

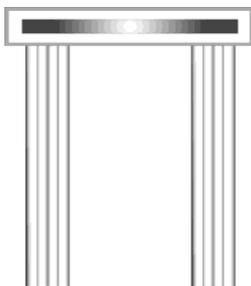


David Howell

**Britain and the EU**

**The momentum for  
European reform**

A FORUM FOR SOCIAL AND ECONOMIC THINKING



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# Britain and the EU

The momentum for European reform

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## Foreword

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Today's global economy, characterised by new trading patterns, product processes and business methods, has been transformed by digital technology and revolutionary change. These changes have implications for the Single Market and invalidate old policies.

In particular they indicate that the EU's traditional structures of centralised policy-setting, regulation, direction, and drive to further integration, bring little gain or benefit to the EU or its member states.

A more dispersed allocation of powers between the EU authorities and member states is needed if the EU is to prosper and compete in transformed world conditions. Treaty change is therefore inevitable.

Britain is not alone in challenging outdated EU centralism and seeking radical change. A desire for reform has become widespread on many fronts throughout Europe.

Here in Britain, a proposed 'deal' for this country has its attractions. However, Britain's proposals for change must be harnessed to reforming Europe, and to building alliances with governments, leaders and groups who share similar aims, if any deal or negotiating process is to succeed.

# I

## Introduction: The New Context

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The cohesion and prosperity of the European Union remains important to Britain, but not as important as it was. For British exporters, the EU is not the only game in town. Other great markets are growing fast and the onward rush of technology is creating a new kind of European economy.

The European Union today accounts for 20 percent of the world's GDP, having shrunk from 30 per cent in 1990. Manufactured products entering the Union attract tariffs of less than 5 percent on average, although items like completed vehicles attract twice that level. All tariffs are limited by MFN rules. However in practice, the processes of international trade in products have largely evolved into complex systems, woven together with knowledge-intensive business services, and flowing through multiple global supply and value chains in which it becomes ever harder, and more costly, to establish rules of origin.<sup>1</sup> These patterns did not exist at the time when the EU (or EC) was founded as an integrationist model with the central idea of a Single Market.

Seeking a changed relationship with an unreformed EU as it now stands, or to try for amendments, opt-outs, concessions here and there, is tantamount to negotiating with a past age. If the EU is to keep pace with the modern world and the digital age, both reform and negotiation are necessary. Reform should come first. When negotiation does take place, it should not be seen as a box-ticking deal to meet specific British interests. Rather, it should be between all the reform-minded governments and interests throughout the EU.

Furthermore it matters that the reform process, far from being just a wish-list of British concerns, should involve an intensively organized and prepared plan, rooted in analysis and understanding of the history of the European Community and how it has developed, from the birth of Jean Monnet's vision onwards.

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<sup>1</sup> Raymond Hearn, *Europe's Preferential Trade Agreements: Status, Content and Implications*, Congressional Report Service, March 2011. The US Rules of Origin briefing notes that it is often simpler and cheaper to pay the MFN tariff rates than to be caught up in costly disputes about the origins of a particular product mix.

Yet the assumption prevails that Britain will soon have bilateral negotiations with the rest of the EU mostly, through the European Commission. Strings of demands are paraded, some quite minor adjustments and some which could not possibly be accommodated without Treaty change.<sup>2</sup> Opinions vary as to whether these will lead to enough change to convince the British public that the EU is genuinely on the reforming path, or whether we will be left with trivial concessions leading to British withdrawal following a referendum.

This paper argues that the emphasis in such an approach is misconceived, will not produce necessary EU reform and will damage both British and European interests. Instead, the primary aim must be to build up a common understanding of the priorities the EU should have if it is to be successful in the ever-changing international climate. Negotiations must be Europe-wide and not conducted on a narrow bilateral UK-EU basis. In this age of soft power and persuasion civil society groups, as well as governments across Europe must be involved in the process. This, in turn, requires a debate about the fundamental nature and aims of the EU. The old integrationist doctrines which underlie the Treaties are plainly foundering in the 21<sup>st</sup> century. If the UK merely tries to secure new opt-outs, these deeper defects will be left unremedied.<sup>3</sup>

**A Model which no longer works** The traditional integrationists still dominate in the EU. But they are uneasily aware that the ground is slipping beneath their feet. New thinking is required in many areas of European activity. In many areas, the centralised EU model no longer works in the modern age.

