, not undermine it.”<sup>38</sup>

At a March 2012 policy seminar in Downing Street, a prominent business figure told participants that, from a British perspective, the European Union is going to look “less important, while making life more complicated”. Far from disputing this, others present expanded on those worries, wondering aloud whether much tighter regulation of financial services within the eurozone could co-exist with a single market involving all EU members.

The Conservative position over public procurement, a live political issue across Europe just now, is another example of conflict between Britain’s core commitment to free trade, and the growing temptations of patriotic rhetoric. In February 2012, government sources briefed the press that tender documents for new train rolling stock on Crossrail, a big rail project in the London area, had been written in such a way as to “level the playing field” for British-based

<sup>39</sup> *Jim Pickard and Mark Odell, 'Crossrail tender favours UK', Financial Times, February 27<sup>th</sup> 2012.*

bidders, by which – it was helpfully explained – they meant that the terms had been skewed as far as possible without breaching EU procurement rules.<sup>39</sup>

That followed a row in July 2011 when a separate train rolling stock contract was awarded to a German bidder, rather than the last British production site for trains, owned by Bombardier of Canada. Ministers suggested then that Britain was hamstrung by its own sense of fair play and zealous obedience of EU rules, with one Conservative minister complaining that: “French governments routinely award contracts for trains to French builders and the Germans award contracts for trains to German builders”.<sup>40</sup>

<sup>40</sup> Ray Massey, ‘Fury as ministers hand Germans our £3bn train deal costing 1,400 jobs’, *Mail Online*, July 6<sup>th</sup> 2011.

But – far from the noise and fury of tabloid headlines, at least to date – Britain is quietly but firmly siding with Germany in a much bigger fight against a European Commission proposal to introduce a “reciprocity” requirement into big public procurement tenders. As initially drafted, the “buy European” proposal, seemingly crafted in response to heavy pressure from France and southern governments, would allow EU governments to reject bids from countries such as China that discriminate against European firms in their own home markets. To British ministers and officials, such a plan reeks of protectionism.<sup>41</sup>

<sup>41</sup> *The Economist*, ‘Unfree trade’, March 24<sup>th</sup> 2012.

On balance, the ruling elite of the country remains unusually wedded to openness, certainly by European standards. But the British public’s commitment to free trade and liberalism is being sharply tested by economic gloom and austerity. The temptation to pander to popular anger is ever present, as has been seen.

## **The search for a looser relationship with the EU**

Within the Conservative Party, two big, overlapping schools of thought now dominate. A smaller, hard-line faction is already convinced that single market access via full EU membership is not worth the price that must be paid in budget contributions and red tape. Such die-hards would like Britain to secure a free trade pact with the EU, turning the country into a bigger “Switzerland with

nukes”, in the words of one approving Tory MP. “What’s wrong with being a big Switzerland?” he demands to know. “I’m sure that’s what my constituents would like.”

A larger group would like to use the evolving eurozone crisis to negotiate what amounts to free-rider access to the single market, with a renegotiated lower-cost, lower-regulation membership fee. Both camps cite statistics about Britain’s trade deficit with the rest of the EU to argue that the continent would have to negotiate a new deal, because Britain is too valuable a market to lose. Competing campaign groups and study circles have formed to draw up lists of possible demands and concessions. Such huddling is boosted by the knowledge that most Conservative MPs know little about the functioning of the EU, “but just know that they hate it”, in the words of one MP.

Short of leaving altogether, what might a looser relationship within the EU look like? A likely wish-list from the MPs associated with the Fresh Start Project, buttressed by published research from Open Europe, would centre on some half a dozen British concessions.

*(i) Britain’s JHA opt-out*

Top of the list is a call for the government to exercise a sweeping opt-out from a raft of EU policies in the field of justice and home affairs (or the JHA opt-out, as it is inelegantly known in official shorthand). Because Britain could exercise that opt-out without the need for fresh negotiations, it is described as ‘low-hanging fruit’ by Tory MPs.

The origins of the opt-out lie in an obscure corner of treaty law, linked to a European ambush of the previous Labour government. In 2007 the EU was poised to transfer a set of crime-fighting and policing laws from one section of the union’s treaties (in which individual countries have national vetoes and ECJ judges may not meddle) to a section of the treaties governed by majority voting and ECJ oversight.

The laws at stake include the most ambitious EU experiments in the field of law enforcement. One is the European Arrest Warrant, a tool that allows judges anywhere in the union to have suspects arrested in another country, with only very limited rights to mount an appeal against extradition.

When Labour ministers sought concessions to answer concerns about the ECJ having a final say over such measures, other governments led by France and Germany retaliated by offering Britain an alternative: a one-off, time-limited right to opt out of all the crime-fighting measures or sign up to all of them for ever. The deadline for a British decision falls in 2014. But on February 6<sup>th</sup> 2012, 102 Tory MPs urged the government in an open letter to seize the moment, and opt out of the lot. This was no empty grandstanding. Though the question is set to strain coalition unity, ministers have told officials seriously to weigh the case for and against an opt-out.

In 2007 it was assumed that no British government would ever want to withdraw from all the measures. In addition to the arrest warrant, they cover uncontroversial things like Britain's membership of EU systems for cross-border policing and prosecutorial co-operation, as well as easier access to national criminal record registers around Europe. But Tory MPs are in no mood to turn down a chance to repatriate powers from Brussels. And, despite assurances that the European Arrest Warrant would be reserved for the gravest crimes, it has been used thousands of times in cases both footling (one extradition involved the alleged theft of a piglet) and troubling (warrants have swept up people tried in absentia without their knowledge).

