

EUROPEAN CHOICES FOR GORDON BROWN

Charles Grant

With Hugo Brady, Simon Tilford and Aurore Wanlin





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1 Introduction

In the summer of 2007, the politics of both Britain and the EU is in a state of flux and uncertainty. In Britain, Gordon Brown has replaced Tony Blair as the Labour prime minister. The Conservative opposition has revived under David Cameron's modernising leadership. If Brown wants to win the next general election, he will need to impress the public with a style and a set of policies that are distinct from those of Blair. All over the EU, people are asking what Brown's European policies will be. Before becoming prime minister, Brown gave few clues. The choices that Brown makes as prime minister will have a big impact on the course the EU takes.

For most of the past ten years, the trio of Blair, President Jacques Chirac of France and Chancellor Gerhard Schröder of Germany dominated EU politics. The fissure that divided Blair from Chirac and Schröder, over the Iraq war and much else, became a permanent feature of the European political landscape. But all three have now departed and that fissure is history.

During just 20 months as chancellor, Angela Merkel has emerged as the pre-eminent European leader, often deploying her powers of persuasion to ensure that deals are done at summits. She is more sympathetic to both the US and economic liberalism than Schröder was. Similarly, Nicolas Sarkozy, the new French president, eschews the anti-Americanism of Chirac, and seems – at least in his domestic economic policies – to lean towards economic liberalism. They both think their predecessors were too uncritical of Russia. And on EU institutions, both take a relatively pragmatic, rather than a 'federalist' (in the sense of highly integrationist) approach. José Manuel Barroso, the president of the European Commission since November 2004, is on a similar wavelength to Merkel and Sarkozy on these issues.

This group of European leaders should be relatively easy for Gordon Brown and his ministers to deal with. Indeed, very few British prime ministers have had the good fortune to hold office when the leaders in Berlin, Brussels and Paris are broadly liberal, pragmatic in their approach to EU institutions, and Atlanticist. Brown has a golden opportunity to work with this new generation to reform the Union.

Happily for Gordon Brown, just before he became prime minister, the June EU summit resolved the contentious issue of treaty change. The EU had been locked in a political stalemate ever since the referendums in France and the Netherlands killed off the constitutional treaty in 2005. Now all 27 governments have signed up to the principles of a 'Reform Treaty', the details of which will be sorted out in the autumn of 2007. This deal on treaty change gives the EU's leaders more time and energy to focus on some of the key challenges that it faces – such as climate change, energy security, the revival of Russian power, economic reform and the future of Kosovo.

Although Brown did not attend the European Council (as summits are known) in June, indirectly he did much to encourage a positive outcome. Several of Britain's eurosceptic newspapers urged him to 'save Britain' by rejecting the new treaty, or by putting it to a referendum. Brown was in a difficult position: he could not maintain the good will of both the European leaders who wanted a deal on treaty change, and Britain's eurosceptic editors, who did not. Brown made an important strategic choice. He and his advisers played a constructive role in the run-up to the summit, working with 10 Downing Street and the Foreign Office to forge a common British position. This was to retain some of the constitutional treaty's institutional reforms, but to reject – or opt out of – many others.

Brown says that his government will ratify the Reform Treaty by parliamentary vote rather than referendum. But he will come under strong pressure to put it to a popular vote. After all, Tony Blair's

government had promised a referendum on the constitutional treaty, significant parts of which will reappear in the Reform Treaty. The Conservative Party, and much of the press, will claim that the new treaty transfers large amounts of sovereignty from member-states to the EU. Ministers will respond that, since Britain has negotiated opt outs from the treaty's most contentious provisions – the rules on police and judicial co-operation, and social security for migrant workers, as well as the charter of fundamental rights – the EU will not gain significant new powers, and that a referendum is therefore pointless. Ministers believe that a referendum would be very hard to win, in part because of the anti-EU bias of large parts of the press.

Brown will stand firm against a referendum. But although other European leaders welcome his support for the Reform Treaty, they still have concerns about his approach to Europe. One worry is his relationship with the British tabloid press, which at times he – like Blair – has gone out of his way to court. Despite Brown's support for a deal on treaty change, there were some wobbles in the days before the summit. *The Sun* wrote – entirely without foundation – that the new treaty's provisions for an EU 'foreign minister' would lead to "Britain losing its seat on the UN Security Council".¹ A few days later Foreign Secretary Margaret Beckett suddenly announced a shift in British policy. The foreign minister should neither be allowed to chair the council of EU foreign ministers, nor have the support of an 'external action service', she said. This attempt to denude the job of all authority was bizarre, since Britain had championed the idea of the foreign minister as a single external spokesman for the EU. But then at the summit itself the British government reverted to supporting the original plan for the foreign minister, though that person will now be called 'High Representative'.²

Many foreign observers are puzzled by the British media debate on Europe. They ask how it is possible for elected politicians to be in

¹ 'Seven days to save Britain', *The Sun*, June 15th 2007.

² For two articles on this strange episode, see http://www.cer.org.uk/articles/grant_guardian_blog_19june07.html and http://www.cer.org.uk/articles/grant_guardian_blog_23june07.html.

the thrall of newspaper editors. But they should remember some differences between Britain and most other EU countries. First, British tabloids tend to report on the EU with a venom and lack of respect for facts that is unmatched in any other member-state. Second, national titles are more influential in Britain than in many other countries, where their equivalents have much smaller circulations and regional newspapers are more important. Third, the ownership of Britain's written press is unusually concentrated, which increases the power of the owners.

Britain is different in another way, too. Its main opposition party is eurosceptic. Other member-states have eurosceptic parties, but in most of Western Europe, these parties reside on the fringes of the political debate. In France, Germany, Italy and Spain, for example, all the main parties are fundamentally pro-European. In Britain, the lack of a national consensus on the EU makes it riskier for a Labour government to argue a pro-European case. But whatever wobbles there have been or may be, Brown has made it clear that editors and proprietors should not and will not dictate Britain's policy on Europe.

Another concern of European governments is Brown's style of negotiating in the EU. Brown has been a dominant figure in Ecofin, the council of finance ministers, where he was respected for both the force of his arguments and the performance of the British economy. But he can be impatient and curmudgeonly, especially when people disagree with him. He has sometimes appeared to view Brussels decision-making as a matter of victories and defeats. But in fact the EU's decisions are often the result of painstaking compromises, designed to gain the support of most, if not all member-states. The EU's underlying philosophy is to avoid zero-sum games, in which one country's advantage is another's pain. Tony Blair famously said that Gordon Brown has "a great clunking fist". But there are very few knock-out blows in EU politics.

The other governments may find Prime Minister Brown a more comfortable companion than Chancellor Brown. Any prime minister

attending the European Council soon becomes aware of the potential trade-offs between different policy areas; a finance minister focused on Ecofin is less likely to see those links. Brown will soon learn – if he has not already done so – that he can achieve his objectives more easily by cultivating friendships with the key European leaders. Encouragingly, in the months before he became prime minister, Brown made the effort to spend time with figures such as Merkel, Sarkozy, Barroso and Italian Prime Minister Romano Prodi.

Brown's appointment of David Miliband as Foreign Secretary is also promising. This youthful Blairite and former secretary of state for the environment, food and rural affairs is an instinctive pro-European. Miliband has charm and intellect and is at ease chatting to European politicians. Brown, knowing that he is not a natural networker, may delegate some of the relationship-building to Miliband.

This pamphlet argues that, with the EU changing fast, and in ways that suit Britain, Brown has a chance to share the leadership of Europe, to reshape the way the EU works, and even to transform Britain's own European debate.

Britain should pursue a strategy of constructive engagement in Europe. But this strategy needs a new rationale in order to resonate with the British people. The traditional justification for the EU has been that it delivers peace and prosperity. That purpose remains relevant: peace in the Balkans may depend on the EU's involvement (with some help from NATO) for many years to come, while the economic well-being of all Europeans depends on well-crafted single market rules. But Europeans are now facing challenges from beyond their continent that seemed relatively unimportant five or ten years ago. Criminal networks, illegal immigration and international terrorism are a growing worry, and may be linked to poverty and under-development in countries far from Europe. The economic impact of the rise of China, and the political consequences of the revival of Russian power, give cause for concern. Climate change and energy security are increasingly salient issues, across the continent.

Of course, a middle-sized country such as Britain can take steps to meet some of these challenges. But there are limits to what one country can do. Some problems require responses at a global level. However, on many of the key issues, action at the European level – with partners that share Britain’s geography, and many of its interests and values – is crucial. For example, the EU has led global efforts to tackle climate change, and is likely to continue to do so. The EU can help the peoples and governments of Europe to cope with the stresses of globalisation, and can also project their collective interests in other parts of the world.

Britain’s European strategy should be to work with its partners to help the Union adapt to the new challenges. The British have particular skills and expertise to offer, for example in fighting organised crime and terrorism. Such a strategy would not only improve Britain’s reputation in Europe, but also Europe’s reputation in Britain. It would improve Britain’s reputation, because the British are sometimes seen as fair-weather friends, who benefit from the Union’s single market but who for ideological reasons thwart its development in other areas. Evidently, when the EU tries to tackle some of the new global threats, it moves far beyond economic integration. And a strategy of engagement would help to restore the EU’s reputation among the British by showing that the Union is part of the solution to pressing problems.

The British are unlikely to start seeing the EU in a new light unless Brown and his ministers make an effort to explain that it is changing. However, that effort may be less difficult than some would imagine. This is because Britain’s influence in Europe has grown over the past ten years.

The British voice in Europe

Gordon Brown inherits a much stronger position within the European Union than Blair himself did in 1997. Conservative governments had marginalised Britain in Europe, through futile

policies such as the ‘empty chair’ – when Britain boycotted the Council of Ministers because of the ban on British beef – and through a steady stream of anti-European ministerial rhetoric. The Blair government, in contrast, has adopted a generally constructive and polite attitude to the EU. And it has earned credit with other governments for its positive contributions in areas such as the ‘Lisbon agenda’ of economic reform, where Britain has been one of the leaders; the European security and defence policy, which was a British and French creation; and the ‘Hampton Court agenda’, pioneered during the British presidency in 2005, which has pushed the EU to focus on subjects that citizens find relevant, such as energy security, climate change and research. The consistently strong performance of the British economy over the past ten years has underpinned British influence. So has the high calibre of British officialdom: other governments may disagree with British policies, but they have great respect for the Foreign Office, the Treasury, other ministries and the UK Representation in Brussels.

Many Britons are unaware of how much influence their country has gained in the EU over the past ten years. They tend to assume that Britain is the passive victim of plots, schemes and rules hatched by Brussels bureaucrats, or by the French and the Germans. People on the continent are more conscious of the spread of the English language, Anglo-Saxon economic thinking and British ways of working into the heart of the EU. Indeed, one reason the French voted *Non* to the constitutional treaty was that they thought the EU had become too British.

France and Germany no longer dominate the Union in the way they used to. This became apparent in June 2004, when the European Council, which brings together the heads of government of the member-states, had to appoint a new president of the European Commission. France’s Jacques Chirac and Germany’s Gerhard Schröder wanted their friend Guy Verhofstadt, the Belgian prime minister. But Verhofstadt was unacceptable to Britain, Italy and many of the new members from Central and Eastern Europe: they

thought him too much of a federalist and too hostile to the US. So in the end the European Council chose José Manuel Barroso, the then Portuguese prime minister, whose economic liberalism and Atlanticism made him attractive to the British and their allies.

But although Britain became more influential under Tony Blair, he never fulfilled his potential as a European leader, and to a large degree he failed in his ambition to reconcile the British people to the EU. Many of Britain's pro-Europeans thought it tragic that he deployed his brilliant powers of persuasion on trying to win support for the invasion of Iraq, rather than on explaining how Britain benefits from European integration.

From the time he came to power in 1997, Blair impressed other leaders with his energy, ideas and charm. By 2002 he was dominating EU summits, and he seemed likely to take on the kind of status that Chancellor Helmut Kohl had enjoyed a decade earlier. But then in 2003 came both the Iraq war and the decision not to hold a referendum on joining the euro. Blair's standing in the EU never recovered from this double blow.

Britain's 'soft power' – which may be defined as its attractiveness to people in other countries, and the respect they feel for Britain – has long suffered from the perception that its first loyalty is to the US. The British decision to join the US in invading Iraq greatly strengthened that perception. Of course, plenty of other governments supported the Iraq war, and agreed with Blair that the Union should not line up as a bloc in opposition to the US. But no other EU country has been so uncritical of US foreign policy, for example on the question of Israel and Palestine. Public opinion throughout the EU is strongly hostile to George W Bush and his foreign policy. Some of that hostility has tarred Blair and the British.

The decision not to join the euro has not harmed the British economy. But it sowed doubts in the minds of many EU leaders, especially since Blair had promised them that a referendum on the

euro was coming: was Britain really 'committed' to the Union? Those doubts were reinforced by Britain's shunning of the 'Schengen area' – which would require it to scrap passport controls – and its consistent opposition to treaty changes that would erode national sovereignty. Indeed, Britain's enthusiasm for enlargement but horror of treaty change led some to suppose that its underlying vision of Europe remained that of Margaret Thatcher. She had wanted to keep on enlarging the EU in order to weaken its institutions and sense of solidarity, in the hope that it would become little more than a glorified free trade area. That would be an unfair caricature of the Labour government's attitude. But many influential continental commentators, officials and politicians sincerely believe that Britain's strategy remains fundamentally Thatcherite.

Such prejudices have been reinforced by Britain's media. Decision-makers and opinion-formers in other countries are bemused by the rantings of British tabloids, which they sometimes take more seriously than do many Britons. The British media's style of covering Europe also limited the ability of Blair and his ministers to win the argument for the EU at home. The hostility of much of the press to the EU has constrained the tactics, if not the substance, of the government's approach to negotiations with EU partners.

Tactics matter in the EU. Evidently, Britain's above-average economic performance, and its positive contributions to the substance of EU policy-making – in areas ranging from utilities deregulation to carbon trading to military battlegroups – have enhanced its influence. But the style and tactics of British diplomacy have also counted.