- Trade flows and financial markets have changed beyond all recognition since the end of the last century, reshaped by a new and more dispersed pattern of supply chains.
- The categories and industrial sector definitions wired into past Single Market legislation and regulation no longer match the cross-cutting nature of today's manufacturing patterns and interlocking services and investment flows.

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<sup>2</sup> See for example Gerard Lyons, *A Win-Win Situation*, London, 2014, or the Prime Minister's list of EU renegotiation goals, *Sunday Telegraph*, 15 March 2014.

<sup>3</sup> Roger Bootle, *The Trouble with Europe*, London, 2014

- The notion that competition increases with integration is challenged by new technology.
- If the Transatlantic Trade and Investment Partnership project is to lead anywhere – which is now looking less likely – it would be one more factor cracking open non-tariff barriers.
- The Euro-currency crisis is set to continue in a struggle between the need for central budgetary control and the inability or unwillingness of member states to transfer more power to Europe.
- Revolutionary changes in energy production and new climate questions have made redundant the EU's energy and climate goals, to Europe's severe disadvantage.
- The big per capita income gap between Central Europe (the so-called EU-11) and Western Europe (the EU-15) is widening, not closing.
- Perpetuation of the present EU labour market structures and rigidities, and their surrounding thickets of regulations are creating unsustainable social tensions.
- The argument that Britain must either adhere completely to free movement of labour inside the EU, or leave, is proving incorrect and unfounded.
- Poverty-driven immigration and benefit tourism have become not just British complaints, but worrying issues for most of the richer member states. Among others, Austria, the Netherlands, Germany and Denmark have all expressed strong reservations about immigrant ease of access.
- Massive youth unemployment and economic stagnation have inevitably brought political turmoil.<sup>4</sup>
- New communications technology allows more efficient systems of crime-fighting co-operation extradition and cross-border control than the blunt and haphazard European Arrest Warrant.
- The Lisbon Treaty has been described as 'the last of the rigid class of EU Treaties' (the last 'battleship' treaty – vast, vulnerable, cumbersome and costly).<sup>5</sup> In the end, the Treaties will *have* to be radically re-cast, not just skirted around, whatever the fears of governments. Without fundamental

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<sup>4</sup> According to new data published by the Italian national statistics office ISTAT, youth unemployment in Italy rose to 44.2% in August 2014– marking a new record high. The Spanish youth unemployment figure is 51%.

<sup>5</sup> David Howell, *Old Links and New Ties*, London, 2013.

Treaty revision there will be no fundamental reform. And without reform the EU cannot prosper.

Even the most ardent Europe-builders and integrationists admit that the EU's core institutions and procedures must be revisited.<sup>6</sup> The implications of such advice are far-reaching. Once the Treaty cupboard is reopened its contents will be revealed as belonging to a past, more centralist age – an out-of-date and over-priced 'supermarket' of heaped up regulations from which customers are turning away. If Britain tries to amend the treaties only at the margins, then it is destined for disappointment. Minor changes would only leave the EU in its present unsustainable position and must, in the end, fail to satisfy the British public that the EU has truly reformed.

The issue of EU reform is not a just a European problem. Rather it reflects the rapid global change challenging the basis on which the old Union was founded; it also renders many aspects of the original treaties obsolete. Influence is moving away from top-down hierarchies and compelling greater openness to decentralisation and de-regulation. There is no way that the EU can avoid these major currents.

Proponents of bilateral renegotiation between the EU and the UK disagree about how the process should be conducted and what its outcome is likely to be. Some insist that the threat of complete withdrawal (under Article 50 of the Lisbon Treaty) should be on the table if Britain is to get anything like what it wants. Others are nervous that a withdrawal threat will simply sour negotiations from the start and argue for a more piecemeal approach, tackling a range of knotty issues bit by bit, with amendments, opt-outs and derogations.