The issue is described by senior officials as a "ticking time bomb". In January 2011, during a big fight in Westminster over EU powers, the government offered a concession to eurosceptics: a promise of a vote in Parliament on whether to opt out of justice and policing laws. Most Tories would probably vote to walk away, though they

would probably seek to opt back in to some forms of EU co-operation, such as criminal-record checks. The bomb will have to be defused, one way or another.

*(ii) Financial Services*

Another top priority involves financial services, and protecting the City of London from two big threats. The first threat involves the imposition of pan-European financial regulations seen as too restrictive on Britain. The second involves talk on the continent of creating something like a eurozone banking union with its own common supervision, deposit insurance and resolution regimes – potentially fragmenting the single market and excluding London, which remains the biggest marketplace for many euro-denominated products.

That double British demand – don't bind us, but don't bind yourselves without us either – may be regarded as provocative in Paris and other European capitals, especially when coupled with the fierce opposition expressed by Conservative MPs to any talk of joining eurozone bail-out mechanisms. A senior official from a eurozone country summarises the British position as: “You want one foot in, you want one foot out, and you don't intend to pay. So of course we say no on a point of principle.”

But most Tories, including many members of the government, believe deep down that the euro cannot survive in its current form. Thus while the prime minister and his cabinet are persuaded that a collapse of the euro would be devastating to the British economy, there is widespread discomfort about the integration being proposed to shore it up. MPs talk of funds used to stabilise the single currency as “throwing good money after bad”. Even an increase in British contributions to the International Monetary Fund, if linked to eurozone rescues, would be opposed by scores of Conservatives.

The British government will very soon have to decide its attitude to a eurozone banking union. In late May 2012, it was reported by senior officials that sceptical voices within the government were



arguing in internal meetings for Britain to block such a union, asking why their country should “help prop up a failing euro”, and pointing to the risks of eurozone supervisors taking decisions that adversely affect the UK.

Other figures in government have argued that if Britain tried to block eurozone banking supervision and succeeded, that could endanger the euro, which is not in Britain’s interest. And if the eurozone went ahead anyway, UK prestige and soft power would be damaged, and the others would use mechanisms outside the EU, which Britain could less easily influence than if the eurozone supervision happens within an EU framework.

Open Europe’s Mats Persson talks of seeking safeguards, perhaps via a written protocol, that financial regulations must remain the preserve of all EU members and not be ‘hijacked’ by the inner core of the eurozone. The ‘Rolls-Royce’ outcome would be an ‘emergency brake’ for Britain to use if it felt vital national interests in the City of London were at threat. In EU jargon, an emergency brake is an agreement that allows a member-state to call a halt to negotiations on a new measure if it feels its vital national interests are threatened. Such brakes have existed in various guises over the years but are rarely used, not least because governments know that the first time they pull on an emergency brake, it might turn out not to work.

A second-best outcome could involve strengthened systems to filter out bad ideas at the start of the decision-making process, including a “proper, independent” test of whether rules breached the principle of subsidiarity (the principle that the EU should only take action in areas where rules at the national or local level cannot do the job). Open Europe strongly backs the creation of a new impact assessment board that is independent of the European Commission, with national civil servants seconded to its staff.

George Eustice concedes that the Fresh Start group’s ambitions – for safeguards to preserve the integrity of the single market, coupled

with assurances that damaging rules cannot be imposed on Britain – are strongly reminiscent of Cameron’s negotiating demands at the Brussels summit of December 8<sup>th</sup>-9<sup>th</sup>, which were rejected by his fellow heads of state and government. The prime minister’s requests were eminently reasonable, says Eustice. If Germany and other big players rejected it, they made a mistake, because Cameron then vetoed their plan to embody new rules for the eurozone, via the fiscal pact, in an EU treaty: “hopefully, they have learned from their mistake”.

### *(iii) Employment law*

Most Conservatives want to secure a British opt-out from existing EU legislation on all or most employment and social issues. Above all, Tory MPs want Britain to repudiate all or most of the constraints imposed by the Working Time Directive, which imposes a maximum 48 hour working week on most employees (though not managers and staff in certain sectors, including journalism, think-tanks and the emergency services). Britain has a partial opt-out from the directive, allowing individual workers to waive their rights to a 48 hour week, but this opt-out has been under constant attack from the European Parliament and a number of other states, forcing Britain to recruit and maintain a blocking minority involving Germany and eastern European countries. The burden of the directive has been made more onerous by subsequent rulings by the European Court of Justice (ECJ), including one that obliges health services to count time spent by doctors on call (although asleep) as working time.

The Fresh Start group says it would like to see much more “creative thinking”, perhaps creating opt-outs for small firms, from the Agency Workers Directive (an EU measure which seeks to guarantee those working through employment agencies the same pay and conditions as employees in the same business who do the same work).

If it proves impossible to negotiate such concessions, a growing number of Conservatives, echoed strongly by the right-wing press,

want to see a campaign of something approaching civil disobedience by Britain, which they see as a naïve soft touch, always patiently applying rules that other, savvier countries (France and Italy are usually cited) allegedly flout with impunity.

Eustice suggests that, if reasoning with the EU over social and employment laws were to fail, mainstream British Conservatives would then see testing the authority of the ECJ as “the only option left”. Some Fresh Start group members favour a move by the House of Commons to pass legislation setting aside ECJ jurisdiction over certain employment laws for a limited period, thereby forcing a beneficial crisis that would bring the European Commission to the negotiating table. No government minister endorses such guerrilla tactics, and even Open Europe talks about re-writing employment law as a longer-term objective. But many Tory MPs fancy a confrontation with Brussels, and with the ECJ in Luxembourg.