In the 1990s, the persistent rudeness of Conservative ministers towards the EU weakened Britain's clout: fewer politicians from other member-states were willing to do Britain favours when it needed help. The Labour governments of the last ten years have been more successful at cultivating friendships, and in building alliances with particular countries on particular issues at particular times –

such as Spain on economic reform, France on European defence, or Sweden on keeping the Turkish accession talks running.

But Labour ministers have not always paid enough attention to strengthening ties with countries that can help the UK. For example, Britain won credit with most of the Central and East European governments for championing their membership of the EU. But after they joined in May 2004, the British government to some extent ignored them, taking their friendship for granted. Then the government seemed surprised that the Central and East Europeans reacted badly to British proposals on the EU budget that would disadvantage them. It is all too easy for large countries such as Britain to overlook the needs and preoccupations of smaller states. But in the new EU, 21 out of 27 members have populations of 20 million people or less, and the smaller countries have a lot of votes and influence in the Union. Too few British ministers have made the effort to travel to these countries and build friendships.

The British political class tends not to take the EU institutions very seriously. Yet the Commission is not only influential but also, often, an ally for the UK. Not enough British ministers and top officials make an effort to get to know the relevant commissioners and *fonctionnaires*. As for the European Parliament, it is generally ignored by the Westminster world, notwithstanding its considerable powers over the EU's laws and budget, and its ability to hold the Commission to account.

Despite the importance of smaller countries and EU institutions, France and Germany remain central to the workings of the EU. Although they no longer dominate decision-making, the EU can seldom make progress without their support. It is commonplace to say that the British prime minister must be on good terms with the US president. British leaders should also consider it part of their job to be friends with the German chancellor and the French president – a task that should not be too difficult with Merkel and Sarkozy in office.

This pamphlet offers some suggestions for Gordon Brown's government. It asks what the central tenets of a post-Blair European policy should be. It does not attempt to cover every area of EU policy. It focuses on economic reform, energy and climate change; on foreign and defence policy, enlargement and the neighbourhood; and on development policy and justice and home affairs. The pamphlet sketches out some of the ways in which the UK could help to steer the Union towards becoming a more prosperous, effective and confident global actor. But first it takes a look at the changes underway in the EU, and the challenges it faces.

2 Changes and challenges in the new Europe

The impact of enlargement

The entry of ten new members in May 2004, followed by Bulgaria and Romania in January 2007, is transforming the character of the Union. Those who predicted that the new members would all line up with the British in support of free markets, US foreign policy and the retention of national vetoes were mistaken. For example, Poland sometimes echoes France in its protectionist instincts and support for farm subsidies, while Slovenia would willingly give up many national vetoes.

Nevertheless, enlargement is in most respects good news for Britain. In a Union of 27 countries, the Franco-German alliance, however resilient it may be, cannot dominate. Nor can Britain easily become isolated: on tax questions, or treaty change, or labour market regulation, or issues of foreign policy, Britain will usually find an ally. The old federalist ideology – that in a ‘political union’ the Commission should become an executive government, responsible to both the Council of Ministers (transformed into an ‘upper house’) and the European Parliament – still has adherents in Belgium, Germany, Italy and a few other places. But none of the new members subscribes to this vision.

One consequence of the Union embracing such a diverse collection of countries, at contrasting stages of economic development, and with different priorities, is that it is no longer feasible for every member-state to take part in every EU activity. ‘Variable geometry’ is on the rise. Only half the member-states are in the euro. Some opt out of the Schengen area or European defence. New sub-groups

have emerged: the 'EU-3' of Britain, France and Germany, with the support of foreign policy 'High Representative' Javier Solana, handles the problem of Iran's nuclear programme; the 'G-6', the interior ministers of the six largest member-states, focuses on counter-terrorism and criminal networks; and the signatories of the Treaty of Prüm – the Benelux three, France, Germany, Austria and Spain – have agreed to share sensitive information on policing.

Traditionally, the British government has opposed greater use of variable geometry. It feared that if new *avant-garde* groups were established without the UK, British influence in the broader union would diminish. But in fact more variable geometry would create opportunities for the UK. Sometimes Britain may wish to opt out of integrationist initiatives, as it did with the euro. But at other times, it may welcome the chance to team up with like-minded countries in particular areas, such as defence, foreign policy or counter-terrorism, without having to worry about the views of all 26 other governments.

The new institutional settlement

There may be more discussion of variable geometry in the coming years, partly because the new treaty will be so much less ambitious than many member-states wanted. The EU summit on June 21st and 22nd gave a detailed mandate to an inter-governmental conference to draw up what will be known as the Reform Treaty. Governments expect to sign the new treaty before the end of 2007 and to ratify it

³ For an analysis of the Reform Treaty, see Hugo Brady, 'Hurrah for an end to EU navel gazing', CER briefing note, June 2007.

in 2008. Ireland may be the only government to hold a referendum on the new document; most of the others will ratify by parliamentary vote. The plan is for the new treaty to come into force in 2009.³

The Reform Treaty will not consolidate all the existing treaties, as the constitutional treaty would have done, so it will be much shorter. It will, like the Single European Act and the Treaties of Maastricht,

Amsterdam and Nice, amend the existing treaties. It will include neither the constitutional treaty's references to constitution, flag, anthem and national day – nor key articles such as that asserting the supremacy of EU over national law.

But the Reform Treaty will include some of the key institutional provisions of the constitutional treaty, such as the extension of qualified majority voting (QMV), which means the abolition of national vetoes, in areas such as justice and home affairs; a formula for ensuring that the number of commissioners is less than one per country; a decision-making rule known as 'double majority' voting, whereby a measure would pass if 55 per cent of governments vote in favour, so long as they represent 65 per cent of the EU's population; and the creation of the job of a full-time EU president, to chair the European Council, instead of the rotating presidency.⁴

⁴ Double majority voting would increase Britain's voting weight in the Council of Ministers by 45 per cent. In order to please Poland, which dislikes double majority voting, it will not apply until 2014.

Some of the most significant provisions of the new treaty concern foreign policy. The jobs of the current High Representative and the commissioner for external relations (currently Benita Ferrero-Waldner) will merge into a new High Representative who will speak for the Union externally. This person will be supported by the analytical expertise of an 'external action service', bringing together officials from the Council, Commission and member-states.

Gordon Brown's government should champion the Reform Treaty, for three reasons. First, it will make the EU institutions work better. One cannot argue that the EU has ceased to function since the enlargements of 2004 and 2007 – it can still pass laws and take decisions. But in two areas, in particular, the institutions do not work well.

One is foreign policy. The rotating presidency – under which the chairmanship of the EU passes from one member to another every six months – is an increasingly ineffective and anachronistic institution. Each presidency has a tendency to prioritise its own pet projects, and

the lack of continuity is frustrating for the EU's partners. For example, Portuguese officials, taking over the presidency in July 2007, have complained that the preceding German presidency focused excessively on Russia; they promise that Africa will be their priority. The new EU president should bring more coherence.

The current split between the economic side of EU foreign policy, managed by the Commission, and the diplomatic side, under Solana, produces huge inefficiencies. The inability of the EU to co-ordinate either its external policies in Brussels, or the various bodies, missions and agencies that act in its name in other countries, is embarrassing. The Commission and the Council work on the same problems (such as energy, Russia and the Middle East) but do so separately, leading to different priorities and, too often, mixed messages to the outside world. Hence the importance of creating the single external action service, to support the High Representative. He or she would, like the new EU president, have no executive power. The authority of the individuals in both posts would depend on their powers of persuasion and the force of their personality. The creation of these two new jobs should enhance the EU's global influence, when it has a common policy. But it would

⁵ Charles Grant, 'The good deal', *Wall Street Journal*, June 25th 2007. See http://www.cer.org.uk/articles/article_wsj_grant_25june2007.html not shift power from national governments to the Union, since any EU foreign policy would still require the unanimous consent of the foreign ministers.⁵

Justice and home affairs (JHA) is the other problem area. Most JHA decisions still require unanimity, which has harmed the EU's ability to take effective action on fighting crime and terrorism. The final compromises on JHA are frequently of poor quality, and seldom implemented on time. For example, it took the Council several years to negotiate a new EU warrant that will ensure the rapid sharing of evidence between member-states, and its effectiveness has been marred by national exceptions.

That is why 25 governments agreed to make majority voting the norm for police and judicial co-operation in the constitutional treaty.

That change will be carried over to the Reform Treaty, but the political mood in Britain – which is particularly fearful of EU involvement in criminal law – made it hard for the British government to give up its veto in this area. Under the terms of the new treaty, Britain will not automatically participate in decisions on police and judicial co-operation. That is regrettable, given the importance of more effective decision-making in the fight against crime and terrorism, and given the expertise that Britain has to offer. However, Britain has negotiated the right to opt in to decision-making in this field, either at the start of the process, or at the end, when the others have reached agreement.

The second reason for Britain to support the new treaty is the strong connection between institutional reform and enlargement. Ever since the 1980s, there has been a close link between 'deepening', the movement towards a more integrated Union, and 'widening', the enlargement of the Union. Political elites in countries such as France, as well as some federalists, have always been reluctant to widen the EU, believing that a larger Union could not easily evolve into the political union they desire. They feared that the British wanted enlargement in order to fulfil the Thatcherite vision of a weak EU that was little more than a free trade area. A wider Europe, of course, would also dilute the influence of France, Germany and the Benelux countries.

But despite these reservations, the EU has continued to enlarge – in 1981, 1986, 1995, 2004 and 2007. Those who were sceptical of enlargement swallowed their doubts because they extracted a price: a series of treaties that created a more integrated Europe – those negotiated in 1985, 1991, 1997, 2000, and finally the constitutional treaty, signed in 2004. The British, Nordics and some other enthusiasts for enlargement were never particularly keen on treaty-based integration, but accepted it as the quid pro quo of the widening they wanted. The Germans wanted both deepening and widening – the former, because of their federalism, and the latter to promote stability and prosperity in their immediate neighbourhood.

This implicit bargain between deepeners and wideners has driven the EU forward for the past 20 years. A deadlock on treaty change would therefore create major obstacles to further enlargement.

There is a third reason for Britain to back the new treaty: if it was blocked, the Union's ability to deal with many pressing challenges would be seriously impaired. Politicians and officials would be busy with – and sometimes obsessed with – treaties, institutions and schemes for removing the blockage, for a prolonged period. The Union would become more introspective. It would have much less energy for trying to conclude the Doha round of trade talks, developing a common approach to energy security, forging a coherent response to the rise of Russian authoritarianism, or playing a constructive role in the efforts to revive the Middle East peace process. And the EU's chances of leading the world in building a new international mechanism for tackling climate change, to replace the Kyoto treaty that ends in 2012, would be greatly diminished.

If Britain was blamed for the blockage and the inevitable rancour, it would lose influence across a swathe of policy areas. A less influential Britain would find it harder to win the arguments due to

⁶ *Hugo Brady and Charles Grant, 'Why treaty change matters for business and for Britain', CER policy brief, May 2007.*

revive next year over how to reshape the EU's budget and farm policy. With Britain marginalised, France and Germany would have little choice but to give the Union the leadership it would look for.⁶

Discussions on treaties and institutions are evidently a big turn-off for most voters. In itself, the new treaty will do nothing to improve the legitimacy of the EU in the eyes of many Europeans. But it should lead to reforms that, in the long run, make the institutions more efficient and transparent, and that in turn should ameliorate the legitimacy problem.

In the meantime there is a lot that the EU can do – and in some cases is already doing – to show Europeans that it can improve the quality of

their lives. In recent years, for example, the introduction of the European arrest warrant has made it easier for an EU government to extract terrorist suspects from another member-state. The establishment of the European Research Council is focusing R&D funds on centres of excellence, thus improving the performance of Europe's universities. And measures approved in the first half of 2007 include the 'open skies' agreement between the US and the EU, which will mean more choice of transatlantic flights and cheaper fares; legislation to cap the cost of 'roaming charges', leading to lower phone bills for travellers; and an agreement to introduce more stringent standards on energy efficiency, which should help to reduce carbon emissions.

The Reform Treaty, if ratified and implemented according to plan, may well be the last EU treaty for a very long time. Ever since the Single European Act, each time a new treaty has been negotiated, several governments – disappointed with the modesty of the result – have urged that another inter-governmental conference be held a few years hence, to achieve a 'better' deal. This has led to one treaty revision after another. But after the June 2007 European Council, no senior European politician stood up to urge that a new treaty should replace the Reform Treaty in a few years time.

The Union's almost constant focus on treaty change for more than five years – ever since the start of the convention on the future of Europe in February 2002, and including the painful experience of the French and Dutch referendums – has drained even the most enthusiastic federalists of the desire to embark on another round of institutional reform. Now that the EU has 27 members, the chances of everyone being willing and able to sign and then ratify another new treaty are not high. That is why the countries that favour a more integrated Europe are increasingly interested in variable geometry.

Modernising the EU budget

In its efforts to reshape the EU agenda, Gordon Brown's government should view the European Commission as an ally. The institution led

by Barroso is very different to that headed by Jacques Delors (president from 1985 to 1995). Most, though not all the Commission's directorates-general now subscribe to a broadly free-market philosophy. The French understood this ideological shift in the Commission rather sooner than the British, which is why so many leading French politicians, including Sarkozy, have attacked the Commission for not doing more to protect France, and Europe, from globalisation.

The Commission does not always take a free-market line. Ultimately it has to reflect a balance of the views among the member-states. So in 2006, when the Commission saw that its own proposals for a wide-ranging directive to liberalise services markets would not win a majority in the Council of Ministers or the European Parliament, it backed an unsatisfactory compromise. But there is no doubting the Commission's gut instincts: on reform of the common agricultural policy (CAP), on stamping out illegal state aid, or on standing up to member-states which try to prevent take-overs of 'national champions', the Commission is on the same wavelength as the British.

