

'Britain and Europe: a new stage in an old debate'

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Introduction

Let me begin by thanking Sir Francis Jacobs and the Association for inviting me to speak this evening. It's a great pleasure to see a number of friends and former colleagues in this distinguished audience. I apologise in advance for two things. First, I'm not a lawyer, so this lecture will inevitably be more about Europe than European law, though there are some legal issues to cover.

Second, I'm speaking on a very familiar theme – Britain and Europe. But my thesis this evening is that, although the contours of this debate are well-known, we are at a genuinely novel, and dangerous stage. That is partly because the EU is changing in ways which affect British membership, but also because the new state of British politics makes withdrawal possible for the first time since the 1975 referendum.

I'm going to divide my remarks into four parts:

- some thoughts on the pathology of British exceptionalism;**
- the present situation, and why things have changed;**
- how our European and international partners view the current UK debate, and the prospects for the renegotiation our Prime Minister has committed himself to; and**
- why, for all the problems and changes, UK membership remains overwhelmingly in our national interest.**

I will use the term European Union throughout, regardless of the period – please forgive the anachronism.

British Exceptionalism

Britain's troubled relationship with the EU has been an important part of our national story since the Second World War. Support for the EU has in recent years diminished significantly in many EU countries, particularly in the southern member states where the imposition of austerity programmes during the euro crisis has been widely resented. Nevertheless Britain remains the most stubbornly negative of the 28. In a recent Eurobarometer survey only 27% of Britons were very or fairly attached to the EU, last by a significant margin out of all member states (the EU average was 46%).

In a recent Financial Times poll, 50% said that they would vote to leave the EU if a referendum were held now; only a third would stay. Attitudes here have hardened over the past decade – in the 1990s, there was a clear majority for staying in, though with growing doubts.

There is a complex mixture of reasons for this persistent phenomenon. I would point to four areas. First, the claim that the EU goes somehow against the grain of our fundamental national characteristics, particularly our concept of parliamentary sovereignty, our global history and achievements, and maybe also our common law tradition.

I'm sure this was what Hugh Gaitskell, the former Labour leader, had in mind when he said that our EU membership would mean "the end of Britain as an independent European state, the end of a thousand years of history!" The long centuries in which Britain, unlike its continental neighbours, avoided foreign occupation bred a degree of confidence in the continuity, and superiority, of our national institutions.

Second, the particular circumstances of Britain after the Second World War. Jean Monnet said: 'I never understood why the British did not join this [the EU in the 1950s], which was so much in their interest. I came to the conclusion that it was the price of victory – the illusion that you could maintain what you had, without change.' Dean Acheson's famous comment that 'Britain has lost an empire and not yet found a role' went in the

same direction. His next sentence is less well known, but instructive: 'The attempt to play a separate power role, that is apart from Europe [based on its special relationship with the US and Commonwealth role] 'this role is about played out'. If you put this together you get a picture of a victor's understandable belief, no doubt mixed with fatigue, that sheltering behind traditional alliances somehow would protect us against change.

Third, the particular circumstances of our accession – the initial decision not to join the EU in the 1950s followed by the rejection by de Gaulle and then entry on less advantageous terms to an institution whose rules and ethos had been shaped by others. All this affected perceptions of our membership. And once we were in, we had the painful history of British unhappiness with its budget contributions. It took over ten years to get the abatement won by Mrs Thatcher in 1984. But that acrimonious series of negotiations stamped the UK/Europe relationship as adversarial and zero-sum. Perhaps our media would have tried anyway to present British membership in terms of wars and battles, winners and losers, after two 20th century world wars. But the first decade of strife over the budget almost justified their preferred vocabulary.

Lastly, there's no doubt that some of the excesses of the EU over the past three decades have harmed its reputation and been own goals. There are too many examples of intrusive and pettifogging legislation, too little effort to implement subsidiarity and proportionality, too much vision and power-play and too little execution. Many in the City worry that certain recent financial services measures have been vindictively aimed at London's pre-eminence as the top European financial centre. These examples go against pro-business and pro-employment British attitudes, and our emphasis on pragmatism and fairness – all basically good things.