#### *(iv) EU structural funds*

Open Europe research on EU structural funds, showing the large sums handed out to even rich regions of the union, was widely publicised in the daily press, and struck a chord with MPs keen to limit the size of the EU budget. Harder line anti-EU types would slash such aid across the board. The self-described “constructive” eurosceptics of the Fresh Start project would like to see ministers pursue a policy proposed by Open Europe, namely restricting structural funds to regions whose per capita wealth is at or below 90 per cent of the EU average. Eastern and central Europe would still receive aid, under this proposal, while Britain, France, Germany and most of the rich north of Europe would save. The big losers would be Spain and Italy, it is conceded. But given their eurozone woes, Open Europe argues, they may be too desperate to secure bail-outs and support for their banks to haggle over the fine detail of future structural funds.

#### *(v) National parliaments*

Many Conservatives want much greater powers for national parliaments to block EU legislation that they believe breaches the

principle of subsidiarity, moving to a so-called ‘red card’ system – as opposed to the rather weak and cumbersome ‘yellow card’ warning system granted to national parliaments by the Lisbon treaty. This system allows any national parliament in the EU to complain that a piece of new draft legislation is in breach of the principle of subsidiarity. If a large enough number of other national parliaments agree, then the European Commission must “review” the new proposal, but may then decide to plough on anyway. Perhaps unsurprisingly, the system has never been used.

Open Europe is keen on Britain copying some of the features of Denmark’s system of mandating ministers: ministers are obliged to seek a detailed mandate from the national parliament before entering EU negotiations.

#### *(vi) Farms and fish*

Many Tory MPs have long dreamed of withdrawing from the Common Fisheries Policy, and drastically shrinking the farm aid budget of the Common Agricultural Policy. The Fresh Start group is likely to push for more realistic goals, such as much greater powers for countries to pursue national objectives. The current EU fisheries commissioner, Maria Damanaki (who is Greek), is seen as a potential ally in this fight.

### **Tactical questions: The when and the how**

Since the start of the crisis in the eurozone, there has been particular ferment among Tory MPs who regard the collapse of the single currency as a real possibility (if not a racing certainty) and see a ‘golden opportunity’ for Britain to demand concessions from the union, in return for endorsing deeper eurozone integration.

Among Conservative MPs and commentators, who are convinced that the European project is on its knees, there was bold talk in 2011 of Britain’s longstanding opposition to the single currency granting it a unique moral authority, of Europe crying out for

British leadership, and of Cameron's duty to make Britain the de facto leader of the ten countries in the EU that do not use the single currency.

A letter to the *Financial Times* in June 2011 from 14 members of the 2010 Tory intake called on the government to push a string of familiar British policy objectives, from liberalisation of trade to a reduction of wasteful EU spending, arguing that:

“The crisis affecting those countries that use the euro has created a political vacuum at the heart of Europe which we believe the UK government can use to shape the EU's post-crisis order. In particular, the government must take a tougher approach than its predecessors, including the use of our veto to extract significant concessions.”<sup>42</sup>

*42 Chris Heaton-Harris and others, 'An opportunity for the UK to shape Europe's post-crisis order', Financial Times, June 23<sup>rd</sup> 2011.*

There is now a mood of greater realism among Conservative MPs. A stream of competing proposals for integration from countries within the eurozone has scotched talk of “a political vacuum” waiting for British ideas, and placed Britain back in the less heady but more traditional posture of working out how to resist or stay aloof from alarming plans from the continent. The myth of a “club of 10 outs” waiting for British leadership has been torpedoed by the very public insistence by countries such as Poland that their goal is to stay inside any inner core of EU decision-making.

Within the government, there is more realism about Britain's chances of banging the table and demanding back swathes of powers from the EU.



## 6 The December summit and its aftermath

For such a mysterious event, David Cameron's decision to veto a proposed new EU fiscal treaty on December 8<sup>th</sup>-9<sup>th</sup> 2011 generated firm opinions back in Britain.

Polls taken in the days immediately after the summit showed Cameron's ratings for decisiveness and coolness in a crisis surging, while some placed the Conservative Party ahead of the Labour opposition for the first time in many months. Revealingly, the same opinion polls showed the British public strikingly unsure whether the veto had been a clever act of diplomacy. A YouGov poll taken three days after the summit for *The Sun* found that 58 per cent of voters thought that Cameron had been "right" to veto the treaty. Yet voters split almost evenly when asked whether the veto would be good, bad or neutral for Britain, with a slight bias towards those thinking it would be bad for the country. Put another way, voters were not sure what their prime minister had done in saying No to Europe, but they were very glad that he had done it.

Such voter uncertainty is actually pretty reasonable. In the corridors of European power, the lasting consequences of Cameron's veto have yet to be determined.

### **Cameron vetoes an EU treaty**

The diplomatic stand-off had roots stretching back to May 2010, and a first meeting between the German Chancellor Angela Merkel and the newly-elected British prime minister. Visiting Berlin, Cameron learned that Germany was convinced that an integral part of any solution to the euro crisis would be a beefed-up version of the

stability and growth pact (the rules on national borrowing and spending that had been intended to preserve fiscal discipline within the eurozone, but which were watered down in 2003, on the very first occasion that they looked like catching Germany and France). To Cameron's dismay, Merkel warned her British visitor that the EU's treaties might have to be revised to give the new fiscal rules teeth (mostly because Germany wanted the ECJ to have oversight of the new pact). The EU treaties can only be altered by a unanimous agreement among all member-states.