The Commission will lead the reviews of the EU's budget and the CAP that are due in 2008-09. Although the broad parameters of EU spending have already been set until 2013, these reviews offer an opportunity to start reshaping crucial EU policies, such as agriculture and regional aid, for the period that follows. The Commission is likely to support a big shift in spending from farm subsidies to goals that would enhance the competitiveness of the European economy, such as R&D, education, and aid that helps companies to restructure.

Britain should back those objectives, and support a radical reform of the CAP. This should include the full decoupling of subsidies from production (already applied to most sectors of farming); introducing 'co-financing', so that national governments share the cost of supporting farmers; focusing a higher proportion of subsidies on the

poorest farmers; and transferring money from farm support to rural development in the new member-states.

Gordon Brown may be surprised to find that the staunchest opposition to CAP reform comes from Warsaw rather than Paris. This is because the French have calculated that, in the budget period starting 2014, when the new member-states will receive their full portion of farm payments, France will become a net contributor to the CAP budget. Brown should seek an early understanding with Sarkozy on the EU budget, pointing out that radical CAP reform will ultimately be in France's interest.

Britain would have more credibility in proposing a smaller CAP if it agreed that money should be transferred to other areas of EU spending. It should push for more funds to go on development assistance for the world's poorest countries, as well as the states covered by the European neighbourhood policy. Britain should not propose major cuts to the poorer EU countries' receipts from regional funds, since they are unlikely to accept both reduced farm payments and less regional aid. But Britain should push for the focus of the regional funds to shift towards enhancing the competitiveness of the recipients.

Britain is likely to find not only the Commission, but also a majority of member-states, sympathetic to such reforms. But not so sympathetic that they will let Britain off the hook on its budget rebate.⁷ *Very roughly, the rebate returns to Britain two thirds of the difference between its contribution to the EU budget and its receipts from it.* Most other member-states want to eliminate the rebate, seeing it as an anomaly. They have a point, now that Britain is one of the richest countries in Europe. However, without the rebate, and with the current CAP, Britain would pay for an unfairly large proportion of the EU budget.

There is an obvious deal to be done: a smaller rebate in return for a smaller CAP. In any case, the political reality is that the governments

most attached to the CAP, including France, Ireland, Poland and Spain, will not agree to its radical reform unless the British agree to phase out the rebate. Such a linkage makes sense: Britain needed the rebate because it got such a poor financial deal from the farm policy.

⁸ John Peet, *'The EU budget: A way forward', CER policy brief, September 2005.* A smaller and reformed CAP would weaken the case for maintaining the rebate.⁸

Economic challenges

In 2006 the EU economy grew at 3 per cent, its fastest rate in six years, and in 2007 is on course to outpace the US. Europeans should not get too excited, however. Over the past ten years the average rate of growth of the EU-15 has been 2.25 per cent, about 1 percentage point less than the US figure. Slow growth remains a structural European problem, and may worsen, with populations ageing rapidly, and workforces soon to shrink.

Weak economic growth not only impacts on living standards, welfare and employment inside the Union, but also has strategic consequences. A slow-growing Europe will be more defensive and less inclined to look outwards. Many Asians and Americans perceive Europe's social and economic model as something of a failure. If Europe has to focus most of its energies on overcoming its internal economic problems, it will be less able to address global challenges. Of course, Europe's relative economic weight is bound to decline steadily over the coming decades, irrespective of its economic policies; that is only to be expected in light of the rise of rapidly-growing emerging markets such as China and India. However, the policies that the Europeans adopt will determine the pace of that decline.

The economic performance of the rest of the EU has big implications for Britain, since the European economies are inextricably linked. Over half the UK's considerable stock of foreign direct investment is in other EU member-states. The EU accounts for over half of the UK's merchandise exports. Britain's strong

economic growth in recent years has been driven by, among other things, rising private consumption and government spending. But the growth of UK domestic demand is now slowing, which means that the economy is becoming more dependent on exports, to the EU and elsewhere. The UK therefore has a direct interest in encouraging growth on the continent, and in ensuring that the EU has an open trade policy vis-à-vis the rest of the world – leading the attempts to conclude the Doha trade round, making a success of the planned EU trade agreements with ASEAN, China, India and South Korea, and resisting calls for protectionism.

The right sort of EU policies on trade, competition and the single market will enable the British economy to profit from globalisation. But a disunited EU that is growing slowly is more likely to pursue the wrong sort of policies – such as protectionism at the national and/or EU level, and a general resistance to change and risk-taking.

One underlying cause of Europe's relatively poor economic performance is weak productivity growth (and Britain is not immune to this problem). Some EU members, such as Belgium and France, boast high productivity, but this is largely because high labour costs and restrictive employment laws deter companies from taking on workers; they invest instead in machinery and equipment. Indeed, high productivity in Europe seldom reflects a high level of technological readiness or total factor productivity (a measure for the efficiency with which labour and capital are used). Given current demographic trends, Europe needs to raise both the proportion of the working age population in employment, and productivity. Otherwise there will not be enough economic growth to sustain welfare states and public services.

Europe's productivity problem partly stems from a lack of innovation and a disinclination to adopt new technologies. One reason is that spending on research and development (R&D) has stagnated in the EU. At less than 2 per cent of GDP, the EU continues to invest far less in R&D than the US or Japan. On

current trends, within five years China will devote a higher proportion of its GDP to R&D than the EU. Furthermore, much of the R&D in Europe goes into mature, slow-growing sectors, such as cars, rather than fast-growing industries like pharmaceuticals, software and technology hardware. A related

⁹ Richard Lambert and Nick Butler, *'The future of European universities: Renaissance or decay'*, CER pamphlet, May 2006.

problem is that Europe's universities are, in global terms, a declining force. Whereas the EU invests just 1.3 per cent of GDP in higher education, the comparable US figure is 2.6 per cent.⁹

The European countries with the biggest problems – the weakest universities, the poorest rates of productivity growth, and an over-dependence on mature industries – tend to be the Southern Europeans. Italy, for example, has lost more than 20 per cent of its

¹⁰ Simon Tilford, *'Will the eurozone crack?'*, CER pamphlet, September 2006.

competitiveness against Germany since the start of the euro in 1999, because of weak productivity growth and excessive wage increases.¹⁰ With the option of devaluation no longer available, Italy and some other euroland countries face prolonged periods of weak growth as they try to claw back lost competitiveness.

Globalisation is producing losers as well as winners in Europe. Bankers, engineers and other highly-skilled professionals are benefiting, whereas unskilled workers in labour-intensive manufacturing and basic services are threatened with falling wages or job losses. So it is hardly surprising that the Union has experienced sporadic outbursts of protectionist sentiment in recent years. The protectionists are not winning many of the current arguments: the most contentious cross-border takeover attempts – such as Mittal's bid for steel-maker Arcelor, or E.ON Ruhrgas's offer for Spanish energy firm Endesa – have either succeeded or ended in compromise.

However, there is little room for complacency. The dilution of the Commission's plans to liberalise services in 2006 showed that the

opponents of economic openness can muster powerful forces. So did Sarkozy's elimination of the reference to "free and undistorted competition" from the EU's objectives, at the Brussels summit in June 2007. The more that EU countries struggle to profit from globalisation, the louder will be the calls to slow down deregulation, restrict trade, or curb takeovers.

Evidently, Europe as a whole is not about to be left stranded by globalisation. Some EU member-states are already doing well, notably Britain, Ireland, the Nordics and some of the Central and East European economies. These economies have a strong self-interest in assisting the less successful to perform better.

Happily for Britain, the EU offers tools that can help. First, there is legislation – drafted by the Commission, but voted on by governments and the European Parliament – that promotes the single market by removing non-tariff barriers to the free movement of goods, services and capital, and by providing for the mutual recognition of national standards. Thus in recent years a set of new EU directives, known as the 'financial services action plan', has created a framework for an integrated capital market.

Second, there is EU competition policy. The Commission curbs state aid, breaks up cartels and vets mergers. Where legislation has failed to break down protectionist barriers – as with the internal market for energy – the directorate-general for competition may be able to intervene directly to open up markets. As Britain's former City minister justly observed: "With much of the legislation required to establish the single market already in place, increasing the use of proactive competition policy, rather than relying on regulation, should become a key feature of single market policy."¹¹ The competition policy that flows from the new EU treaty – with the word eliminated from the objectives, but a special protocol on competition policy added – is unlikely to differ from the current policy.

¹¹ Ed Balls, *'Britain and Europe: A City minister's perspective'*, CER essay, May 2007.

Third, there is the ‘Lisbon agenda’ – a ten-year programme adopted by the EU in 2000 – that commits the governments to a series of structural economic reforms. The Lisbon agenda’s targets – covering areas such as labour markets, R&D, utilities and financial services, but also social and environmental goals – were the right ones. Some targets cannot be met without EU laws, but most require action by member-states. Even for the latter, however, the EU has a role to

¹² Katinka Barysch, Simon Tilford and Aurore Wanlin, *‘The Lisbon Score card VII: Will globalisation leave the EU stranded?’*, CER pamphlet, March 2007.

play, through encouraging benchmarking, peer-group pressure and the exchange of best practice. The results of the Lisbon agenda have been mixed, but better than many cynics claim.¹²

For example, the proportion of workers aged over 55 in employment has risen by 7 percentage points in the EU since 2000; the time it takes to set up a new company has dropped dramatically in many countries (it now takes just a week in Italy); the proportion of households with broadband access jumped to almost a third in 2006, a rise of nearly 50 per cent in one year; and the share of school leavers with ‘upper secondary level’ qualifications has risen to 77 per cent, not far from the 85 per cent target. However, many Lisbon targets will not have been met by the 2010 deadline, which means that the Lisbon agenda – or something like it – will remain relevant in the next decade.

The European Commission is central to the single market, to competition policy and to the Lisbon agenda. Its instincts are liberal and its analysis is usually close to that of Britain. President Barroso has made reviving the European economy his top priority. This is a Commission Britain can do business with. If Britain engages in a constructive manner with the Commission and its EU partners, it can help to shape the Union’s economic agenda.

External challenges

Britain and its partners together face a wide range of security threats, both old and new. In tackling these threats, the EU countries will

often achieve more by working collectively rather than apart. Whether the problem is the trafficking of people, arms and drugs; international terrorism, organised crime and illegal immigration; or the threat of ballistic missiles from rogue states, the nation-state is ill-suited to cope on its own. The EU has already put in place some of the mechanisms that can help its governments to fight these scourges. But its policies and institutions need to evolve further, to become more effective.

The US, of course, can help Britain and the EU to deal with many of these problems. NATO remains the ultimate guarantee of Europe’s military security. Co-operation between the American intelligence services and those in Britain and elsewhere in Europe is crucial for combating terrorism.

But the EU has significant strengths as a foreign policy actor, of which not everyone in Britain is aware. Together with its member-states, the EU provides more than half the world’s official development assistance (ODA). The EU countries share a strong commitment to multilateralism in general, and the United Nations in particular. On some of the key strategic questions, such as the Middle East peace process, or the Iranian nuclear programme, the EU is seen in many places as more even-handed, or less inclined to resort to force, than the US.

For these and other reasons, the EU’s soft power is a significant source of strength in many parts of the world. Britain, of course, has attracted opprobrium for backing the US over Iraq. But one way to rebuild Britain’s own soft power, particularly in the Muslim world, is to stress that it is an active member of the EU.

For most of its history, the EU has evolved in response to economic and political challenges within Europe. The member-states worked to build a single market and a single currency. They embarked on a long series of attempts to reform the institutions. And then in reaction to the democratic revolutions in Southern and Central Europe, they decided to extend the Union across much of the continent.

However, in the coming decades, the key drivers of change are likely to come from beyond Europe. How can the EU respond to China, India and Japan becoming increasingly strong economic superpowers? How can it persuade those countries and the US to join its efforts to tackle global warming? How can the EU best deal with a resurgent and increasingly authoritarian Russia? And what can the EU do to help resolve the Israel-Palestine problem – which, if left festering, risks spilling over into other areas such as transatlantic relations, the West's relations with Islam, and energy security?

Since EU enlargement will proceed only very slowly, the Union needs to find new ways of transforming its neighbourhood. An arc of potential instability runs through that neighbourhood, stretching from Belarus to North Africa, and passing through Ukraine, Moldova, the Western Balkans, the Caucasus and the Middle East. Unless the EU redoubles its efforts to promote stability, security, prosperity and good governance in these countries, it risks paying a heavy price – coping with boatloads of illegal migrants, combating gangs of organised criminals that enter the EU, sheltering refugees from civil wars and ethnic conflicts, or dispatching battalions to keep the peace in conflict zones.

Britain has a global perspective unmatched by most other member-states. Given its close ties to the US and many Commonwealth countries; the proficiency of its diplomats, soldiers and police; the high reputation of its overseas aid programmes; the seminal role that it played in launching the European security and defence policy; and its experience of working in many of the world's most troubled zones, Britain is well-placed to help lead the EU's efforts to develop stronger external and security policies.

3 The Middle East and Russia

The role of Javier Solana

Gordon Brown's government should champion a more effective and coherent European foreign policy. This does not mean a single EU foreign policy. There will be issues on which the British government wishes to take a different line from its partners. But on many of the key challenges, Britain and the other member-states share similar interests. And when that is the case, Britain can often achieve more by acting through the Union than on its own.

On the Balkans, for example, there has been no specifically British policy for the past dozen years, as opposed to EU and NATO policies that have been for the most part broadly successful. The EU's economic aid and political engagement – supported by NATO and then EU peacekeepers – has brought stability to the Western Balkans. And there have been particular diplomatic successes: Javier Solana, the EU's High Representative, helped to broker the Ohrid accord which prevented Macedonia from sliding into civil war in 2001, and then he intervened the following year to prevent a rupture and possible bloodshed between Serbia and Montenegro.

So long as the EU has a common position to represent, Solana can play a useful role. In the EU's dealings with Iran, the EU-3 (Britain, France and Germany) plus Solana have represented the Union. By holding together, the Europeans persuaded an initially hostile US to support their carrot-and-stick strategy – carrots to reward Iran for abandoning the enrichment of uranium, and sticks to punish it for failing to do so. The EU also spurred China and Russia to adopt a harder line on Iran than they had done. However, the diplomacy has

so far failed: Iran is enriching uranium, apparently bent on developing the capacity to build nuclear weapons.