But whatever tactic is used, the assumption is that there *will* be a renegotiation between Britain and the rest of the European Union. It may succeed or it may fail. If Britain can win enough concessions, then the British people will vote in a referendum to stay in the EU – possibly without enthusiasm but by a large enough margin to settle the issue for at least a generation (so it is hoped). If the concessions are inadequate and the EU is seen as clinging to its old

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<sup>6</sup> Wolfgang Schauble and Karl Lamers, *Financial Times*, 31 Aug 2014.

integrationist ways regardless, then the vote will go against. Britain will vote to withdraw and begin the long process of ‘Brexit’ negotiations - a prospect both uncertain and with potential for disillusion and disappointment, given that ‘sovereign independence’ in today’s networked and interdependent world no longer means what it used to. It would also leave many aspects of sensible and useful Europe-wide collaboration – including potentially new and less rigid methods of working together in the digital age - in disarray.

Political strategists and legal experts continue to argue about the tactics, and whether or not it will help to put the withdrawal threat on the table. But the diagnostic consensus right across the spectrum, from UKIP to Europhiles, remains that some sort of negotiations there will be.

The problem is that negotiation alone will not measure up to the new challenges facing the European Union. There was a glimpse of much realism in the first line of the David Cameron ‘Bloomberg’ speech on Europe of 23rd January 2013. His speech was ‘about the future of Europe’, an invitation to adopt a new approach in dealing with the reform of the whole EU. It belied the widespread comment that the speech was just a piece of placatory domestic political manoeuvring.

Reform of the whole European architecture, to meet transformed world conditions, rather than negotiation on a bilateral basis between Britain and Brussels, should be the primary focus and in practice could prove to be the only possible course. Bilateral negotiation between Britain and the other 27 members cannot deliver the alterations essential to the old twentieth century EU model or convince a British electorate that Europe has changed direction. As Martin Howe QC has observed, each and every one of the ‘concession’ items on which the UK is seeking change raises a maze of complex subsidiary issues which must painstakingly be unravelled.<sup>7</sup>

The idea that somehow the Treaties can just be tweaked with the odd amendment here and there is anyway a legalistic absurdity. A little Treaty opening, like a little learning, is a dangerous thing, for there is no stopping

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<sup>7</sup> Martin Howe QC, *Zero Plus: The Principles of EU Re-negotiation*, Politeia, 2014.

point on the slide to endless parliamentary debate, division in almost every EU capital and to referenda in many of them. This, of course, is why the political establishment in most member states will resist re-opening the Treaties at all. They know that the Treaties cannot just be treated like some kind of self-service buffet.

Those who fought the Lisbon Treaty legislation in Parliament in 2008 mocked the naiveté of the then Labour Government, with its Liberal Democrat supporters, who claimed that wondrous clauses in the Treaty, the so-called *passarrelle* provisions, would ensure that there would never have to be another EU Treaty, and that the *passarrelle* bridge would allow swift changes in the Treaties. Three years later, I had to explain to a cross and confused House of Lords – this time from the Ministerial front bench - that there was no fast track. The *passarelle* process, it turned out, would involve procedures which required an unattainable unanimity in the Union.<sup>8</sup> Far from making it easier for the EU to adapt to the continuous torrent of change in global conditions, it would slow down reform still further.

**A New Framework of European Co-operation** For a change of direction in Europe and if the Union is to hold together, the underlying structure of the EU must change. Integrationism and the institutional methods to which it leads must be replaced. Agencies which embody this credo, such as the European Court of Justice, will need a more impartial and up-to-date role. Britain is not alone in seeking change. Throughout the Union both political and popular circles of influence aspire to take the same path. Britain can contribute here, helping to animate, support and in some cases take the lead.

Change is not just a matter for governments, all of which throughout Europe have seen their authority and legitimacy sharply limited by the rise of network power, nor just for diplomats, lawyers or foreign policy specialists. There is greater scope for persuasion, for ‘soft’ and more flexible methods of promoting change and for operating outside the spheres of officialdom.