Merkel further told Cameron that she strongly preferred to involve all 27 member-states, and disliked French suggestions of pushing deeper integration within an inner core of the 17-strong eurozone. The reason was that she welcomed the presence at the negotiating table of more free-market minded countries that do not use the euro such as Britain, Denmark, Sweden and some of the ex-communist nations. Germany was wary of being left alone in the room with "France and the Club Med", as senior German officials explained it at the time, fearing that the political centre of gravity within the eurozone was less market-minded and economically liberal than the union as a whole.

For perfectly understandable domestic political reasons, Cameron told Merkel that Britain would not be able to take part in any treaty change that transferred powers from Britain to the EU. In other words, if needs be Cameron would turn his back on years of British diplomatic strategy and push the Germans further into the arms of the French.

As the months went by, it became clear that Cameron had even less room for manoeuvre than had been feared in Berlin. To secure British parliamentary approval of an EU treaty change, even one that involved no transfers of competence, would not be possible unless Cameron could show his own backbenchers that he had secured serious concessions as his price for going along with the shoring up of the euro.



By the autumn of 2011, German concerns were sufficiently acute that senior officials were happy to brief reporters, including this author, that Germany might prefer to seek a new fiscal compact among all 27 nations – partly for reasons of ideological balance, partly to reassure allies such as Poland who planned to join the euro one day, and partly to protect the existing institutions of the EU, who properly took their orders from all member-states. However, if Britain asked too high a price by way of concessions, then Germany would seek a fiscal compact outside the treaty structures. When asked if that meant at 17, one senior figure replied that a deal would be done among a number of countries lower than 27 and higher than 17.

In the meantime in London, officials set to work trying to identify dangers and opportunities from the new fiscal compact.

The fiscal compact at issue, presented as a vital measure for rescuing the single currency, was less a tool for saving the euro in the short-term than an attempt to convince voters in countries such as Germany that similar debt crises would not be allowed in the future. The new rules were never intended to bind Britain, with its pound sterling. But British officials had sincere concerns that eurozone nations might use the new structures to caucus together and rig financial regulations against the City of London, or to exploit language about economic co-ordination to tweak the rules underpinning the broader single market (even though those are supposed to be the preserve of the 27-strong union).

Particular alarm was generated by Franco-German proposals to examine issues of economic competitiveness within the new fiscal pact, which seemed to cut across single market rules.

In the end, Treasury officials were asked to come up with a list of concessions that would soothe British worries. Fatally, they came back with a fiddly wish-list of seemingly selfish British demands, concerning such questions as the design of future financial

supervision. Had Britain sought broad assurances about the integrity of the single market, or sought to present itself as the champion of the interests of all countries outside the eurozone, it might have had more success. As it was, however, Britain's complex demands – which sought to switch some areas of policy-making from qualified majority voting to unanimity – were only shown to most countries hours before the formal summit and were easily caricatured as a charter for the City of London by opponents such as Nicolas Sarkozy of France.

When Cameron sought his concessions at the summit table, he was rebuffed with surprising force, and was further surprised to learn that Germany might be able to secure most of its desires in an agreement which did not require unanimous approval. Sincerely concerned that the deal on the table amounted to yet another open-ended European threat to British interests, and unable to return home empty handed without concessions, Cameron refused to sign up to the new pact. Only the Czech Republic joined in his act of refusal, leaving 25 other countries to take part in the fiscal compact, albeit in many cases with reluctance.

The Conservative prime minister was rewarded on his return with cheers from his MPs, adulatory headlines in the conservative-leaning press and a hefty “veto bounce” in the opinion polls.

### **Britain's veto: The post-mortem**

<sup>43</sup> Charles Grant, *Britain on the edge of Europe*, CER insight, December 9<sup>th</sup> 2011.

After the veto was wielded, all manner of arguments and counter-arguments were mounted about what had happened.<sup>43</sup> British officials initially said that Cameron had prevented the institutions of the EU from being placed at the service of an inner club of eurozone nations, and thereby defended the single market and British business interests. This explanation was complicated by the news that Britain was allowing members of the

new fiscal compact to use EU institutions for the moment, while reserving the right to object legally if they were misused.

Back in London, initial cheering for the veto has been replaced with puzzlement. The House of Commons European Scrutiny Committee, chaired by a veteran Tory eurosceptic, Bill Cash MP, issued a report in April 2012 suggesting that the fiscal pact was already “unlawful” under the EU’s own rules, and wondering why the British government would not say so publicly.

Despite such lingering confusion, sources close to the veto decision have come to a few conclusions about what happened in the early hours of December 9<sup>th</sup> 2011. Cameron was taken by surprise when other European leaders swiftly dismissed a set of British demands that one government source later described as “amazingly modest, really” and “the least that we thought we could possibly get away with”.

With hindsight, says a senior figure, Cameron’s mistake was to have “narrowcasted” – that is, broadcasted his intentions in one narrow direction only. He had consulted Merkel, but left other EU governments more or less in the dark until the summit’s eve. Cameron thought he had a deal with the German leader, but that turned out to be a miscalculation.

The lack of a deal mattered because of the domestic pressure under which Cameron found himself. If he was going to come home having signed up to a new EU treaty of any sort, even one that did not transfer powers from London to Brussels, he had to show his own MPs that he had secured concessions. Without such concessions, Cameron had no chance of securing parliamentary approval for the text.

In the words of an MP sympathetic to the prime minister: “He was in an impossible position. On one side of a triangle he had the Europeans. On the second side, he had the Liberal Democrats, and

on the third he had the Conservatives. Exercising that veto put him back in charge of the Conservative Party.”