A more successful example of EU diplomacy was the intervention in Ukraine during the 'orange revolution' in 2004. The presidents of Poland and Lithuania, plus Solana, persuaded President Leonid Kuchma to re-run the flawed presidential election that Viktor Yushchenko had 'lost'. On the Israel-Palestine problem, the Europeans are usually more or less united, which allows Solana to be constructive – as in 2005 when he negotiated for EU monitors to police the border between Gaza and Egypt at Rafah.

Britain shares common interests with its European partners in many other domains, too, even where – for now – there are no common policies. A stronger common foreign and security policy (CFSP) would make it easier for Britain to achieve several of its foreign policy objectives. The EU's new Reform Treaty should make the CFSP more effective – when the member-states agree on a common line – by strengthening the role of the High Representative. The two biggest challenges for the CFSP are currently the Middle East and Russia.

Transatlantic relations and the Middle East

The arrival of Gordon Brown in 10 Downing Street offers a chance for Britain to rethink the way it works with Washington. Its unstinting support for the US in Iraq has tarnished its image, not only in Europe and the Middle East but also in many other parts of the world. Britain's soft power has suffered from its refusal to criticise the US in public on any strategic subject. A shift in Britain's stance would increase its global influence.

No British government should adopt anti-American rhetoric, or seek to undermine US interests. The United States remains not only the most powerful country in the world, but also a longstanding ally which shares many British values and often takes a similar approach to international problems. But

sometimes its interests are different to those of the UK. And like all countries, America is capable of making mistakes. At such times, the UK should be prepared to criticise the US – though sparingly, and in a constructive tone. If the Brown government adopted such a stance, the US would surely continue to listen to it. And some other governments might treat what Britain said with greater respect.

The arrival of Nicolas Sarkozy in the Elysée Palace heralds the prospect of a new French approach to transatlantic relations. Sarkozy is about as Atlanticist as a successful French politician can be, and is instinctively sympathetic to Israel. Sarkozy's appointment of Jean-David Levitte as national security adviser, and Bernard Kouchner as foreign minister – both Atlanticists – suggests that the *Chiracien* idea of developing the EU's power to constrain the US is *passé*.

The combination of Brown and Sarkozy offers an intriguing chance to transform the dynamics of the transatlantic relationship, as well as EU foreign policy. One structural weakness that has often undermined EU foreign policy is that Britain and France have had very different views on transatlantic relations. Britain has tended to line up with the US on the most important strategic issues, and work to prevent the CFSP from coming into conflict with US policy. Tony Blair's government avoided public criticism of the US, for fear of losing its private influence. France, however, has tended to support the idea of an EU that is capable of standing up to the US, and that helps to promote a 'multi-polar' rather than a 'uni-polar' (that is, US-dominated) world. Jacques Chirac's France was as instinctively critical of US policy as Blair's Britain was instinctively supportive.

This British-French disagreement over how to handle the US – which stretches back 50 years to the Suez fiasco, from which each drew the opposite conclusions – has proved very damaging, most notably over Iraq. If Sarkozy and Brown can abandon their countries' contrary positions on the US, and meet somewhere in the

middle, most of the rest of Europe will be delighted, and they will both be the stronger for it.

A convergence of Franco-British thinking on transatlantic issues could be good for the Middle East peace process. The Europeans generally share a similar analysis of what kind of solution would offer the best hope of long-term peace: they think the Palestinian state should be based on Gaza and the West Bank, with frontiers similar to those of 1967, though with land swaps that would allow Israel to keep some of its settlements on occupied land. But the Europeans sometimes disagree over tactics, such as whether they should talk to Hamas and Syria – the official EU line in the summer of 2007 is that they should not, though some member-states question it.

EU policy on the Middle East has suffered from differing views on the transatlantic relationship. When the EU line – in response to some new event – shows signs of diverging from that of the US, Britain sometimes tries to bend it towards the American position. For example, in 2004 President Bush shifted US policy by saying that “facts on the ground” meant the Palestinians could not hope for all of the West Bank – thereby effectively telling Israel that it could keep some of the settlements. Blair, at that moment on a visit to the US, refused to take a different line, which made an effective European response impossible. And in July 2006, when Israel reacted to the kidnapping of two soldiers by attacking Lebanon, Britain, alongside Germany, the Netherlands and Poland, prevented the EU from condemning the Israeli response as disproportionate.

Of course, declaratory diplomacy may not be of much help in the middle of a crisis, though other things being equal the Europeans are more likely to be listened to if they speak with one voice. France, like Britain, sometimes undermines European unity: in the autumn of 2006, France got together with Spain and Italy to promote a new ‘peace plan’, without consulting other EU partners.

Yet despite all these difficulties, the EU has the potential to play a significant supporting role in the Middle East peace process. It is the biggest provider of aid to the Palestinian Authority, and Israel’s largest trading partner. And many Arabs have a grudging respect for the EU: although they tend to see it as ineffectual, they believe that it tries to be fair-minded. So far, the EU has not been particularly effective in exploiting these opportunities to influence the peace process.

An active diplomacy of engagement would be more likely to foster change than declarations. In many ways the EU has become increasingly active, as is shown by the border mission at Rafah, another mission that is training the Palestinian security services, and the dispatch of 8,000 European troops to keep the peace in southern Lebanon. But the EU’s engagement is impaired by a lack of co-ordination. During August 2006 the Lebanese government had to receive 25 separate ministerial visits from EU countries wanting to help. Sweden organised a donors’ conference for Lebanon, and Germany announced an initiative to secure Lebanon’s borders, but neither consulted the Commission or the EU presidency before doing so.

Whatever the EU does on the ground, a settlement between Israel and Palestine will evidently require active American engagement, since only the US has the ability to lean on Israel. The EU’s top priority in the Middle East must be to persuade the US to engage, and to do so in the manner of an honest broker (as the US did under the first President Bush and Bill Clinton). That task of persuasion is not easy, as Tony Blair discovered when prime minister. He can claim to have influenced US tactics in the Middle East, for example on the timing of the publication of the ‘road map’, but his efforts do not seem to have had much impact on strategy.

In 2007, the administration of the second President Bush – in its seventh year – finally seemed to be working hard for a peace settlement. But whether that engagement is maintained; whether Blair, in his new role as Middle East envoy, can strengthen

American engagement; whether the US is capable of the necessary degree of objectivity; whether the Israeli and Palestinian governments can find the strength to negotiate a deal; and whether Hamas's takeover of Gaza will stymie moves towards a settlement, are questions that remain to be answered.

In any case, a united EU would carry more weight in Washington than Britain alone. Yet if the EU adopted a line on the Middle East that was too far from US policy, its impact in Washington would be minimal. So the task of calibrating exactly the right EU policy will be extremely difficult. However, if Brown and Sarkozy work together they will stand a good chance of helping to forge an EU position that has some influence on the US and a positive impact on the region.

The EU's ability to influence Israel is limited by the perception of most Israelis that Europeans are indifferent to their security and biased to the Palestinians. That perception is unlikely to change in the short term. But Europeans should work to convince Israel that while they may disagree over the kind of peace settlement most likely to ensure its security, the Union would welcome much closer ties with Israel. The EU-Israel 'action plan', negotiated as part of the European neighbourhood policy in 2004, would – if implemented fully – lead to Israel's participation in a broad range of EU programmes and policies.

The EU should go further and say that once the Palestinian question has been satisfactorily settled, it will encourage Israel to join the European Economic Area. Then, like Iceland and Norway, Israel would take part in the EU's single market, and be consulted on its rules, though Israel would not have a vote on them. The EU should also offer peacekeepers to police any peace plan that may emerge.

How to deal with Russia?

A second big challenge for EU foreign policy is working out how to cope with an increasingly rich, powerful, authoritarian and

nationalist Russia. The EU member-states have very similar interests in Russia. They all want it to develop a strong and successful economy that welcomes foreign investment, and to be a reliable supplier of energy. They want the slide towards authoritarianism reversed. They want Russia to be an ally in the fight against terrorism and in opposing the proliferation of dangerous weapons. They want Russia to respect the sovereignty and independence of the countries in the neighbourhood that it shares with the EU.

And yet, until now, the Europeans have not worked together effectively on Russia, for a number of reasons.

- ★ Britain, France, Germany and Italy have run separate policies, each at various times seeking a special relationship with President Vladimir Putin. These bilateral relationships have been competitive.
- ★ Several member-states believe that their economic interests differ vis-à-vis Russia, particularly on energy. Those countries most dependent on Russian gas, such as Germany, Hungary and Slovakia, have preferred bilateral energy relations with Russia, rather than have the EU negotiate on their behalf – and have been among the most reluctant to criticise Russian policies. Germany supports the new Baltic Sea pipeline to carry Russian gas, while Poland and the Baltic states fear that its construction would enable Russia to cut off their own supplies of gas.
- ★ Putin has cleverly exploited divisions among the Europeans. For example, when in 2007 he attacked American plans to install missile defence systems in the Czech Republic and Poland, and his generals threatened those two countries, he revived the latent anti-Americanism that is strong in several EU states. Some German leaders blamed the row on the US, while in many other West European countries, politicians were reluctant to express solidarity with the Czechs and Poles.

- ★ The arrival in the EU of Poland and the three Baltic states, which have had particularly difficult historical relationships with Russia, has sometimes made it harder for the Union to find a common voice. Thus in 2007 Poland vetoed the start of talks between the EU and Russia on a new treaty that would replace the outdated partnership and co-operation agreement. Poland was provoked by Russia's ban on imports of its meat.

Over the last few years, the EU has divided into three distinct groups over dealings with Russia: the 'be tough' camp led by Poland and the Baltic states; the 'be soft' camp led by France, Germany and Italy; and the others in the middle, such as Britain. Because of these divisions, when the EU has tried to develop a line on Russia, or react to a specific event – such as the Russian blockade of Georgia in October 2006 – it has usually proved unable to agree on much beyond the most anodyne of statements.

Britain is in a tricky position in Russia. Multi-billion dollar investments by BP and Shell have made Britain the largest foreign investor, but the value of their assets depends on the good will of the Kremlin. Relations between London and Moscow have been strained by Britain's refusal to extradite either the oligarch Boris Berezovsky, or the Chechen Akhmed Zakayev, and by the murder of Alexander Litvinenko in London. Britain therefore has a strong interest in gaining the solidarity of its European partners in relations with Russia. If the Kremlin believed that punitive measures against Britain would seriously damage its ties with the other leading European countries, it might hesitate before taking them. Gordon Brown should therefore work with Merkel, Sarkozy and other European leaders, including the Kaczynski brothers in Poland, to forge a more united European approach to Russia.

In the summer of 2007, such an approach is starting to look plausible, because of changes in European leadership, and changes in Russian behaviour. Over the past 18 months, Silvio Berlusconi, Jacques Chirac and Gerhard Schröder – Putin's best friends in

Europe – have left office. Meanwhile, the Kremlin's more antagonistic words and actions have started to create a sense of solidarity among Europeans. Its blockage of oil supplies to Latvia and Lithuania; its over-reaction to the Estonian government's decision (thought foolish by most EU leaders) to move a war memorial, which included cutting rail links and, apparently, unleashing a kind of cyber-war; and its suppression of peaceful protests within Russia, have made even Russia's best friends rethink their policies towards it.

The EU-Russia summit in Samara in May 2007 may prove to have been a turning point.¹³ Nothing was achieved on EU-Russia relations. But the EU showed Russia a more united stance. José Manuel Barroso reminded Putin that the Union was "based on principles of solidarity". A difficulty of one member-state was shared by all members, he said. "The Polish problem is a European problem. The Lithuanian and Estonian problems are also EU problems." Then Angela Merkel criticised the fact that peaceful protesters had not been allowed to travel to Samara. This new and more united EU approach made a positive impression on many of the new member-states.

Given Russia's importance to the EU – as an energy supplier, a market, and a neighbour with a global foreign policy – the EU should renew its efforts to forge a common approach. The emphasis should be to:

- ★ Always talk to Russia. The EU and Russia have so many interests in common that they should stay in close contact, whatever happens in the country.
- ★ Emphasise to Russia that a fundamental EU principle is solidarity among its members. If Russia picks a fight with one member-state, they are all implicated (the corollary of this point is that the Union should encourage member-states to act with prudence and moderation in their dealings with Russia).

¹³ Katinka Barysch, 'Three questions that Europe must ask about Russia', CER briefing note, May 2007.

- ★ Make clear to Russia that the quality of the EU-Russia relationship, and the closeness of the institutional links that the EU is willing to offer Russia, will depend on whether the Russian government appears to share European values.
- ★ Recognise that the EU lacks the ability to influence Russia's domestic politics. If the Russian government abuses human rights, Europeans should complain, but not expect to change its behaviour. The best hope for changing the internal politics of Russia would be the example of a successful and prosperous democracy in Ukraine.
- ★ Ask Russia to help in sorting out some of the key problems of international politics, such as the Iranian nuclear programme. Russia likes to see itself as a great power and should be treated as such, when it can be helpful.

The EU's most important priority should be to focus on the neighbourhood that it shares with Russia. Senior figures in the Kremlin seem to treat the politics of the neighbourhood as a zero-sum game, believing that a country which develops vigorous and independent political institutions is bad for Russia, while one that is weak and authoritarian must be good for it. The EU should stress that what it cares about in these countries is the democratic process: so long as elections are free and fair, it is unimportant whether the prime minister elected is pro-Russian or pro-western (indeed, the EU has put this principle into practice by seeking closer ties with the 'pro-Russian' Victor Yanukovich, after he won parliamentary elections and became Ukraine's prime minister in 2006).

But the Europeans should point out that if Russia persists with its zero-sum approach, seeking to weaken neighbouring regimes and the pluralism they foster, they will respond by assisting those regimes. And EU leaders should tell Russia – in private – that there are red lines that must not be crossed: if it ignored the sovereignty of a country like Ukraine, Moldova or Georgia, by installing a pliant

and undemocratic regime, it would no longer be welcome in the Council of Europe or the G-8.