Faced with this set of public attitudes and continuing political tensions, successive governments arrived at a pragmatic conclusion. We would, realistically, never be in the vanguard of European political construction, but we aspired to a share of leadership and real influence over many EU policies. So the best course was to stay in the mainstream wherever we could, and

push our priorities vigorously with different sets of allies; but seek to slow down and manage the integrationist impulse, especially at its height in the 80s and 90s, and seek special arrangements for the UK where fundamental problems arose.

Our partners have over the past quarter of a century been willing to tolerate this expression of British exceptionalism because they were persuaded that our governments were doing their best in difficult domestic circumstances, and that we wanted to be more in than out. For sure, it irritated and frustrated some of them. But the result is what Sir Malcolm Rifkind in his thoughtful lecture at the LSE in May called a 'conditional membership' for the UK. He was referring to our EMU opt-out, our special status over Schengen and the JHA acquis, the Fontainebleau abatement, our earlier social opt-out which the Labour Government ended in 1997, as well as the maintenance of unanimity for tax, foreign policy and defence, arrangements for Gibraltar, and so on.

The UK worked hard to keep the EU together eg after the Danish referendum, and kept British options open – a pragmatic approach. And the UK was very influential despite our selective membership, for example over the single market, foreign trade liberalisation, enlargement, the environment, transport, research, cooperation against crime and terrorism, development, foreign and defence policy. Quite a long list. We were no doubt helped over the past 15 years or so by the weakening of the Franco-German axis. In his excellent book published in 2008, Sir Stephen Wall, my predecessor as UK Permanent Representative, pointed out that 'the modern EU ought to be a very comfortable place for the UK'.

The present situation: what has changed?

But two interlocking phenomena over the past few years have transformed the British scene.

The first is the Euro crisis which pulled the rug from under many of our, and our partners' assumptions about the EU. There are several angles. First and foremost, the assumption that a single currency could co-exist with weak fiscal and political coordination and low levels of financial integration has been

proved faulty. The euro crisis has already given the ECB major new powers in the banking area, but also novel powers of intervention to the Commission over fiscal policy. There is new talk of another stage in political union in order to provide much needed accountability for the policy decisions which the euro crisis has necessitated.

European governments are now thinking through the relationship between a high level of monetary and economic integration, democratic legitimacy and national control - an American academic said you can have only two out of these three desiderata. But a number of things are already clear for the UK. First, that the euro is now the centre of the EU's universe, and that those involved by necessity will be working more closely together on economic and political issues as well as monetary policy than was envisaged at the time of the Maastricht treaty. The UK does not belong to the banking union, and is not subject to the new fiscal rules. There are already consequences in terms of British influence.

Some of the new political arrangements may not be too bad for the UK, eg if they bring national parliaments more into the EU political process. But some will be unpalatable. The result is likely to be an EU in which the Eurozone and the single market rub up against each other uncomfortably. In this, the UK has few permanent allies - only Denmark has, like the UK, an opt-out from EMU. We thought that British influence could survive not being members of the euro, and it did for a decade, but the chickens have now come home to roost.

At the same time the early stages of the euro crisis, certainly up until the summer of 2012, showed the Eurozone off in a very bad light - the picture of summit after summit, each doing too little too late, with divisions growing between and within euro states, damaged the EU's international reputation. But it also came as a godsend to British eurosceptics. In the past, the economic benefits of EU membership had been seen in the UK as compelling because of the basic strength of the European economy. But the euro crisis shattered that image, and put in its place one of the Eurozone as a basket case. The further away from that, the eurosceptics cried, the better - it's only a matter

of time, they said, before the whole euro edifice collapses, and we should stand clear.

So our Government says that what the Eurozone does is no business of the UK's; that they should do whatever is necessary to stabilize the euro. If that means full-on political union in the Eurozone, so be it. But the inevitable effect is to widen the gap between the UK and the rest, and to leave our natural allies feeling uneasy. The eurosceptics were also premature in dancing on the euro's grave: the markets today think it will survive, probably without any exits, though of course there are difficult years ahead.