At Westminster, defenders of the prime minister point to the apparent crumbling of the European political consensus behind the fiscal pact as proof that Britain is “not so isolated after all”.

Other British officials, notably but not exclusively in the Foreign Office, are less cock-a-hoop, privately worrying that Britain has been reduced to the role of a spectator in a crisis that gravely threatens British interests.

### **The future: Britain more detached than ever?**

Before Cameron became prime minister, other European governments arguably worried too much about an incoming Conservative government’s likely euroscepticism. This worry was based, in part, on the Tory leader’s decision, in opposition, to withdraw Conservative members of the European Parliament from the EPP.

When Cameron did not trigger an immediate crisis in relations with Europe (and when European neighbours saw the more reassuring Liberal Democrats join the ruling coalition) other EU governments probably became too complacent about Cameron and his government. By instinct, Cameron finds European summitry exasperating and unedifying.

In foreign policy, Britain is happy to work with the EU on such tasks as imposing tougher sanctions on Iran. Cameron and Hague would like to see the EU use its soft power and aid budgets more effectively in the north African nations of the Arab Spring.

But a key lesson drawn by Britain from the 2011 Libyan conflict was that the EU, as a diplomatic player, “barely existed” in the tense days when French, British and latterly American officials were

seeking United Nations Security Council backing for action to protect Libyan civilians.

Nor should today's unprecedented Franco-British defence co-operation – born of necessity, as two mid-sized powers strive to preserve global military clout – be mistaken for a softening of British hostility to closer European defence co-operation.

The favoured strategy at the heart of current British diplomacy revolves around securing close bilateral relationships, which can enable the creation of coalitions of the willing when needed.

The vision of Cameron and Hague for 21<sup>st</sup> century foreign policy is one in which Britain sits as a hub nation in the centre of a lattice-work of flexible, overlapping networks. These networks might include countries committed to free trade, countries that believe in accountable government, the West, the EU, NATO, the Commonwealth or other alliances that meet a specific need. There is a wariness of committing Britain to action within fixed, rigid blocs.

That still leaves a space for pragmatic co-operation with the EU. But Cameron's government does not believe that the EU, simply by taking decisions by consensus as a club of 27, enjoys any magical legitimacy. As London-based officials note, Cameron's government does not seem to be overwhelmingly interested in the sort of global public goods often promoted by the EU, from joint measures to tackle climate change to aid programmes that involve pouring British resources into common multilateral pots, or sending ministers to summits involving an alphabet soup of international agencies and bodies.

Britain, wrestling with dire public finances and anaemic growth, is not in a mood for grandiose projects to re-shape the wider world in Europe's image. National interests are paramount (though that does not preclude a spot of low-ambition liberal interventionism, as in Libya).

If senior figures within the government could renegotiate Britain's terms of membership to secure a looser, more trade-based relationship, they would. Some figures close to the government have been heard envying Turkey its membership of a simple customs union with the EU. Cameron and Hague sincerely thought the Lisbon treaty a step too far, though now they will live with it.

Cameron has been cheered by the appointment of Mario Monti as Italian prime minister – despite Monti's deep devotion to European political and economic integration. He is also enthusiastic about the new centre-right Spanish prime minister, Mariano Rajoy, who is praised by British government sources for “doing some stuff on liberalising services that goes further than the Germans.”

Despite their withdrawal from the European People's Party, the Conservatives have recently sought closer working ties with Germany's CDU, and vice versa. Shortly after the ill-tempered December 8<sup>th</sup>-9<sup>th</sup> summit, the part-Scottish state premier of Lower Saxony, David McAllister, visited London bearing an explicit message of friendship from Merkel.

British officials are braced for long, nasty negotiations over the next seven-year EU budget ('financial perspective' in Brussels jargon), expecting the wrangling to drag on into 2013. Fresh attacks are expected on what remains of the British budget rebate. If this results in a stalemate, so that the EU is unable to agree a new seven-year deal but moves to year-by-year financing using the current funding rules, that would not be seen as a disaster in London.

Government sources admit that the overall shape of Britain's relationship with Europe in the medium-term may not be in their hands. Ministers are clear that neither the Conservative Party nor, they believe, the British people are willing to tolerate further transfers of power from Westminster to Brussels. Thus any moves towards deep eurozone integration could essentially re-write the terms of British membership.

Some people around Cameron have advised him that the next six or twelve months in the eurozone are so unpredictable that a wary ‘passivity’ is not a bad British strategy. The prime minister is “emotionally drawn” to such arguments, sources say.

Some things are in Cameron’s control. The Foreign Office has seen two key posts slip from its grasp and into the hands of the Treasury, a traditionally more eurosceptic department of state. The prime minister inherited a Treasury man, Sir Jon Cunliffe, from Gordon Brown as his chief Downing Street adviser on Europe and global economic affairs (the G8, G20 and world trade talks). Cameron recently sent Sir Jon to Brussels as Britain’s permanent representative, or ambassador, to the EU – a bitter pill for the Foreign Office to swallow, and a sign of the limited nature of Britain’s ambitions to shape the EU of today and tomorrow. Though senior Brussels officials have no doubt that Sir Jon is “very well plugged in” back home in London – a vital attribute in a permanent representative – it is still an essentially defensive act to send a Treasury man to Brussels, trained and equipped to fight Britain’s corner when it comes to the next seven year budget, or to fend off unwelcome or damaging financial regulations. A country that is planning to take an active role in shaping the future political and strategic direction of an alliance sends either a diplomat or (if its diplomatic service runs to political appointees) a trusted political ally of its national leader to sit at the negotiating table. It does not send a senior mandarin from its finance ministry.