The EU cannot feasibly offer membership to its eastern neighbours, for the foreseeable future. Nor should it be in a hurry to extend NATO to Ukraine and Georgia. That would provoke Russia to an unnecessary degree, and – because of US involvement in NATO – would complicate the EU's relations with Russia in the common neighbourhood. But the EU should take these countries much more seriously than it has done. Too few ministers or prime ministers from Britain and other EU governments visit them. The EU should increase aid to the countries under pressure, and to democracy-building NGOs throughout the region. It should seek to bind the more democratic countries closer, through an enhanced neighbourhood policy (see chapter six).

The long-term destiny of the borderlands between the EU and Russia remains unclear. They could move closer to the EU, or fall under the shadow of Russian authoritarianism. To its credit, the US has taken this region rather more seriously than have many EU governments. But the EU should not leave the US to sort out Europe's eastern neighbours or the Southern Caucasus. All the member-states share an interest in ensuring that political and economic liberalism take root in the EU's eastern periphery.

Ultimately, if Russian behaviour towards its neighbours or the Union becomes unacceptably aggressive, the EU has cards it can play. Russia's economic elite needs the co-operation of the West in order to fulfil its ambitions. Russian companies are investing increasing amounts in other parts of the world – the *Financial Times* has estimated Russia's stock of overseas foreign direct investment at \$140 billion. They raise tens of billions of dollars on the London Stock Exchange. And in the long run if, as is likely, declining output of oil and gas prevents Russia from meeting export commitments, its hydrocarbon industries will need the help of western technology and expertise to develop new fields.

Russian politicians and diplomats take a very realist view of foreign policy. They tend to view suggestions of compromise as signs of weakness. But they respect strength – which is why they are so much more contemptuous of the EU than the US. The best way for Britain and its partners to influence Russia is to stand firm and united.

4 Innovation, energy and climate change

A new approach to economic reform

Britain benefits enormously from being part of the EU's single market. Ambitious and enterprising people from all over Europe have flocked to work in one of the most open and vibrant economies in the EU. Many of the American and Asian firms that invest in Britain would not do so without the access it offers to the European market.

Europe's single market is, of course, imperfect, and still contains non-tariff barriers to the free flow of goods, services, people and capital. The Lisbon agenda for economic reform aims to remove those barriers. Alongside the Spanish and the Portuguese, the British helped to invent it. The UK has been one of the better performers in areas such as employment, financial services, regulation, energy and higher education. If some of the other member-states could improve their compliance with Lisbon targets – for example by opening financial markets or reducing unnecessary red tape – British firms would stand to benefit.

Gordon Brown's government is well-placed to offer advice to other governments, but it will be more likely to influence them if it bears in mind two points. First, it should avoid an arrogant tone. If its attitude is "the British economic model is a great success, so you should follow our example", it may achieve less than if it shows some humility. If the British are prepared to admit that on some key social and economic measures – such as labour productivity, spending on R&D, the skills base of the workforce and levels of child poverty – they are not among the best-performers, and that

they could benefit by learning from others, their comments will be treated with more respect.

Second, the British need to make a big effort to overturn the widely held perception in many parts of the continent that their economy is ultra-liberal and their society profoundly inegalitarian. Britain's image in much of the continental media is still that of a Dickensian country where little boys work 18-hour days as chimney sweeps. At times this may weaken the force of British arguments in favour of liberalisation. Gordon Brown should stress that Labour has combined an open economy with social justice – hence the minimum wage, the tax credits that have curbed poverty, the massive increases in spending on health, and the plans to provide more generous pensions.

Any British government must be alert to the possibility of unwelcome measures coming out of the EU – such as moves to harmonise company taxation, introduce an EU-wide minimum wage or restrict cross-border mergers. But if and when such measures appear, the majority of governments will be ready to work with the British to squash them. The Brown government should therefore focus on a positive set of EU economic policies. The thrust should be to reshape the Lisbon agenda, to give it greater focus on competition and innovation.

In high-cost countries, such as those in Europe, innovation-driven productivity growth will be the main source of future economic prosperity. Europe needs to move into higher value-added goods and services in order to profit from globalisation.

However, firms will not invest in R&D and innovate unless the EU and its governments provide the right kind of business environment, which means open markets, a strong competition policy, the absence of unnecessary regulation, and sufficient numbers of highly-skilled and flexible workers. Of course, many of the remedies lie in the hands of the member-states, but the EU also has an important role to play.

Although the EU's single market has been a huge success, many potential benefits remain unrealised, especially in the area of services. Despite accounting for around 70 per cent of EU GDP, services represent just 20 per cent of intra-EU trade – a proportion that has in fact fallen in recent years. The partial insulation of services from cross-border competition removes incentives to innovate. According to the OECD, service sector R&D in the EU-15 is just a third of the level in the US, despite the two economies being of comparable size. As the biggest exporter of commercial services in the EU, the UK has a particular interest in the dismantling of obstacles to their trade. The services directive that was finally adopted in 2006, although much less radical than the Commission had hoped for, will make it easier for service companies to operate in countries other than their own.

However, the EU would be wrong to suppose that the way to perfect the single market is merely to pass ever more legislation, to improve transposition into national law, or to make a better job of enforcing the rules. The single market was originally designed for an economy based around mass manufacturing of standardised products that benefit from economies of scale. Today's economy is increasingly reliant on knowledge- and service-based industries which produce a much greater variety of things that people want to buy. Instead of harmonising existing rules, the Commission should focus more on analysing markets, breaking down barriers to entry, and stimulating competition – as some of the Commission's own in-house thinkers advocate.¹⁴ The UK's regulatory regime, based on principles rather than rigid rules, is one reason for the success of British financial and business services. The EU as a whole could learn from this approach.¹⁵

¹⁴ Marcel Canoy, Roger Liddle and Peter Smith, 'The single market: Yesterday and tomorrow', European Commission, 2006.

¹⁵ Ed Balls, 'Britain and Europe: A City minister's perspective', CER essay, May 2007.

To its credit, the Commission has taken an increasingly tough stance on anti-competitive behaviour in recent years, resisting periodic bouts of protectionism in various member-states. But its approach

remains too legalistic. Competition policy needs to be more sensitive to the needs of innovative companies. Innovation in dynamic, high-technology sectors does create temporary positions of market dominance, because firms are often developing products or services for which there are few, if any, competitors. But such dominant positions tend to be temporary, because barriers to entry in sectors where a firm's main assets are intellectual – such as software – tend to be lower than in capital-intensive industries.

The EU's competition policy rules should, of course, apply to dynamic industries. But it should take more account of the long-term benefits that derive from innovation, and attach relatively less importance to the short-term effects on prices. The welfare

¹⁶ Jorge Padilla and Henri Piffaut, *Discussion Paper, Social Science Research Network*, 2006.

of consumers does not depend only on low prices; they also gain from the emergence of new products, technologies and services.¹⁶

Every economy in Europe would benefit from better and simpler regulation. The burden of administrative costs on businesses, such as unnecessary reporting requirements, is onerous across the EU. According to the Commission, these costs amount to more than 4 per cent of GDP in Austria, Italy, Poland and Portugal. Even among the region's more competitive economies, such as Finland, Sweden and the UK, the figure is 1.5 per cent. The Commission has set a target to reduce the burden of EU administration by 25 per cent by 2012 – but this needs to be matched by similar moves from member-state governments. As a matter of urgency, the governments should also agree on an EU-wide patent system. At present, the cost of filing EU-wide patents is five times as high as the cost of patent protection in the US, and the approval process takes too long.

Sharper competition and better regulation can encourage innovation – but only if there are enough workers who have the skills to develop and apply innovative technologies. In most EU countries skill levels are better suited to making capital-intensive goods, such

as machinery and cars, than the knowledge-based products that dominate US exports, such as software and technology hardware.

Moreover, Europe's universities are ill-prepared for the knowledge economy. Research funding is spread too thinly across too many institutions. Universities need better governance and more financial and managerial autonomy. They should be able to sack poorly-performing staff and reward the stars. Universities should be freed from state control, and encouraged to attract private finance. Only then will they be able to compete for the brightest students and best teachers, and to establish the kind of links between academic research and the private sector that have proved so fruitful in the US.

Britain's universities have done more to reform than those in most other European countries. The best ones in Britain can claim to compete with the elite US universities. Countries such as Germany and Poland are beginning to follow the British example by focusing government funds on centres of excellence. And sooner rather than later, other EU countries will have to follow the lead of Austria and the UK in introducing tuition fees.¹⁷

¹⁷ Richard Lambert and Nick Butler, 'The future of European universities: Renaissance or decay?' CER pamphlet, May 2006.

The EU's establishment of the European Research Council (ERC) in 2005 was a positive step. The ERC is now providing significant amounts of research funding for bids from European universities, with resources being allocated purely on grounds of peer-reviewed excellence. More of the EU's research funds should be channelled through the ERC, rather than the Commission's untransparent research directorate-general. But the EU also needs to find a way of helping the poorer member-states to build up the high-class research centres that they currently lack. So it should earmark a portion of the regional funds for universities in Central and Eastern Europe.

The Lisbon agenda is not a stirring slogan that makes many Europeans passionate about economic reform. If Britain can work

with its partners towards reshaping the agenda, with a greater focus on competition and innovation, it should be rebranded, perhaps as the ‘innovation agenda’.

However, any rebranding should not reduce the pressure on poorly-performing governments to carry out the key structural reforms set out in the Lisbon agenda. If they try to resort to protectionism, they will weaken their competitiveness and growth potential, and thus undermine their own ability to assist or compensate losers. Political leaders in the weaker EU economies need to make a better job of convincing voters that essential reforms – such as increasing competition in product markets and liberalising labour markets – will boost economic growth and thus help to sustain public services and welfare states. If they succeed, the British economy will benefit.

Energy policy

For the EU, energy is ‘strategic’, in the sense that the entire economy benefits from low prices and secure supplies. The March 2007 European Council approved an ‘action plan’ for energy, with three goals: competitiveness, security and sustainability. On the first of those goals, the EU has made only modest progress towards an internal energy market, with the result that prices are higher than they should be. On the second goal, the EU has taken useful steps, for example by developing strategic oil stocks, and by increasing gas supplies from Algeria, Norway and Qatar. But the member-states have not yet learned to speak to the Russians with one voice on gas supplies. On the third goal, the EU has performed well, by developing serious policies for limiting greenhouse gas emissions.

The EU’s progress towards one of these three goals will often, though not always, help progress towards the others. Thus the fragmentation of the EU energy market – with remarkably few connections between national markets, especially in electricity – endangers security of supply; better links would put pressure on national monopolies to cut prices and make it easier for countries

suffering shortfalls to cover them. The more efficient use of energy would not only curb carbon emissions, but also enhance energy security – and so on.

The EU governments have long been committed to opening energy markets for industrial users by mid-2004 and to households by mid-2007. However, in many countries, progress has been slow. In the UK’s competitive energy market, energy prices are generally low, especially for commercial users. Germany and Italy, however, which have resisted opening their energy markets, tend to have higher prices.

Under current EU rules, companies can own businesses in the production and distribution of energy, but they must run each separately. In practice, this ‘unbundling’ has not worked well. In countries such as the Netherlands and the UK, regulators are well-staffed, independent and competent to rule on access to the network. But in others, regulators have often been toothless in the face of strong, monopolistic suppliers. In countries such as Germany, France and Italy, vertically-integrated companies like E.ON Ruhrgas, Gaz de France and Enel use their control of distribution networks to make it hard for new competitors to enter the market.

The governments in those countries argue that big monopolies are better for energy security, on the grounds that they have the financial muscle and long-term vision that is needed for investment, as well as the strength to strike bargains with suppliers. Many of the monopolies have signed long-term gas supply contracts with Gazprom, and also given it a stake in their ownership or networks for supplying customers.

However, in many respects these monopolies harm Europe’s energy security, for example by discouraging trading among EU states. The monopolies are probably bad for the UK. British gas prices soared in the winter of 2005-06, because shortages in the UK were not adequately covered by imports. The reason, it seems, was that the

big continental monopolies, being focused on long-term contracts, were not willing or able to take advantage of the high prices in Britain by selling there. More unbundling could lead to a stronger spot market in gas emerging, and thus help to moderate price volatility in the UK. Gordon Brown's government should also be concerned about fairness and reciprocity. Why should British firms be effectively excluded from buying into the major continental markets, when so many British utilities have been swallowed by quasi-monopolies from France and elsewhere?

The Commission shares the UK's view that more liberal energy markets would promote economic growth and energy security across the continent. It wants to bring about the full unbundling of vertically-integrated energy firms, to prevent them owning both suppliers and networks. But at the March 2007 summit, fierce opposition from the French and German governments blocked the Commission's plans. The Commission, undeterred, is working on a new directive to promote unbundling. If that fails to pass, the Commission could pursue an alternative track, which is to use its direct powers to prevent individual companies from restricting competition. It has already started proceedings against a number of companies – and in May 2007 Commission officials raided RWE in Germany. The Commission will come under huge pressure from the governments of some big member-states to ease off. The UK should assemble a group of like-minded countries to stiffen the Commission's resolve.

Many Europeans paid little attention to energy security until January 2006, when Gazprom briefly cut gas supplies to Ukraine, in an argument over pricing. This briefly caused shortfalls in some EU countries. The EU now imports 30 per cent of its gas from Russia, though some countries are much more dependent (Germany buys nearly half its gas from Gazprom). The EU's dependency on imported gas will increase, given rising demand and the diminishing supplies of North Sea gas. By 2020 Russia may supply 40-50 per cent of the EU's gas needs, according to some

estimates. Britain currently consumes little Russian gas, but will need more in the future.

The Union wants to reduce its dependence on Russian gas by importing Central Asian gas directly. It has therefore supported plans for the 'Nabucco' pipeline to bring Central Asian gas into Europe via the Caspian Sea, Turkey and the Balkans. But Russia is trying to persuade several member-states to support a rival pipeline that would deliver Central Asian gas via Russia, Turkey and the Balkans, which means Nabucco may never be built.