In particular, a radical change of approach will be needed to replace the later 20<sup>th</sup> century thinking about government and governed. Centralised policy and

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<sup>8</sup> HL, Deb 22 March 2011, Vol 726, Cols 599-608

decision-making, as adopted by the initial EU project, is no longer possible given the change brought by rapid technological advance and the new algorithms and realities of the Information Age - which could not have been anticipated decades ago.

This is the level at which the whole European issue must be vigorously tackled and the new context created. And this is the level at which allies must be sought and initiatives combined to nudge the EU and its deeply *immobiliste* political class, in more sustainable directions.

The next sections will show in more detail how the present structure, policies and direction of the EU are undermining, not strengthening, the market; how the narrow Single Market concept is itself being overtaken by new trade and investment patterns; how the interests and aspirations of not just Britain but all member states, are being frustrated; how neither attempted renegotiation, nor attempted British withdrawal, however skilled, will come anywhere near serving Britain's national interests, and how power itself is being re-allocated in accordance with the new norms of the internet age. If we take these lessons on board, all EU members can find a better way out of the European labyrinth.

## II

### The New World Economy: Good for Britain and good for the EU

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Many of the concerns in Britain about EU power and how it is wielded are shared in other member states. The recent European Parliamentary elections in May 2014 indicated a comparatively high level of Euroscepticism extending to relatively new parties such as Germany's AfD (Alternative für Deutschland) and the French *Debout la République* (DLR), as well as in more established parties in France and Italy. Both the French President, François Hollande and the German Chancellor, Angela Merkel each promised to heed the message.<sup>9</sup> The signs are that once the central focus switches away from Britain's specific concerns to the wider concerns of almost all members about the state of Europe, there is much in common. This is so in the case of trade and the economy.

Today's trade patterns are complex, global, fast moving and unsuited to regulation by the dated machinery of the EU. It has become clearer today than ever before that economic growth is stuttering: something fundamental is wrong with the economic model which seemed to many to work well for the early European Community. Despite constant calls for 'completion' or at least 'safeguarding' of the Single Market to stimulate the European economy, it is evident that the Single Market concept, with its fortification of acquired powers – the so-called *acquis* - is no longer as relevant as it once was.

First, three of the four great freedoms embodied in the current Treaties – stipulating the free movement of goods, services, capital – have become infinitely more difficult to adhere to or even monitor. They are ill-suited to the greatly increased complexities of today's trade patterns, with multiple components and knowledge and service inputs, and products often assembled in numerous different locations. The fourth 'freedom', that of movement of persons, is of course at the centre of current storms and causing widespread tensions throughout the EU, with Germany leading the way towards the application of tighter restrictions on immigrants. The contention that Britain is

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<sup>9</sup> See e.g. François Hollande, *Élysée Palace*, 27 May 2014

alone on this matter, or that it would have to leave the EU if any restraints were placed on the free movement of labour seems baseless, as the German approach, as well as concerns voiced in Austria, Denmark and the Netherlands, all confirm. Using the latest technology, modern frontier arrangements which remain light but not uncontrolled are in fact now well within reach, but not of course without Treaty reform.

**The ‘Spaghetti Bowl Effect’** Today’s trade supply chains, where complicated and unfinished products and knowledge travel through a tangled network of bilateral regional and ad hoc trade agreements, has been labelled by Jagdish Bhagwati, the former WTO and UN adviser, as ‘the spaghetti bowl effect’.<sup>10</sup>

It describes the position in which the origins of the components of intricate products and services become almost impossible to trace, where modern trade flows wind through a maze of preferential trade agreements which have now spread far and wide, and where the antique trade regulating procedures of the EU cannot keep up.

Take one example, that of Toyota Motors: it builds car engines in Deeside with inputs from its Spanish factories, software from Japan and India, for transfer to its vehicle assembly plant in Mexico and then for onward sale to Brazil and to various European and African markets and with some units even back to Japan. Where are these products made? The company says: ‘they are made in Toyota’.