Sir Jon’s replacement in Downing Street is another flinty Treasury official, Ivan Rogers. Rogers served as chef de cabinet to Leon Brittan in the European Commission from 1996 to 1999 (the same cabinet that employed a promising young aide called Nick Clegg).

Cameron has also set British officials to the task of finding powers that might be repatriated from Brussels. This major exercise, being co-ordinated by the Cabinet Office, amounts to a full-scale survey of

Britain's legal relationship with the EU, and is likely to influence the next Conservative manifesto, as well as relations between the two coalition parties.

An “unprecedented screening exercise” is underway within the Home Office, the Ministry of Justice and the Treasury, to examine the consequences of taking or rejecting the 2014 JHA opt-out. Britain faces three options, says a government source: permanently accept all the JHA policies in question, this time with oversight by the ECJ; opt out of all them; or opt out of them and seek to rejoin “things we like”.

Because option one, a blanket opt-in, is politically impossible, the likely choice will be option three: an attempt at a partial withdrawal, sources say. Whether Britain will walk away from such totemic EU policies as the European Arrest Warrant is not yet clear: the opt-out will have to be signed off in a personal deal between Cameron and Clegg, his Liberal Democrat deputy and coalition partner.



## 7 What should Britain do now?

Though watchful waiting is not a very stirring British strategy amidst the deepest crisis in EU history, the government does not have many alternatives. As long as Britain is not prepared to sign up to the eurozone's fiscal and economic rules and monitoring mechanisms, and is not willing to pay into eurozone bail-out funds, Cameron is hardly in a realistic position to dictate terms to France, Germany and other members of the single currency club.

### **A non-exhaustive list**

If a true economic or fiscal union is established inside the eurozone, then a two-speed EU will exist, and Britain will be in an outer core.

That does not mean there is nothing that Britain can or should do. Watchfulness is not the same as passivity.

### **★ Collect Lufthansa frequent flyer miles**

Negotiating blunders revealed at the December 2011 summit are being examined within the British government machine, and rightly so. Perhaps the biggest mistake involved a misreading of Merkel's position. British ministers, diplomats and the permanent secretaries of Whitehall departments need to become better informed about German thinking. As a senior figure acerbically notes, it is never hard to persuade British civil servants to pop over to Paris for talks with the French (ideally over lunch). It should be just as routine to fly to Berlin for consultations, yet somehow there are always fewer volunteers.

### ★ Play at enhanced co-operation

The December summit revealed that there is no club of ten countries outside the euro, waiting for British leadership. But that does not mean that Britain cannot take any sort of a lead at all. It can speak up on behalf of the club of 27 (soon to be 28), urging the 17 core nations that use the single currency not to caucus among themselves and stitch up policies that effect the single market.

If the future of Europe is one in which groups of vanguard nations integrate more closely, there may come a moment when Britain should play that game too. There is surely nothing to stop a group of like-minded nations agreeing among themselves to pursue deeper liberalisation of digital services, say, under the banner of “variable geometry”.

### ★ Throw red meat to the backbenches

At Westminster, it is welcome that a growing number of MPs are waking up to the reality that turmoil in the single currency is not a ‘golden opportunity’ for Britain to stage a dawn raid on Brussels, returning with armfuls of repatriated powers. But the patience of such MPs is not infinite.

To give eurosceptics a concession, the British government should take the 2014 JHA opt-out. The European Arrest Warrant is popular with the police, and has led to some bad men (and women) being extradited with greater ease than before. But along with other planks of European judicial and police co-operation, it rests on the problematic principle of mutual recognition – that is, the belief that a Greek or Bulgarian judge is just as trustworthy and professional as a Swedish or British one. The problem is that almost nobody believes that to be true. The EU always ends up in its most painful difficulties when the gap between what is written in the

treaties and what voters believe deep down grows too wide. Mutual recognition between European justice systems is a fine idea that has come too soon.

The catch is that it may prove hard, having exercised the opt-out, to opt back into aspects of co-operation that make it easier to fight crime, notably membership of Europol and Eurojust.

### ★ Provide work for idle hands

The government should also put bored, under-used MPs to work. At the moment, EU legislation is examined by the full-time European Scrutiny Committee, and – once it has been transposed into a draft piece of legislation – by ad-hoc European committees filled with (often unwilling) conscripts. The system should be expanded and enhanced, perhaps by forming standing European sub-committees for each of the parliamentary select committees that monitors the work of the government, department by department.

That sounds dry, but so did the creation of departmental select committees three decades ago, and they now represent an increasingly powerful means of holding the British executive to account, as well as an alternative career path for ambitious, hard-working (and sometimes even talented) MPs who are not called to become ministers. Far too much EU-derived business currently passes through Parliament with only minimal scrutiny, so that problems are often identified only when it is too late.

Open debate of European policies at Westminster would also offer a first, partial solution to the EU's problems of democratic legitimacy. National parliaments are not very popular right now, but they still enjoy more of a direct democratic connection with voters than the remote and self-serving European Parliament, a body that has failed to solve Europe's democratic deficit.

The Danes have the best known system, with ministers travelling to Brussels councils bearing a rather strict mandate from the EU committee of their national parliament. The Swedes have a similar system, with the added wrinkle that their prime minister appears before the EU committee of his parliament a day ahead of all EU summits, for a discussion of Swedish interests and plans, that is carried on television.

In the British context, sending ministers or the prime minister to the House of Commons before European councils would probably turn into a circus.

More promising is the idea of tasking members of the British Parliament to track EU legislation from much earlier on, while it is still in the legislative pipeline. Those Westminster EU committees could be encouraged to lobby counterparts in other national parliaments, to help sniff out alliances and promote the idea that Britain's national parliament is an active EU player.