There is a limit to what the EU countries can do to enhance their collective energy security, given their differing levels of dependency on Russian gas, perceptions of how best to handle Russia, views on the merits of liberalisation, and policies on nuclear power. But the Union can and should help. The more it can promote efficient gas and electricity markets, the better for energy security. The EU is paying for some inter-connections between national gas and electricity markets, but could do more. A set of Europe-wide rules requiring countries to maintain certain quantities of gas in storage – similar to the International Energy Authority rules that already apply to oil – would help insure against unforeseen crises. The new Reform Treaty will establish the principle of energy solidarity, committing member-states to assist partners suffering shortfalls (though that pledge will be political rather than legally-binding).

By the 2020s, Europe may be worrying less about energy security. For the EU will eventually achieve a single market in gas and electricity, which will in itself encourage the convergence of national interests. The EU governments would then find it easier to concert their approaches to dealing with Russia. The development of the liquified natural gas market should reduce Europe's dependency on Russian gas. The efforts of the EU and its governments to promote renewable sources – which are due to provide 20 per cent of the Union's needs by 2020 – will also help energy security. So will both the adoption of EU-wide rules on energy efficiency, and the impact

of the EU's emissions trading scheme. Many member-states may follow the British and Finnish example and decide to build a new generation of nuclear power stations.

Climate change

Britain's track record on green issues is not without blemish. A number of other member-states, such as Germany, have better records on recycling waste and the use of renewable energy. Nevertheless on climate change, Britain has led the EU. It is one of the few member-states to have more than fulfilled its Kyoto target for the reduction of greenhouse gas emissions. The City of London is also home to the nascent global market in carbon trading, and is the leading centre for green investment funds.

Tony Blair used Britain's presidency of G-8 in 2005 to move climate change up the agenda of world leaders. In 2006 the British government published the report by Nicholas Stern on the economics of climate change, which has influenced many other governments. And at the start of the German presidency of the EU in 2007, Blair personally played a role in persuading Merkel to make climate change a priority – which she (a former environment minister) did, despite opposition from the German chemicals industry.

Ever since climate change first became a concern, the EU has led international efforts to tackle the issue. The Union can be proud of its role in helping to create and then champion the Kyoto protocol. The EU's emissions trading scheme (ETS), which began operating in January 2005, is the first international mechanism to use carbon pricing to curb the emission of greenhouse gases. It works by setting a cap on each member-state's total carbon emissions, and letting energy-intensive companies buy or sell the right to emit carbon dioxide. Companies that manage to emit less than their entitlement can sell certificates on the open market. Firms that emit too much can buy those certificates or invest in carbon

abatement projects in developing countries, through the UN's Clean Development Mechanism. Thus economic incentives should help to curb carbon emissions.

But the ETS is flawed, and will not help the member-states to meet their Kyoto commitments without significant reform. The member-states set their own caps, with the Commission's authority being limited to determining whether the caps are consistent with their Kyoto promises. During the first phase of the ETS, covering the years 2005 to 2007, uncertainty over emission levels led the Commission to agree to insufficiently tight caps with most member-states. Britain, exceptionally, adopted a cap below its existing level of emissions.

The EU's failure to ensure that emissions allowances are set at a level below projected emissions has left the price of carbon permits too low to motivate businesses to change their behaviour. Moreover, member-state governments have distributed the vast majority of permits to industrial users free of charge, rather than auction them to the highest bidder. They have done so in order not to damage the international competitiveness of energy-intensive industries. But the result has undermined the incentives for companies to invest in more efficient technologies. In many countries the right to pollute has been allocated according to need, which means that the most energy-inefficient companies have – perversely – enjoyed windfall gains.

During the recent negotiations between the Commission and member-states over national caps for the second phase of the ETS, the Commission took a commendably tough line. It refused to accept national allocation plans that fail to provide for a meaningful reduction in emissions. But further reforms are needed if the scheme is to fulfil its potential.

The way forward is for the EU to agree on a Europe-wide cap, based on scientific advice, and then apportion carbon quotas to each member-state on a fair basis. These decisions should not be

politically-driven. So Britain should argue for a new, independent authority to be created – perhaps modelled on the European Central Bank – that takes the politics out of these crucial decisions. The reformed carbon-trading scheme should be extended to aviation and sea transport, which are responsible for increasing amounts of greenhouse gas emissions. The EU needs to be clear about the duration of the scheme, so that businesses have the incentives to plan ahead and invest in new technology. Furthermore, the EU should encourage the many American states that are developing their own caps on carbon emissions to link their schemes to the ETS.

Thanks to the EU's relatively good record on environmental policy, and the strong public support in many member-states for tough action on climate change, it is well-placed to lead the international negotiations on a new framework to replace the Kyoto protocol after 2012. In March 2007, the EU adopted a binding target to reduce carbon emissions by 20 per cent by 2020 (from 1990 levels), and pledged to generate a fifth of its energy from renewable sources by 2020. This should create major incentives for the development of new technologies that can help to solve the problem.

Negotiating as a single bloc, the EU should be able to play a decisive role in securing the commitment of the US, China and India to join the effort to tackle climate change. Mainstream political opinion in the US is shifting rapidly towards recognising that climate change is a serious problem that requires action. Thus at the June 2007 Heiligendamm G-8 summit, President Bush – after much persuasion from Blair and Merkel – agreed that the US would join talks on the post-Kyoto system. And in China – which is now the largest emitter of greenhouse gases – there is increasing awareness that it too must engage in the negotiations on the new framework. The western world will find it hard to persuade developing countries to take action to control carbon emissions. It has no hope of succeeding unless it first sets an example.

Climate change, perhaps more than any other issue, “can best reconnect Europe with its citizens and rebuild trust in European institutions”, Britain's new foreign secretary observed when he was environment minister.¹⁸ And as the EU's trade commissioner writes, “what coal and steel were to forging the early EU, climate change and energy may be to the EU of the 21st century”.¹⁹ This is a subject where the EU leads the world, and where the UK can lead Europe.

¹⁸ David Miliband, ‘Towards an environmental union’, CER bulletin 50, October 2006.

¹⁹ Peter Mandelson, ‘The European Union in the global age’, Policy Network pamphlet, March 2007.

5 European defence

Spreading stability

The EU is well-placed to bring security, better governance and economic aid to many of the world's troubled regions. Although it lacks NATO's military muscle, it can provide a broad range of policies, programmes and personnel – such as market access, technical assistance, aid for reconstruction, policemen, legal officers, administrators and soldiers – which, if co-ordinated well, are a powerful force for stability.

The EU's growing ability to stabilise conflict zones has been an unsung success. From its conception at the Franco-British summit at St Malo in 1998, the European security and defence policy (ESDP) has achieved real results. Eighteen separate missions have been launched, including customs officers to the border between Ukraine and the breakaway Moldovan region of Transdnestria, and civilians to monitor the peace accord for Aceh in Indonesia. Some missions have been military, such as the two separate forces sent to keep the peace in Congo at the behest of the UN, and the 6,000 peacekeepers in Bosnia. The mission to aid the African Union (AU) in Darfur has been particularly complex, involving not only transport planes to support the AU peacekeeping mission, but also military observers and policemen, as well as training and equipment. If the UN plan for Kosovo drawn up by Martti Ahtisaari is implemented, the EU will have to provide a large force of policemen and law officers, as well as civilian administrators. And in Afghanistan the EU has helped NATO by sending judges, aid workers and administrators to the provincial reconstruction teams.

Many of the EU's achievements in defence have come from the leadership of Britain and France. They thought up the idea of EU 'battlegroups', battalion-sized rapid reaction forces designed to stabilise a conflict zone at the request of the UN (the first of these became operational in 2007). They helped to establish the European Defence Agency, which prods governments to fulfil their pledges on military capabilities, encourages a pan-European market for defence equipment, and co-ordinates R&D spending.

Britain has led European defence because of its evident advantages. It has the most proficient armed forces in Europe and spends more on defence than any other member-state (£30 billion in 2007). If Britain and France – the second nation in European defence – can reach an agreement, the others in the EU will always follow.

Defence is an area where Britain can engage without fear of losing sovereignty, for it is 'inter-governmental'. Decisions on ESDP will always require unanimity, since no country will allow others to vote by majority on the deployment of its troops.

The EU needs to strengthen its military capabilities if it wants its foreign policy to become more effective. The EU governments learned this the hard way in the Balkans during the early 1990s. They issued any number of joint declarations, urging Slobodan Milosevic to behave better. He felt free to ignore them, since the EU had no battalions. After the Bosnian war began, the Europeans provided the bulk of the UN peacekeeping force, but the rules it had to work under made it ineffective and incapable of preventing the Srebrenica massacre in 1995. Finally, the Americans and NATO became involved, leading to the Dayton peace accords, and then in 1999 the Kosovo air campaign. But the Americans quite rightly regard Europe and most of its peripheral areas as the long-term responsibility of the EU, which is why they have – most of the time – encouraged the European security and defence policy.

Boosting capabilities

The most disappointing aspect of the ESDP, so far, is its failure to generate significant improvements in military capability among the member-states. In many of them, the armed forces lack transport planes, troops that can serve abroad at short notice, and secure communications systems. There have been some steps forward: France, Italy and Spain have introduced professional armies, which can more easily deploy overseas, while Germany, though retaining some conscription, has restructured its army so that it can sustain more peacekeepers on operations. Britain's forces are relatively well-equipped, but they suffer from the inadequacies of the partners they must operate alongside. In any case, Britain's defence budget is too small to cover all the equipment programmes currently in the pipeline, and its forces are severely over-stretched in Afghanistan and Iraq.

The demands on European forces to deploy in various parts of the world are likely to increase. Yet defence budgets are stagnating or declining in most EU countries, while the cost of developing new sorts of equipment is rising much more than inflation. So how can the EU countries improve their military capabilities? The answer is to spend more wisely. The 27 governments' defence budgets currently add up to about €180 billion – around 40 per cent of the American defence budget. Yet the combined military capabilities of the 27 are only a small fraction of those of the US. This is because the Europeans spend much of their money on large conscript armies that cannot deploy overseas, on huge and inefficient national defence bureaucracies, and on defence industries protected by pork-barrel politics. So Britain should encourage other Europeans to:

- ★ Engage in further military reform EU countries that retain conscription should scrap it. Decisions on budgets and procurement should be geared to building smaller, better-equipped, better-trained and more deployable forces. Britain is well-placed to advise its partners, having played an active role in overhauling the militaries of former Warsaw Pact states. It has much to teach the older EU member-states, too, since its Ministry

of Defence has led new approaches to defence management. For example, Britain has saved money by merging the logistics organisations of its army, air force and navy. Furthermore, the involvement of British forces in Afghanistan and Iraq has given them experience of the sharp end of modern warfare.

- ★ Liberalise defence procurement markets across Europe. Britain currently has the EU's most open defence market and its leanest defence industry. It stands to benefit if initiatives currently under way nudge other countries to open up. In 2006, the European Defence Agency persuaded 23 governments to take a small step towards more transparent procurement by signing a code of conduct, requiring them to publish defence contracts worth more than €1 million. The code should be made binding. The moment may be propitious, for the spiralling price of military hardware, plus the mushrooming costs of operations in Iraq and Afghanistan, are forcing a rethink across Europe. For example in France, traditionally one of the most protectionist countries, budgetary constraints are shifting opinion towards more open procurement.
- ★ Encourage the right sort of defence industrial consolidation. More cross-border defence procurement should undermine national champions. Britain's firms are well-placed to benefit from industrial consolidation. But there is a risk that some governments could push for the creation of European champions, and for limiting US access to European markets. That would replace one inefficient system with another. Britain needs to ensure that competition in defence markets is preserved.
- ★ Support role specialisation. Not every member-state has the resources to maintain every sort of military capability. Smaller countries are already specialising. Denmark is debating whether to keep its air force. The Czechs are so expert in protection against nuclear, biological and chemical threats that many other countries are counting on them rather than developing their

own expertise. Even though Britain and France can afford to maintain a broad range of military skills, they may find budgetary pressures forcing them to specialise. For example, the British now rely on France's capability to build certain types of satellite and missile, while the French are buying a British aircraft carrier design, rather than working on their own.

- ★ Pool capabilities, though not at the sensitive end of military operations, such as fighter squadrons or combat units. NATO already has its own fleets of early-warning and ground-surveillance aircraft, that do not belong to any one government. Many EU countries plan to buy the A400M military transport plane. Some of them could place their planes in a common pool, backed up by, say, two bases and one support organisation. Contributing countries could retain the right to withdraw aircraft in an emergency. The countries buying the Eurofighter and the new Airbus refuelling aircraft could pool their maintenance operations. A similar logic could apply to ship and vehicle repairs, medical units or catering organisations. National defence bureaucracies will oppose such ideas tooth and nail. Ultimately, however, finance ministries will push for pooling as a means of saving money.
- ★ Preserve close links between EU and NATO. The EU needs to be able to run its own missions, in situations where the US does not want to be involved, but Britain needs to ensure that European defence does not damage NATO. The EU should avoid unnecessary duplication of NATO structures and use NATO doctrine and planning where practicable. Where there is a serious military task to be done, and the US wants to be involved, NATO is the obvious body to act. For all sorts of silly reasons, official contact between the EU and NATO is currently minimal – the two bodies are not allowed to talk to each other about terrorism and Afghanistan, for instance.²⁰ France has discouraged EU-NATO co-operation' *CER bulletin 48, June 2006.*

organisations. But the arrival of new leadership in France offers Britain an opportunity to persuade its EU partners to accept closer links between the EU and NATO. This should be possible, for the EU's enlargement has greatly strengthened its Atlanticist camp.

The EU and the developing world

Among the EU member-states, Britain's track record in development policy is second to none. It is the largest donor country in the EU. In 2005, when Britain held the presidency of the G-8 and the EU, it made development aid a priority of both. Britain hosted the G-8 summit in Gleneagles, where the world's richest countries promised that by 2010 they would give an extra \$25 billion a year of aid to Africa (doubling current levels) and a further \$25 billion for other parts of the world. In the same year, Britain helped to persuade all the EU countries to commit to increase their spending on aid to 0.56 per cent of GNP by 2010, and to 0.7 per cent by 2015.