This is just one example of the intricacy of modern trade patterns and the ever increasing difficulty of identifying where products originate and for what tariffs, if any, they are liable. It makes trade statistics increasingly unreliable in reflecting what is actually happening in the movement of goods and services, including the statistical data for the proportion of British exports to other EU countries, which makes no allowance for goods passing through EU destinations to third parties. Even more unreliable are estimates of the number of UK jobs involved in the relevant parts of the ever-shifting and evolving

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<sup>10</sup> Now at Columbia University and Senior Fellow for International Economics at the Council on Foreign Relations (CFR). *US Trade Policy: The Infatuation with FTAs*, Columbia, 1995

supply chains.<sup>11</sup>

**Divergent Natural Arrangements** The second growing problem with all Single Market legislation and regulations, and with harmonisation of laws generally, is that no bureaucratic machinery, however zealously organized and however great the volume of directives and controls it seeks to administer, can keep up with the vast range of divergences in national laws and practices which the microchip age has allowed to multiply. The flow of intermingled goods and services becomes untraceable.

Thus, while ‘a continuing torrent of regulations and directives’ pours out from the Commission under powers ceded to it by the Treaties, these can never catch up with actual conditions. They complicate business activity and they raise costs at all levels. Yet they have not led to, nor is it likely that they will lead to, the bureaucrat’s dream of a level playing field.

These novel conditions raise a number of questions. First, does the bulk of the Single Market legislation help the European economy to gather strength and compete? Second, does competition within an optimal region any longer increase with integration? Third, does the Single Market still exist in a recognizable form and is it in the EU’s interests to keep trying, although always failing, to complete it? Fourth, is the distribution of powers and competences, which allows the Commission to proceed on this path, useful and how might it be radically reformed?

The recently instigated UK Foreign and Commonwealth Office review of ‘balance of competences’, between the EU and member states in the autumn of 2013 failed in its quest to secure the involvement of other member states. This was not surprising since the reviewers should also have been asking some deeper and more relevant questions. Are the competence categories themselves, as specified in the various EU treaties over the years, any longer appropriate today? Do they match the new patterns of a digitalised age and a transformed international order?

Since most of these were conceived five decades ago and before the digital

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<sup>11</sup> Claims by the Chief Secretary, Danny Alexander, that three million jobs depend on exports to the rest of the EU are unproven. Centre for Transatlantic Relations, 25 June 2014. See also Howell, *Old Links*.

age, it is fairly obvious that many of the categories and definitions are long outdated. Many of the competence packages in the Treaties should now be unravelled and distinctions made between the various powers and where they should lie.

Frank Vibert's pioneering work shows that the 'differentiation' procedure is essential in deciding at what level a whole range of modern functions, invisible to the policy-makers of forty years ago, should be handled. Examples include agriculture – which today embraces a wide range of matters such as the environment, the city-rural balance, diet and healthy eating, bio-energy sources, wildlife, food security and planning, none of which seemed central when the CAP was constructed; labour market legislation – designed for a totally different employment pattern and labour market character to that of the present day; social legislation, where technology now allows a much wider range of programmes to be administered at ground level nationally or locally, and in a far more personalised way, than was considered possible a few decades ago; energy production and consumption, and questions on the implications for climate where more international coordination may now be urgently needed. These may need less interference with national energy programmes by the EU, but more pan-European interconnection of supplies of gas and electricity.

**Centralisation v Decentralisation: a constant conflict** Some of today's often powerful decentralising forces did not exist even at the outset of the present century, such as digital fabrication, the internet and M to M (machine to machine) communication systems. Yet they are reshaping daily lives as well as business patterns throughout Europe. Such complications do not appear to have been given much consideration in the balance of competences exercise, or in official economic assessments of the amount of increased competition supposed to come from integration.

Economic issues aside, there is the widening space between the traditional models of European governance and today's need to close, rather than enlarge the gap between authority and the individual or local community. Just as the EU philosophy has failed to keep up with trade, it has failed to keep up with people.

The vulnerability of traditional democratic structures is exacerbated by the exercise of power in ways that seem utterly remote to individuals. ‘Disassociation is the norm’ writes Frank Vibert.<sup>12</sup> If this is the challenge which exists for most national governments, then for the EU governmental structure the problem is ten times greater.