## **A referendum on EU membership?**

As has been noted earlier, eurosceptic outfits from the People's Pledge to the ConservativeHome website have long called for an in-out referendum on EU membership. In his May 2012 Hands Lecture at Oxford University, Lord Mandelson, the former Labour cabinet minister, co-architect of Blairism and ex-European Union trade commissioner, joined those calls.

Voices on the Tory right reacted with enthusiasm, arguing that Cameron should follow Mandelson's lead and announce an in-out referendum so as to neutralise the threat from UKIP. A few days after Mandelson's speech, the *Spectator* magazine's well-connected political editor, James Forsyth, quoted a source "intimately involved in Tory electoral strategy" who stated that it was "basically a certainty" that the next Conservative general election

manifesto would contain a promise to hold an EU referendum. One favoured option would be to propose a renegotiation of Britain's terms of membership after the election, to be followed within 18 months by a referendum on the results of those negotiations, the *Spectator* reported.

Though this is expressed less loudly, the implicit appeal of an in-out referendum for many on the Tory right is also that they want to leave the EU.

Nobody could accuse Mandelson of being motivated by euroscepticism. Instead, he offered an analysis of Europe's democratic deficit that is hard to fault. Drawing on polling commissioned by Policy Network, the left of centre think-tank of which he is president, Mandelson notes that 56 per cent of respondents want a referendum on British membership. He also notes that the UK's first referendum on Europe, in 1975, "belongs to another time and another generation".

An in-out referendum would not be relevant until the future shape of eurozone integration became clearer, Mandelson argues. But if the eurozone takes anything like a great leap towards fiscal and political union, he argues that this will pose a deeply uncomfortable choice that successive British governments had striven to avoid: whether to take part in greater integration, or face an uncertain future outside the core of the club.

Yet a clean, in-out referendum would be hard to achieve. The central problem with British public opinion on Europe is that, when asked, most people want something that is not on offer. The new Policy Network polling falls squarely into this camp. As the think-tank reports:

"36 per cent of people think Britain should stay in the EU but only as a member of a free trade area, 18 per cent as we currently are but with no further integration, and 14 per cent

<sup>44</sup> *Policy Network, 'Britain and the survival of the European project', May 3<sup>rd</sup> 2012.*

of people say the UK should stay in the EU and play a full role in any further integration. A third think Britain should leave.”<sup>44</sup>

Policy Network interprets these numbers as meaning that 67 per cent of voters want to stay in the EU, but that is a stretch. It really shows that two thirds of people either want to leave or achieve a pure free trade relationship (which means leaving, in truth), plus another 18 per cent wanting something that is not going to happen (no further integration). That adds up to 87 per cent or so being unhappy with the current arrangements.

Will a referendum be organised, and if so, would it be a good idea? An optimistic view is that an in-out referendum would force Britain to have an honest debate about the fundamental costs and benefits of membership, moving away from tabloid populism to core economic issues. A more pessimistic view is that it is already too late to have a cool, rational debate on EU membership, as British hostility to Europe is now so well entrenched.

There are many rational reasons for Cameron to fear any sort of referendum pledge. Most simply, such a vote might easily lead to Britain's departure. Though he finds the EU exasperating, the prime minister's allies insist that he does not actually want to leave the EU. If his promise was for a referendum 18 months or two years after the next election, arguments about Europe risk “overshadowing half his second term”, says a close ally. If the referendum was not a straight in-out vote, but a vote asking the public to endorse the results of a negotiation with Europe, Cameron would face the risk of humiliation, in the event that other EU countries declined to give him the concessions he sought.

Reflecting such concerns, the Conservative foreign secretary and former party leader, William Hague, who stood on a fiercely eurosceptic platform when he led the Tories into the 2001 election, seems to be trying to dampen down speculation about an in-out

referendum in the next general election manifesto. In an interview with the *Sunday Telegraph* on May 13<sup>th</sup> 2012, Hague praised the idea of holding referendums before any transfers of power from Britain to Europe, but described an in-out vote as the:

“wrong question at the wrong time – partly because we don’t know how Europe will develop over the next few years.”

He added:

“For us, Europe is not the euro. Europe is the single market, which is there, irrespective of the euro. It’s the positive effect that it has on countries that want to join it, and it’s still having that positive effect in the countries of the Western Balkans. So, it’s very important to make a success of those things.”<sup>45</sup>

<sup>45</sup> Patrick Hennessy, ‘William Hague: David Cameron is the sanest person to lead the Conservative Party in a long time’, *Daily Telegraph* May 12<sup>th</sup> 2012.

Yet Cameron could end up being forced into promising a referendum, concedes a senior Tory source, either because of a surge by UKIP in the run up to the next general election, or because the Labour Party promised an EU referendum of their own.

Might Labour promise an EU referendum in its next manifesto, knowing that such a pledge would act as a wedge to split the Conservative Party? If Ed Balls, the shadow chancellor and long-time sceptic of the euro, were the party leader, he would be tempted. At a seminar organised by the Centre for European Reform on May 14<sup>th</sup> 2012, Balls suggested that there might be a case for holding a referendum on Britain’s membership of the EU.

In contrast, the Labour leader, Ed Miliband, is instinctively pro-European. He fears that a referendum promise would create substantial economic uncertainty for Britain, in such fields as foreign inward investment. He also believes that Labour burned its fingers in the past by promising a referendum on the abortive EU

Constitutional treaty, only to renege on that promise when the Constitution was voted down in France and the Netherlands, and was subsequently turned into the Lisbon treaty.