So that's my second factor: the euro crisis coincided with and confirmed an important change in British politics – the new generation of Conservative MPs in the House of Commons and of activists in the country were decidedly more eurosceptic than their predecessors. This manifested itself in the present Parliament, and among the Conservative members of the present Cabinet. The rise of UKIP is of a piece with this. This set of factors pushed the Government into a series of major steps – the opt-outs from a significant number of JHA measures, the Prime Minister's veto of the new fiscal pact in December 2011, and this year his speech committing the UK, if he is re-elected, to a renegotiation of Britain's membership and a referendum in 2017.

It is not clear whether the eurosceptics have judged the public mood correctly. Europe is their obsession. But recent public opinion polls confirm that the electoral salience of the European issue has actually dwindled since the 1990s. As the Financial Times columnist Janan Ganesh noted, 'It grips a minority of voters.... and bores the rest.' In a June poll, the economy was the No 1 issue - on 58% of voters' minds; the EU was the last of 9 subjects mentioned, with only 8%. If this is right, scepticism about Europe may be wide, but quite shallow. There's plainly a risk of British anti-European activists, like the American Tea Party, mistaking an issue of ideological importance to them for one which genuinely animates the electorate.

What our partners think, in the EU and internationally

Our EU partners realise that something has changed in the UK. The stakes are higher. Views vary from irritation to understanding. They are used to Britain as the head of the awkward squad, but two things are new. First, the possibility of our withdrawal. For some that sharpens the mind. But others feel less inclined to push the boat out for us and potentially harm their own interests if we are headed for the exit anyway. Second, the UK issue is not the central one for them. For the Eurozone governments and publics, the survival of their currency, and the prospects for financial stabilization, economic recovery and growth are by far the most important issues on the table. There's a danger of the UK issue looking peripheral to those central concerns.

But these are early days. We have the EP elections ahead, and then our general election which will decide whether a 2017 referendum goes ahead. If it does, I believe that the majority of member states will in the end want to be helpful to Britain. For some, like Germany and the Netherlands, a mixture of major historical, moral and economic factors come together. As former German Chancellor Erhard said, "without Britain, Europe would only be a torso". France, particularly under the Hollande government, will be characteristically torn. Most member states see us at the very least as a balancing factor in the power structure, and northern and central European countries know that without UK support, liberal single market and international trade policies would be harder to get adopted, and Europe's Atlanticism and internationalism would be weakened.

Of course that does not mean a *carte blanche*. Nothing which damages the Eurozone or launches an open season in which individual member states can opt out of inconvenient policy areas is likely to get through. But it's possible to imagine a package which is mostly about reform of the EU as a whole, where Britain has good support from Germany, the Dutch and other countries. Objectives such as completing the Single Market (with an emphasis on services, energy and the digital economy), smarter regulation (and with it the chance to amend the Working Time Directive, a British *bete noire*), tougher action on benefit fraud by migrant workers, a bigger role for

national parliaments, a 21st century EU budget. These ideas do not require treaty change, and of course would take years to implement fully, but would amount to a major agenda.

Changes which require treaty change are much more problematic. At present there is no appetite for it among our partners. The things the Eurozone countries want urgently, in particular the next steps in banking union, can be done without changing the treaty. Germany and France don't want the hassle of referendums or even difficult parliamentary battles if at all possible. We are not the only country with domestic politics – President Hollande will be up for re-election in 2017, and I can't see that coincidence encouraging him towards generous gestures to the Brits.

But all that said, we don't know what the mood will be like after the EP elections, formation of the new Commission and our own elections. Some in the Eurozone do want to use treaty change to go further on political union, and some lawyers believe that the EU is already sailing close to the legal wind by moving down the path of fiscal and banking union on the basis of the present treaty. At some point also the relationship between the Eurozone and the EU of the 28 will probably need a new set of treaty provisions.