In a pre-digital, pre-internet age it was still possible for Jean Monnet to push forward the European integration project in a way which was consciously designed to stand as far apart as possible from national governments and democratic processes. Otherwise, as he saw it, there would be no progress. But in the wake of the internet revolution, a structure of authority which has been designed to be remote cannot be effective. The demand is for openness and transparency, rather than respectful deference of the kind which led to the original EU hierarchies and allowed them to operate unchallenged.

Aware of these unsettling new conditions, EU leaders have scrambled to make more of the concept of subsidiarity. ‘More attention needs to be paid to the subsidiarity principle in Europe’ said Mrs Merkel on her visit to London in April 2014. European leaders call with monotonous regularity for the EU to be ‘brought closer to the people’!

However, the concept of subsidiarity is unlikely ever to do the trick. Despite having been around for more than a decade, it is far too weak to have effect. Rather, what the EU states need is the return of powers to national parliaments.<sup>13</sup> This need cannot be met within the confines of the Lisbon Treaty. The idea that it could be met by political agreement is little more than a pipedream. To bring about genuine reform, a substantially new Treaty draft is needed, which combines true subsidiary with the reallocation of the competence categories. As the Morgan Stanley Vice Chairman in Global Capital Markets puts it, ‘decades-old political taboos’ will have to be broken.<sup>14</sup>

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<sup>12</sup> Frank Vibert, *Differentiation in the EU*, Strathclyde Papers in Public Policy No.499. CSPP: University of Strathclyde, 2013.

<sup>13</sup> The replacement of the weak yellow card procedure offered by the Lisbon Treaty with a far stronger red card power of objection by national parliaments has already been suggested by the former UK Foreign Secretary, William Hague. *Britain and Germany : Partners in Reform*, Koenigswinter Conference , 31 May 2013.

<sup>14</sup> Reza Moghadam, *Financial Times*, 11 Oct 2014.

**And the Euro? Where Next?** There is also the ‘running sore’ of the Euro-system, introduced long before the political conditions of the EU were ready for monetary union – if indeed they ever will be. Here, the ambiguities about re-opening the Treaties are at their deepest. Mrs Merkel, amongst others, has spoken of the need for Treaty revision, only to shut the issue down again hurriedly. In practice, without substantial Treaty changes, there could be no question of moving towards a fiscal or budgetary union in the euro-zone, let alone a full political union which this would ultimately necessitate. The best that the UK and the rest of non-Euro zone Europe can hope for is that this painful saga can be contained and worked out within the Zone and that measures attempting to stabilise the system do not result in undermining the larger pan-European financial system, of which the City of London stands at the heart.

It is not entirely correct, as some have claimed that *all* EU financial legislation has weakened the London financial machine – some has been helpful in strengthening London’s position. Despite the view that most EU financial legislation is ‘anti-London’ the City of London handles almost 40 percent of the EU’s wholesale financial business, so there is bound to be much for London to gain from uniform financial rules – such as, for example, the European Prospectus Directive.

On the other hand there can be no doubt that financial regulation in Europe took a great lurch towards institutional centralisation under the Lisbon Treaty now embodied in a centralised system, the European System of Financial Supervisors (ESFS). At the same time a Financial Transaction Tax would be highly damaging, as would further plans for rescuing the Eurozone from breakdown even more so – which is why the British Government vetoed them in March 2013. Financial services and their regulation have now become almost totally globalised ‘network’ issues, blurring the old concepts of blocs and trade-offs between different regulatory cultures. In these new conditions it is plain that the Treaty powers assigned to the EU via the European System of Financial Supervisors (ESFS) and its old-fashioned hierarchy of centrally controlling agencies, each endowed with ‘legal personality’, need radically rethinking.

### III

## Forces for Change

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Without allies the best reform case will fail. And winning allies in Europe demands not only powerful and appealing argumentation. It also requires deft and energetic diplomacy and clarity of priorities which have not so far been evident.

The groundwork has to make progress not just at the official level through the efforts of governments and diplomats but also through business interests, associations, movements and local communities throughout Europe. There is plenty of popular support for the cause, as demonstrated by the prominence of fringe and reformist parties at the May 2104 European elections.