The Treasury has been particularly generous to Britain's Department for International Development (Dfid), whose aid budget is growing from £3.8 billion a year in 2004-2005 to £5.3 billion a year in 2007-2008. However, Dfid lacks the staff and the capacity to spend all this money through bilateral channels (about 20 per cent of Britain's development assistance is currently spent via the Commission). Like most other EU countries, Britain will increasingly need to resort to multilateral organisations such as the EU in order to fulfil its spending commitments.

Overall, the EU with its member-states is the world's biggest donor of development aid, accounting for 52 per cent of global official development assistance (ODA). But the Commission, which dispenses €7 billion a year, has had a poor image, being seen as inefficient and bureaucratic.

The Commission has introduced some serious reforms since 2000. It has created a new directorate-general, EuropeAid, as a single agency for managing aid projects, and also devolved their implementation to authorities on the ground. A lot remains to be done, however. For example, the Commission should increase its intellectual fire-power on development issues, so that it can do more to encourage best practice among EU donors.

The Commission has shifted spending towards budget support, which can be more effective than funding specific projects – so long as the government concerned practises sound financial management. The EU's growing focus on supporting education and health in developing countries, which requires public spending, has encouraged this shift. Budget support also encourages dialogue between donors and the government concerned.

²¹ *Aurore Wanlin, 'What future for EU development policy?' CER working paper, May 2007.* The effectiveness of EU aid is held back by a lack of co-ordination between the Commission and the member-states, as well as among EU countries.²¹ This

often leads to projects on the ground that are overlapping rather than complementary. Duplication increases the administrative burden on poor countries, wasting the time and energy of over-stretched civil servants. Some developing countries receive as many as 350 separate donor missions a year. Too many member-states focus on the same countries or the same sectors, and impose inconsistent conditions on the countries concerned. The most successful developing countries tend to attract increasing amounts of aid, while other more fragile states, such as Burundi, Chad and Guinea, are left to themselves.

EU governments and the Commission should work harder to co-ordinate the planning and implementation of aid. The EU has made a start. In 2005, for the first time, the member-states agreed on both a set of common values and a series of objectives to guide their development policies, the so-called 'European consensus'. In February 2007, the Commission proposed a new code of conduct, designed to encourage co-ordination between national governments. It calls in particular for EU countries to focus on two or three strategic priorities and leave action in other sectors – where they have no particular comparative advantage – to their partners.

The UK should seize the opportunity provided by the Commission's current openness to reform, and try to reshape EU development policy. British proposals would be listened to with respect: Dfid is widely praised for its efficiency and experience, and is regarded as a model development ministry by many member-states.

Britain should support the Commission's efforts to improve co-ordination between the various EU and national development agencies. Some will see the

Commission's proposals as 'empire-building'. But that would be unfair. The Commission wants the best-placed donor on the ground, in terms of experience and expertise – whether the Commission or a member-state – to lead the EU's aid efforts. The Commission recognises that on this basis the lead donor will often be a member-state.

The UK should set an example by speeding up its own efforts to focus on a relatively limited number of countries and sectors. In South Africa, for example, the UK has delegated the implementation of its support for land reform to Belgium. Britain should encourage the Commission and other EU governments to take a similar approach, in a co-ordinated and transparent manner, to minimise any painful effects of adjustment on the developing countries concerned.

For most poor countries, trade with the EU matters more than aid. The EU takes 70 per cent of the farm exports of the world's poorest countries (the US takes only 17 per cent). During the negotiation of the (as yet unfinished) Doha trade round, the EU has pledged to phase out all agricultural export subsidies – which often damage farmers in poor countries – by 2010. The EU has tried to boost exports from developing countries with various schemes, such as the 'everything but arms' initiative. This grants quota-free and tariff-free access to imports from the world's 50 poorest countries. Unfortunately, the EU's strict rules for assessing the origin of such goods have hampered the effectiveness of this initiative.

Poor countries may be unable to benefit from trade liberalisation because of poor roads, insufficient power supplies or stifling regulations. So the EU has launched an 'aid for trade' programme that helps developing countries build the infrastructure for trade. The EU is currently negotiating 'economic partnership agreements' with its 79 African, Caribbean and Pacific partners. The Commission wants these agreements to offer the same tariff- and quota-free access to EU markets that the 50 poorest countries already enjoy. Some member-states, however, are trying to protect their farmers by demanding long transition periods before removing barriers to imports of bananas, rice and sugar. Britain should back the Commission in insisting on a swift opening of these markets.

6 Enlargement and the neighbourhood

The benefits of a wider Europe

Between April 2004 and January 2007, the EU enlarged from 15 members to 27 – the biggest expansion in its history. So it is hardly surprising that the mood of many governments and voters in the EU is hostile to further ‘widening’ of the Union. For example, in Austria, France and Germany, six out of ten people want no more countries admitted to the EU. In 2006, among voters of all 25 member-states, only 31 per cent supported the idea of Turkish membership, and 39 per cent Serbian membership.²² France even changed its constitution in 2005 so that no country seeking to join after Croatia can do so without a positive French referendum.

Croatia can hope to join in about 2010, but the accession talks with Turkey – which began in 2005 – will be long and difficult and are far from certain to conclude in an accession treaty. Although the EU has accepted the principle that the states of the Western Balkans should join, when they are ready, there is little chance of them moving towards accession in the near future. Countries further afield that aspire to membership, such as Georgia and Ukraine, are a long way from being considered as candidates.

One reason for this hostile climate has been the uncertainty hanging over the EU’s institutions. As explained in chapter two, governments in many member-states believe that if the EU took in more members before making major institutional reforms, the speed, quality and effectiveness of EU actions and decisions would decline. The Reform Treaty, if ratified, will remove this source of uncertainty.

Ordinary voters have tended to oppose enlargement for other reasons. They fear that immigrants from new member-states will take their jobs or depress their wages. There is a close correlation between the member-states with the highest levels of unemployment and the strongest opposition to enlargement – though even in low unemployment Britain there has been some concern over the impact of East European immigrants on labour markets. Amongst some voters, cultural factors are also important. The fact that Turks are Muslim is one reason why the French and the Austrians are particularly hostile to Turkish accession.

With all this opposition to enlargement, Britain needs to remain its champion. Britain has an interest in the EU keeping an open mind on further enlargement – a process that has entrenched democracy, prosperity, security and stability across much of the continent. Of course, there has to be a geographical limit at some point: the EU treaties limit membership to ‘European’ countries. But for the EU to define precisely its future borders for all time – as Nicolas Sarkozy has suggested – would have a negative impact on would-be members beyond those borders.

If the EU ended talks with Turkey, hard-line Islamists and nationalists would gain strength against the country’s liberals and westernisers. But the impact of the EU shutting the door on the Western Balkans would be worse. Would fragile constructions such as Bosnia and Macedonia hold together? Would Serbia ever be able to swallow the bitter pill of independence for Kosovo without the prospect of EU membership for itself? If the Western Balkans is made to feel excluded from the European mainstream, economic reform and foreign investment would suffer. Endemic problems such as organised crime, corruption and ethnic tension would worsen, and could spill over into the EU. And if the EU said “never” to countries such as Belarus, Georgia, Moldova and Ukraine, its ability to influence their development would be hugely weakened.

Neither Britain nor the EU should view enlargement as a form of philanthropy. Enlargement benefits not only the accession countries but also the existing EU members. The recent expansion of the EU into a diverse group of European economies, creating a single market of nearly 500 million people, has led to more economic specialisation within the Union. The Central European states are now applying – sometimes more diligently than the older member-states – EU rules on trade, investment, business regulation and competition. The accession countries are mostly fast-growing and dynamic, offering West Europeans demand for their products, opportunities for investment, and supplies of skilled labour. Further enlargement would bring similar benefits.

Enlargement also enhances the security of those who live throughout the Union. Neither criminal gangs nor terrorists respect the EU’s external frontier and stay outside. The member-states’ various law-enforcement agencies are better able to combat them when they are on, rather than close to, EU territory. If the EU decided that the Western Balkans should remain permanently beyond its boundaries, as a kind of black hole on the map of Europe, it would not be immune from the criminal networks centred there. During the accession process, the EU helps candidates to tackle organised crime and other security threats, for example by strengthening police forces and border guards through the provision of better training and new equipment.

Finally, enlargement brings strategic gains. A wider Europe, with a larger population, a stronger economy and a broader geographical extent – so long as it learns to speak with a single voice – would be more influential. For example, an EU that included Albania, Bosnia and Turkey would be listened to with respect in the Muslim world. It would stand a better chance of helping to shape the Middle East peace process. But an EU that rejected Turkey would be seen by many in the Islamic world as anti-Muslim.

For all these reasons, Britain should keep beating the drum for enlargement. This means, specifically:

- ★ Encouraging economic reform, to boost the performance of the core Euroland economies, so that the workers in them become less fearful of change.
- ★ Supporting all efforts that can help to improve the EU's legitimacy, such as the 'Hampton Court agenda' that focuses on issues that are relevant to citizens. If the Union is unpopular, the idea of enlarging it – in a sense, creating 'more EU' – will also be unpopular.
- ★ Urging the candidates to accelerate reform. The best advocates of further enlargement are the candidates themselves, through the way they transform their economies, societies and political systems. As a champion of enlargement, Britain is well placed to cajole them to undertake painful reforms (Britain has played this role with Turkey, often quite effectively).
- ★ Leading British public opinion. In recent years too few ministers have explained that enlargement enhances British security and strengthens the economy. Unless the government gives a lead, populist politicians may exploit public concerns and rally opposition to enlargement.

A stronger neighbourhood policy

Given that the enlargement process will – at best – move slowly for the next few years, the European neighbourhood policy (ENP) will become increasingly important. This policy is the EU's main tool for promoting political and economic reform in its neighbours – both those that could in theory join the EU, such as Ukraine and Moldova, and those that cannot, because they are in North Africa or the Middle East. The ENP involves the EU and a neighbour negotiating a bespoke 'action plan'. Each plan promises trade, aid,

participation in EU programmes and political contacts, in return for precise commitments to reform. Since the ENP began in 2004, the EU has agreed action plans with Armenia, Azerbaijan, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, the Palestinian Authority, Tunisia and Ukraine. An agreement with Algeria is due to follow.

Some of these action plans have been modestly successful. Ukraine has adapted some of its laws and standards to those of the EU, and will gain an easier visa regime. Morocco and Moldova have improved their border controls. Jordan, Morocco and Tunisia have set up forums that discuss governance, democracy and human rights. But the ENP is failing to transform neighbours in the way the accession process transformed much of Central Europe. The carrots offered by the EU are not juicy enough to motivate political elites to undertake the often painful reforms required.

The EU's conundrum is that it needs to create a more effective neighbourhood policy, without being able to offer membership. At the end of 2006, the Commission launched some proposals for beefing up the policy.²³ For the more economically advanced neighbours, it proposed 'deep free trade' with the EU. That would mean scrapping not only tariffs but also some non-tariff barriers.²⁴ It suggested easier and cheaper visa regimes – provided the neighbour concerned signs a readmission agreement, obliging it to take back illegal emigrants. It called for more exchanges of people between the neighbours and the member-states. And the Commission suggested a regional forum for the EU and the ENP countries around the Black Sea, as well as Russia and Turkey.

At the June 2007 summit, EU governments endorsed these sensible ideas. Ukraine and the EU have started talks on a deep free trade

²³ *Communication from the Commission to the Council and the European Parliament, 'Strengthening the European Neighbourhood Policy', December 4th 2006.*

²⁴ *Michael Emerson (editor), 'The prospect of deep free trade between the EU and Ukraine', Centre for European Policy Studies, Brussels, 2006.*

agreement. However, Britain – given its expertise and leadership role in the common foreign and security policy – should propose strengthening the ENP in another way. The best-performing neighbours should be offered a stake in the CFSP. If countries such as Georgia and Ukraine make steady progress towards becoming liberal democracies, the EU should offer them the special status of ‘security partners’. They would then have the chance to take part in discussions on EU policies of common interest, such as Black Sea security, non-proliferation, counter-terrorism or illegal immigration. The security partner would send a team of diplomats

²⁵ This proposal is described in more detail in Charles Grant, ‘Europe’s blurred boundaries: Rethinking enlargement and neighbourhood policy’, CER pamphlet (chapter six), October 2006.

to be based in the Council of Ministers in Brussels. The partners would help to shape EU policy but, not being members, could not vote on it. Once EU governments had decided a policy, the partner would be free to sign up to it, or not.²⁵

Neighbours that took part in the CFSP would gain several benefits. Their politicians and bureaucrats would learn about the EU’s ethos of compromise. Neighbours would find it considerably easier to adopt the *acquis communautaire* in foreign policy – much of which comprises declarations – than in technically demanding areas such as the single market. Above all, joining the CFSP would make countries such as Ukraine and Georgia feel a little safer. Many Georgians and some Ukrainians would view NATO membership as the best guarantee of their security. But since that goal remains a distant prospect, they may favour closer ties with the EU as an interim step.

This scheme should also be offered to candidates for EU membership, which are currently excluded from discussions on CFSP. There would be a risk that too many governments around the table could slow down decision-making. So the scheme

²⁶ NATO already has a similar scheme for linking full members to partners, the Euro-Atlantic Partnership Council.

should begin with just a few chosen topics. If it worked well, the EU and the partners could decide to extend it to more policy areas.²⁶

These proposals for strengthening the ENP will only work if they are seen as ‘membership neutral’. Some Georgians and Ukrainians will sniff at any offer that does not mention the goal of membership. But when they realise that membership is not on the cards for the foreseeable future, they may welcome other ways of moving closer to the EU. Similarly, some EU countries hostile to enlargement will be reluctant to give neighbours a status that could be seen as a stepping stone to membership. But in time they may see that the EU has a strategic need to foster reform in its neighbours, and that it must therefore give them a closer embrace. Despite being geographically distant from much of the EU’s neighbourhood, the UK has a strong interest in helping the Union to build a more effective neighbourhood policy.