The problem for the UK is that David Cameron's timing is very early. He would need an IGC to conclude by early 2017 in order to hold a referendum on the outcome. At present that feels too soon for the EU to complete a wide-ranging IGC.

There's an outside chance that Angela Merkel might be persuaded to back a British-only treaty change package provided it was very small and did not open Pandora's box for everyone else. But that depends on the Prime Minister putting forward a highly disciplined and realistic set of asks, and even then the outcome would be far from certain.

No-one at this stage can see exactly how this will go. What is certain, however, is how carefully crafted our negotiating position would need to be to be successful. Given the pressures from UKIP and the Conservative eurosceptics, that will be a difficult line for the Prime Minister to hold.

Beyond Europe, our partners and allies have given a clear reaction to developments here - that we need to wake up and see the overwhelming advantages of British membership. As I travel around the world, I find international opinion almost universally bewildered by the risks we are taking with our economic and political future.

In January, the White House took the unusual step of revealing that President Obama had told David Cameron that he “values a strong UK in a strong European Union, which makes critical contributions to peace, prosperity, and security in Europe and around the world”. Washington is plainly worried by the trend of our debate. I subscribe to the wise words of former American Ambassador to the UK Raymond Seitz: if Britain wants to remain a global player, we have to be active and influential in Brussels, which allows us a bigger impact in Washington, Delhi and Beijing. Similarly, the more impact we have in Washington and with the emerging powers, the more we’ll strengthen our hand in Brussels.

This isn’t just an American view. The Australian Foreign Minister echoed it recently in a letter to William Hague underlining that Britain’s position as a “leading economy and effective power” was as a result of “strong active membership of the EU” which it hoped to see continue. Straight talking indeed from our Aussie friends. The Japanese government also pulled no punches in its recent submission to Britain’s EU competences review, saying it “expects the UK to maintain this favourable role” in the Single Market, which is why “1,300 Japanese companies have invested in the UK and have created 130,000 jobs”.

The uncertainty caused by our current debate, and the possibility of a referendum, is already unsettling future investors — Germany is overtaking the UK as the top European choice for new inward investment. Surely Germany’s example — the most successful European exporter, particularly to China and the other new markets — is the best answer to those who say Britain’s economic prospects are somehow strangled by our EU membership. If Germany can do it, as a core member of the

euro and under the same EU rules as the UK, it can't be EU membership which is holding us back.

The value of British membership

My starting point is that times have changed. In a eurozone-dominated EU, British influence will be less; and the quality of our membership will be lower than before the euro crisis. I believe that we need to accept this, and that claims of British leadership, or of being (in John Major's words) 'at the heart of Europe' are not credible at present. But there are huge areas of EU activity which are not and should not be affected by the growing role of the Eurozone - most of the single market (except financial services), JHA, foreign policy and trade, competition, the environment, and so on.

Moreover, although there will undoubtedly be further steps towards greater integration, I believe that progress will continue to be slow and deliberate especially in the political area. The political reality is that nation states have an enduring power. There is still no European demos, and if anything public opinion around the EU has grown more, not less suspicious of the traditional federal remedies for political union. This is going to continue to be a long and winding road, and for good reasons - politicians want the minimum level of truly federal European decision-making because it is unpopular, and extremely difficult to contrive given our histories and political structures. A further full-blown euro crisis - and there may still be one - would force the pace; but if not, Merkel-style incrementalism is more likely to be the order of the day. That would incidentally be good for the UK as we ponder our future.

All the evidence suggests that the more debate about Europe and the better informed people are, the more likely that British voters will come round to support EU membership again. I continue to believe that the arguments to stay in are overwhelming. I am encouraged that the CBI and even the Institute of Directors are making clear the business case for staying. In his lucid speech in June, Sir Richard Lambert, former

CBI Director General, examined the economic evidence exhaustively and concluded that 'the risk to British business of EU withdrawal ...exceed(s) the costs of membership by a wide margin and has the potential to do lasting economic damage to our country'. I've summarised some of his evidence in what follows.