Yet, as with Cameron, the decision could be taken out of Miliband's hands by a surge in support for UKIP. If UKIP wins the 2014 European elections, "all parties would come under really intense pressure to hold an EU referendum," says a senior Labour MP. "It would be pretty hard to resist at that stage." As to whether an in-out referendum would be winnable, few British politicians are willing to bet on that any more, given the breakneck pace of events in the eurozone. "We've a better chance of winning a referendum if Labour is in power," says the MP.



## 8 Conclusion

The current British government has no intention of walking out of the EU. No political party that supports withdrawal has won even a single seat in the House of Commons. There is nothing new about Britain being a grumpy, foot-dragging member of the club, while quietly following EU directives with more diligence than many supposedly ‘good European’ neighbours. Senior British officials report that business leaders, even in the City of London, remain largely committed to making EU membership work.

And yet, and yet... It would be a mistake to assume, complacently, that sullen British acceptance of the status quo will continue indefinitely. Within the government apparatus, senior figures committed to remaining inside the Union do not make that mistake. To a striking and novel degree, when senior officials hold policy seminars or forward-looking strategy debates, it is no longer seen as outlandish or naïve to suggest that, if eurozone integration leads to grave clashes with British domestic priorities, Britain might end up better off out. As an idea, the possibility of British withdrawal is becoming normalised.

The author can list any number of soothing, cautious reasons why Britain will not leave. But taking a few paces back, two bigger points stand out: the relationship already looks much less stable than it has for a long time, and it is hard to see any way in which British public and political opinion will become more favourable over the coming years.

In politics, it is always dangerous when emotion collides with policy. Though British Conservatives are less gleeful about the eurozone

crisis than they were a year ago, a sense of vindication informs talk of European irrelevance. That threatens their sense of perspective. Europe may be in relative decline, but Britain could double its trade with China and still not match its current exports to France. Germany – bound by the same EU employment, social and environmental rules that supposedly hold Britain back – is a champion at selling to China. More pragmatic than his party, Cameron is committed to reforming the single market.

Comparing the previous Labour government to Cameron's administration, one senior British official says that the Blair and Brown governments were too quick to see foreign policy as an 'either/or' endeavour. The charge is that the previous Labour government privileged a handful of relationships (with the US and the EU, for instance) while ignoring longstanding allies such as the Gulf Arab states, Singapore and Japan. Similarly, Labour downplayed Britain's traditional heritage in its excitement at selling 'Cool Britannia'. In contrast, Cameron sees foreign policy as requiring a 'yes, and' approach – maintaining core relationships while reviving neglected alliances and seeking new trading partners.

When it comes to the hunt for new sources of economic growth and investment, that pragmatic approach sets Cameron apart from Conservative MPs who long to ditch tired Europe in favour of new markets.

Visiting the United States in March 2012, Cameron urged President Barack Obama to consider the advantages of an EU-US free-trade area. Though the British government has no illusions about the political difficulties of forging a transatlantic trade pact, diplomats have been struck by rising enthusiasm for such a deal from traditionally trade-sceptic EU member-states. With all of Europe desperate for new sources of growth, and given the vast scale of transatlantic trade flows, even modest liberalising measures would have a large impact, it is argued.

Speaking to students in New York during his visit, Mr Cameron made a striking case for remembering the importance of mature markets, and not being distracted by the excitement of the new. He said:

“...in an interconnected world, and a world in which China may not grow as fast as people previously expected, actually the fact that half of the world’s trade crosses the Atlantic says to me that we should do even more to try and trade more with our traditional partners as well as trading out into the south-eastern parts of our world. Often in business, you find that you get the best by going after your oldest customer and trying to sell more.”<sup>46</sup>

*<sup>46</sup> David Cameron, ‘Transcript of Q&A at New York University’, March 15<sup>th</sup> 2012.*

He could have been talking about the European Union.

General de Gaulle was not wrong about the British propensity to dream of the open sea. A powerful new theme in British euroscepticism involves dreams of the country roaming the world as a swashbuckling, globalised, stand-alone trade power, untethered from the rotting hulk of a continent in decline.

But such visions are just that, a dream. Several European economies are in better shape than Britain. Nor can Britain roam the world’s oceans: the country will always lie 21 miles off the coast of France, profoundly affected by European rules. Getting those rules right is the hard work of all EU governments.

Cameron accepts that, just as every British prime minister has since Thatcher.

But Cameron’s government operates under important new constraints, as will all British governments for the foreseeable future. A combination of the ‘referendum lock’ enshrined in the EU Act of 2011, together with pressure from public opinion, the press and

Parliament, makes it hard to see the country signing up to any further transfers of powers from Britain to the EU.

Yet at the same time, if eurozone integration proceeds without Britain, and so deeply that the single market starts to fragment into inner and outer cores, the strongest argument for British membership will be undermined.

The situation is stable and unstable, familiar and unfamiliar. How this ends is unknowable, and is only partly in Britain's hands.





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# THE CONTINENT OR THE OPEN SEA

## Does Britain have a European future?

**David Rennie**

Ever since Britain joined the EU, it has been a grumpy member. But Britain's relationship with the club is arguably less stable than it has ever been. Public hostility to the EU is growing. Many Conservatives want to renegotiate the terms of Britain's membership, or leave the club altogether. The centralisation of decision-making in the eurozone could relegate the UK to an outer circle in the EU, where it is subject to rules it has not shaped. David Rennie explains why British membership of the EU can no longer be taken for granted – especially if the eurosceptics are accorded their wish of a referendum on membership.

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