The EU, terrorism and migration

In today's open and inter-dependent world, national governments can only do so much to counter threats from terrorism, organised crime and illegal immigration. The British government, like others in the EU, is under intense public pressure to show that it has a grip on these problems. Britain needs help from its allies and the EU to deal with them.

In the EU, policies on migration and the fight against terrorism and organised crime are grouped under the umbrella term justice and home affairs (JHA). This is one of the least understood and most complex areas of EU policy-making –

²⁷ Hugo Brady, *'The EU and the fight against organised crime'*, CER working paper, April 2007.

and one largely ignored by journalists. But it is also one of the most important. JHA accounts for nearly 40 per cent of new EU laws and deals with some of the most politically salient issues in Europe.²⁷

EU co-operation on JHA makes a difference for Britain. EU rules help to ensure a fair European asylum system, which enables the UK to send back about 150 failed asylum-seekers to other member-states every month. Thanks to the EU arrest warrant, which replaced slow-moving extradition procedures in 2002, Hussain Osman – a suspect in the July 21st 2005 bombs in London – was returned to the UK within days of fleeing to Rome. And because of 'readmission agreements' between the EU and other countries, Britain can send home illegal immigrants with greater ease.

The best way for the Brown government to influence JHA policy is to be actively engaged, though the terms of the new Reform Treaty will allow it to pick and choose. Some federalist governments and the Commission may try to pursue the harmonisation of criminal justice systems, but Britain will be able to stand aloof and opt in only to the policies it likes. It will usually be in Britain's interests to opt in, given that the decisions its partners take on JHA often have at least an indirect impact on the UK's security. Britain's priority on

JHA should be to emphasise the principle of mutual recognition of court decisions, and closer co-operation among governments, as the best tools for making the EU more effective at combating crime. Many EU governments support this British approach.

Britain has opted out of parts of the 'Schengen agreement', which provides for passport-free travel across much of the EU. Yet despite this opt out, and the UK's non-participation in most EU discussions on legal migration, Britain is one of the more influential countries in JHA policy-making. For example, the EU's new strategy for a 'global approach' to managing migration has been British-inspired (see below), as has been the counter-terrorism strategy.

In the struggle against international terrorism, national agencies must take the lead, but they are more effective if they co-operate. A Eurobarometer opinion survey published in early 2007 shows that over 70 per cent of British citizens expect more intensive EU co-operation against terrorism, as well as organised crime and trafficking.²⁸ Even before the terrorist attacks of July 2005, Britain was leading efforts to deepen European collaboration on counter-terrorism. In 2003, the then interior ministers of Britain and France, David Blunkett and Nicolas Sarkozy, convened the so-called G-5 – six-monthly meetings of the interior ministers of Britain, France, Germany, Italy and Spain – to strengthen practical co-operation between the EU's largest and most sophisticated domestic security services (Poland later joined, making it the G-6).

²⁸ *Special Eurobarometer 266, 'The role of the European Union in justice, freedom and security policy areas'*, February 2007.

The G-6 meetings have been useful. Groups of experts from the six countries focus on ten 'work streams', trying to strengthen cross-border co-operation. Over the last few years, the G-6 has extended its remit from terrorism to organised crime (including human trafficking and VAT fraud), illegal immigration and the integration of immigrants.

The meetings of experts are chaired by whichever country volunteers to do so. Such informality encourages frankness and flexibility but can damage the chances of projects delivering real results. Countries in the chair tend to promote their own priorities and their commitment to previously agreed plans

can be patchy. The British government should make use of the G-6 format, which it may find more congenial and effective than the formal council of justice and home affairs ministers. But the G-6 needs more continuity between its meetings in order to be effective.

One way of achieving this would be for the G-6 to use the EU's rules on 'enhanced co-operation', which allow a minimum of eight countries to form an *avant-garde*. Two more countries would have to join the G-6 for this to work (or three, when the Reform Treaty enters into force, since it raises the threshold to nine countries). The EU institutions would then be involved, helping to ensure that agreements were implemented. The second option would be to create a G-6 secretariat, to carry forward the work agreed by ministers. That would reassure Britons who dislike the presence of the Commission. But it could lead to the G-6's work diverging from that of the EU as a whole, and it would upset the smaller countries.

The EU can help its governments to combat terrorism. This is especially true in the smaller member-states, some of which lack experience in counter-terrorism. In 2005 the EU adopted a counter-terrorism strategy closely modelled on Britain's

²⁹ Daniel Keohane 'The EU and counter-terrorism', CER working paper, May 2005. 'four Ps' approach (prevention, pursuit, protection and preparedness).²⁹ Many of Europe's intelligence services, including Britain's MI5, share important

information on terrorist activities using a confidential EU communications network. The member-states are also developing the so-called ATLAS network, an informal grouping of over 30 European special intervention units, including the British SAS, the French GIGN and the German GSG-9. At present, this elite counter-terrorism network focuses on improving training and equipment. But in the event of a large-scale terrorist attack with cross-border implications, ATLAS could be a useful asset for co-ordinating counter-terrorism operations.

Immigration, in contrast to terrorism, is not a subject on which many Britons welcome EU involvement. Unpublished Home Office polling in early 2007 indicated that 86 per cent of British citizens believe immigration is out of control. The government plans to win back public confidence with a four-pronged strategy that would strengthen border controls, return bogus asylum seekers and integrate genuine ones as quickly as possible, maximise the benefits of legal migration, and detect and return illegal immigrants. The EU is helping on several of these fronts.

The accession of the Central and East European states has ensured a flow of legal immigrants – skilled and unskilled – to British employers. The UK's access to Eurodac, an EU fingerprint database, allows it to detect bogus asylum applicants and is an important tool for maintaining a credible asylum system.

However, EU co-operation has not yet eliminated 'asylum shopping', whereby a person seeking asylum in one EU country also lodges applications in others at the same time. The various member-states apply the EU's rules on asylum differently. The UK should work to establish an EU asylum support office, to help the governments. Such an office could highlight best practice, offer training on compliance with EU asylum procedures, and provide interpreters. Britain should also lobby for the Eurodac database to be expanded to cover all illegal immigration, rather than just asylum seekers.

Britain benefits from the naval patrols in the Mediterranean – co-ordinated by Frontex, the new EU border agency – that seek to stem the flow of illegal migrants into Southern Europe. Of course, these patrols cannot thwart all the boat people seeking Europe's shores, but the problem would be worse without them.

The EU's new 'global approach' to migration seeks to bring together all migration-relevant policy areas, such as foreign policy, development, the demand for skilled labour, and internal security, in a more coherent way. The current priority areas are Africa and the Mediterranean. One strand involves the Commission offering the governments concerned easier visa regimes, and help with training border guards and immigration officials – in return for their agreement to take back illegal migrants. Another strand is for the EU to focus its development policy on reducing the 'push' factors that boost emigration. For example, the Commission has targeted aid on improving refugee centres.

Of course, no national government can join up all its various policies in pursuit of strategic objectives, and the EU is far from being able to take a truly global approach to migration. But despite the inevitable difficulties of attempting to co-ordinate the strategies and policies of the EU and its member-states, the efforts are worthwhile. The more successful those efforts become, the better for Britain's immigration services.

7 Conclusion

Ten years of Labour governments have left the UK with strong foundations for its European policy. Gordon Brown's government is well-placed to build on these and to strengthen the UK's position in the Union. Enlargement has changed the dynamics of EU politics in the UK's favour. The UK continues to hold powerful cards such as its vibrant economy, global connections, and pragmatic approach to many European issues. A fresh face in 10 Downing Street offers the UK an opportunity to dispel some of the dark clouds that the Iraq war has left hanging over its reputation.

A post-Blair European policy should be based, in part, on continuity. It should stick to solid support for EU enlargement and economic reform, leadership in European defence, and a non-ideological approach to institutions. In other areas, the UK's European policy should go further than it did during the Blair years: there should be a greater emphasis on the EU's role in tackling climate change, a stronger effort to forge effective EU foreign policies on the Middle East and Russia, and more co-operation among law-enforcement agencies.

But on some other issues, UK policy needs to take some genuinely new directions. It should welcome greater use of 'variable geometry' in the EU's institutional arrangements. It should work to find new ways of binding neighbours more closely to the Union. And post-Blair Britain should make a special effort to work with post-Chirac France, in particular to develop a common approach to dealing with the US. Brown and Sarkozy should collaborate with their partners to build an EU that is friendly towards the US, and that offers it practical help in dealing with global problems. But they should also favour a Union that can act autonomously and which,

on matters of vital importance, is capable of pursuing policies different to those of the US. Such a Union would have more global influence than the EU does today.

Laying demons to rest

Gordon Brown should set himself two particular tasks for his European policy. First, he should seek to dispel some of the demonic myths that have poisoned Britain's relationship with the EU, particularly at the level of the media debate and public opinion. And second, he should maintain and strengthen British influence in the Union.

The first task may prove somewhat easier than many people would imagine. The majority of British people will probably never love the EU. And there will always be a few swivel-eyed eccentrics who see predatory super-states lurking behind every corner. But in the long run the public debate in Britain, even when mediated by a partisan press, will have to respond to the reality of how the EU has changed.

And the reality in the new, post-enlargement Europe is that federalism is a declining force that is relevant in no more than a handful of member-states (though it does retain a hold in parts of the Commission and sections of the European Parliament). By contrast the 'instrumentalists', those who believe that the EU is a useful tool for delivering benefits that nation-states alone cannot deliver, are becoming preponderant. The instrumentalists include Chancellor Angela Merkel, Commission President José Manuel Barroso and President Nicolas Sarkozy – even if some of the officials working for Merkel and Barroso could be called federalist.

Yet most British people are unaware of this slow but steady shift in the EU's underlying philosophy. They still believe that 'Brussels' is bent on building up its own powers at the nation-state's expense. Of course, there are people in Brussels who want to strengthen the EU's institutions and powers. But the way the EU works today, they

cannot succeed unless they can convince pragmatic member-states that there is a case for centrally-set rules. In recent years integrationists have presented persuasive arguments for the European arrest warrant, for binding standards on emissions from car exhausts, and for limits on the amount that mobile phone companies can charge for roaming, to mention just a few examples, and EU governments have gone along with these measures. But the integrationists' efforts to create minimum levels of corporate taxation, to introduce majority voting on foreign policy, or to create a 'European public prosecutor' have failed.

Sooner or later, the reality of what is happening in the EU is bound to affect the British debate. That will happen much sooner if politicians give a lead, notably in pointing out that national governments hold much of the power in the EU, and that many of them are on the same wavelength as the British. Gordon Brown and his ministers should convey a simple but truthful message: that the EU is a very useful body; that it suffers from some serious flaws; and that it is reformable. They should stress that the EU is evolving quite rapidly and that Britain has the potential to steer it in certain directions – but that it can only do so if it engages and consciously seeks to lead.

If the new British government took such a line, it would help to dedramatise the country's European debate. Then the sceptics would find it harder to frighten people. And the government could get on with the essential but often dull work of leading efforts to reform the Union.

Britain can only take on such a role if it is one of the most influential countries in Europe. Enhancing British influence – which may be defined as the ability to set the EU's agenda and shape its decisions – should be the second European task for the new prime minister.

Evidently, some of the 27 EU countries are more influential than others. A member-state's influence depends on several factors,

including its size; the strength of its economy; the quality of its officials and ministers; and whether there is an effective mechanism (like the British cabinet office) for ensuring that the various parts of government take the same line in EU forums. Britain scores well on all these counts. It also does well in more subtle ways. For example, many of the key international media that shape the way the world sees the EU are British-based – such as BBC World TV, *The Economist*, the *Financial Times* and Reuters – and convey, at least indirectly, a British view of the world.

Some other factors are also important. Well-structured and coherent policies, based on rigorous analysis, are more likely to be adopted than intellectually weak proposals. The British Treasury likes to stress the importance of having good policy as the best means of winning an argument. It is right to do so, but good policies on their own do not always triumph. A government may propose any number of clever solutions to pressing problems, but if at the same time it alienates potential allies through inept diplomacy – for example, failing to help a country with an issue that matters to it – that government may lose the argument in the Council of Ministers.

Britain must therefore nurture friends and allies. This does not mean that it has to form ‘strategic’ or semi-permanent alliances, of the sort that periodically link France and Germany. Britain should be promiscuous, teaming up with different countries on different issues, as to some extent it did during the Blair years. But over the past ten years, Britain has missed opportunities. Take Denmark, the Netherlands and Sweden, three countries that share Britain’s free-trading and pragmatic instincts. British ministers have seldom made much effort to cultivate them. “The British take us for granted” is a complaint often heard in Nordic and Central European countries.

Britain should forge friendships in the EU. But that does not mean it should ‘give in’ on important national interests, for the sake of keeping another country happy, in the hope that it will one day do a favour to Britain. The job of the British government is to uphold

British interests. But it may mean ceding on a point which does not matter a great deal, in order to secure enough support to win the argument on a more important national interest. Britain’s European diplomacy should be about choosing the right policies and priorities, being uncompromising on essential interests, and drawing on a network of friends and allies to achieve results that protect those essential interests. In diplomacy, as in relations among people, building and strengthening friendships requires sustained effort.



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EUROPEAN CHOICES FOR GORDON BROWN

Charles Grant

With Hugo Brady, Simon Tilford and Aurore Wanlin

Europe is changing rapidly, but Britain risks missing out. The EU's eastward enlargement, the spread of liberal economic thinking and the demise of the old federalist ideology have strengthened Britain's position. The authors argue that Gordon Brown should seize this opportunity and team up with other European leaders to build a more effective and open EU. Many of the new challenges facing Britain – climate change, migration, international terrorism, instability in the Middle East, energy insecurity, a resurgent Russia and the rise of Asia's economic giants – also confront the whole continent. So the best way for Gordon Brown to enhance Britain's prosperity and security is to work closely with his European partners. This edition has been revised to take account of the June 2007 EU summit.

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