Nearly half of our exports go to the EU which remains our most important market by a long way even as exports to the emerging economies increase. If we leave, we would still need access to the Single Market, but as non-EU members we would have no place at the negotiating table and would need, like Norway and Switzerland, to accept legislation without our input - unacceptable, as David Cameron made clear in his January speech. If you're exporting cars from Britain and want to continue to enjoy tariff-free access, or you're an American bank wanting to use the single passport to European markets from your European HQ in London, you will be worried by the uncertainty of Britain's position. It's clear that, if we left, so would a good number of the foreign companies whose investment in the UK we worked hard to attract over the past decades based on the UK being a gateway to the rest of the single market.

Likewise, if we were out, we would have to negotiate free trade agreements round the world on our own. They are difficult enough when the Commission represents a market of 500 million at the negotiating table. It's very difficult to imagine that the UK would be more successful going it alone. We simply would have less heft in the tough world of international trade negotiation. And it would be a supreme irony if the EU-US FTA, which Britain did more than any member state to get launched, is successfully negotiated over the next year or so, but we are excluded from it because we vote to leave the EU in a referendum.

Eurosceptics claim that we would be financially better off. We pay at present about £8bn a year net to the EU budget, that is about E180 per year per capita, compared with an EU average of E205 and E241 for Germany. That doesn't suggest we're overpaying. And if we left, we would not be able simply to

pocket the savings. British agriculture would need to be supported from our national coffers if EU support ended; and, like Norway and Switzerland, we would have to contribute to the EU in return for access to the EU market and programmes. On the latter, the UK does extremely well from EU research programmes; our universities, students and researchers would immediately feel the pinch if these programmes were withdrawn, and would no doubt go cap in hand to the British Exchequer.

Politically, as I have argued above, influence in Europe and influence in the rest of the world are mutually reinforcing. Even though William Hague has been a persistent critic of the EU's internal processes, he recognises the importance of getting the rest of the EU onside when action is needed on Iran, or Syria, or Africa, or Burma. Europe can and does magnify UK foreign policy influence.

Many of these positive points came through loud and clear in the Prime Minister's January speech. The problem is that normal service has now been restored, and when Ministers speak about the EU, they tend to accentuate the negative and the many problems which they want to see remedied. If David Cameron is serious about his personal commitment to keeping Britain in the EU, he will need to corral his party and ensure that the right balance is struck in public debate. If the public gets the same drip, drip of negative comment over the next few years, how will we ever be able to assess the pros and cons properly?

Above all, pro-Europeans need to tackle head-on the central Eurosceptic claim about the EU – that Britain is no longer an independent country, and that we are being ruled by Brussels. I think this is nonsense. Very few of the big issues of the day in Britain (our health service, standards in our secondary schools, handling of violence against children, help for first time house buyers, press regulation, and so on) have anything to do with the EU. (Immigration is the exception to that list.) Our monetary and fiscal policies are in national hands. Our fundamental political traditions are intact. And the special arrangements and opt-outs we've negotiated mean that the UK already has a considerable degree of flexibility. As the Deputy Prime Minister

said yesterday, 'We need to start challenging some of the ludicrous mythmaking by the isolationists now'.

Conclusion

So I think we live in dangerous times. If a referendum were held tomorrow, it would likely be lost. People point to 1975 – with all three major parties behind the Yes Campaign, a 60/40 No margin a year before was turned into 60/40 in favour of staying in. I fear that today's politics are different – less deferential, less likely to be impressed by inter-party unity, more likely to see consensus as suspect or boring.

But I believe that the arguments themselves are very clearly in favour of membership, and ultimately that will come through in the period before a referendum. So I do not relish the situation the UK is in, and I'm concerned about the impact of the uncertainty on our political and business prospects internationally. But if there is a referendum, I believe it can be won, because the British people will not want to pull up the drawbridge, and will be guided by their enduring pragmatism and our overwhelming national interest.

Thank you very much.