But the voices of business are also increasingly loud and demanding of change.<sup>15</sup> They, along with voters in individual states, share concerns about the direction of flagship policies which can be unsuited to individual countries. The underlying sense is that Europe-wide policies can be wrong for individual economies. Two prominent examples are the rules imposed on insurers and pension funds which directly obstruct them from investing in the real economy, and the impact on individual countries of ill-conceived EU-wide energy policies and regulations – an area where the competence of the EU authorities is anyway ambiguous.

German business leaders, both from big corporations and from the Mittelstand firms, have claimed that ‘ever increasing union’ with its lockstep army of regulations and directives, has failed. It is no longer a pro-European goal. Meanwhile, the German government is unlikely to be the best reform ally, despite occasional sweet words. Its historical baggage still weighs too heavily to allow its leaders to speak in anything other than terms of more Europe and more integration. However, at least eight of the twenty eight member states understand the urgency of breaking the integrationist hold and are ready for coherent and persuasive leadership for reform, which has so far not been forthcoming.

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<sup>15</sup> Huw van Steenis, Morgan Stanley. *Financial Times*, 2 Sept 2014.

At governmental levels, the eight countries showing support for a modernised kind of EU are Poland, Sweden, Netherlands, Hungary, Finland, the Czech Republic, Slovakia and the UK itself. The disgruntled Euro-zone Club Med five – Portugal, Spain, Italy, Greece and Cyprus – cannot be far behind.

But at unofficial and non-governmental levels the reform impulse, and the desire to reject and overcome integrationist dogma, is vastly stronger. The recent European Parliamentary elections, although far from being focussed or unified, were a clear demonstration of this. There is an army awaiting a rousing and clearly articulated cause. But special pleading from London is not the way to rally it.

Take the case of Poland, which has long been a country that should matter to the reformist cause as historically, Polish-British relations have always been strong. But such thinking has often been pushed aside in favour of anti-Polish energy policies, promoted by the EU Commission with enthusiastic British backing.

There has also been bilateral hostility arising from very different views between London and Warsaw on the EU Budget. It was thus hardly surprising therefore to find in Warsaw in 2012<sup>16</sup> a distinct coolness towards British EU concerns, although this may have been more recently somewhat repaired by the British Prime Minister's strong support of Mr. Donald Tusk for the job of President of the European Council.

The energy and climate policy of the EU has all along been dogmatically opposed to coal, gas and oil (until overwhelmed by facts to the contrary). In the case of Poland, a very heavy coal producer and user, no concession was given by the climate zealots to the point that coal could be burned much more efficiently, and with a major contribution to lower carbon emissions. This route – despite it being one taken by China, was shut with heavy bars in Europe. Poland argued in vain that this was the way forward best suited to their position and that shifting from it would increase dependence on Russian gas imports. The climate policy-makers of Brussels, with their targets and energy strategies, were having none of it. They may now, as a result of

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<sup>16</sup> When I was visiting Poland as Minister of State concerned with International Energy Security.

pressure, be shifting reluctantly, given the counter-productive effects of their policies.

As the leading expert on European energy policy, Dieter Helm has repeatedly pointed out, ‘Europe’s energy and climate policies are going nowhere. Europe formed its energy and climate policies for a different world. The world recession, the Eurozone crisis and the coming of un conventionals (shale gas and oil in particular) have turned the underlying assumptions on their head.’<sup>17</sup>

Worse than that, they have worked so violently against the interests of EU member states, especially those in Central Europe, that they have produced the opposite of the intended results. Coal burning in Europe is returning to new heights. Mines are being opened up, as in Brandenburg and Northern England, and new coal-fired stations are being built. Here is not the place to explain the reasons for this failure but those in the European policy-making area and their cheerleaders in the national capitals should certainly be called to account for this disaster and its consequences in terms of higher emissions, uncompetitive energy costs and expanded fuel poverty. A new Treaty is essential to reallocate powers in the energy sector. ‘Never again’ should be the watchwords.

A drive to encourage more gas and electricity connectors throughout Europe, and to overcome all the national rules governing energy imports and exports, should go hand in hand with less EU interference in member states’ decisions about energy production and consumption.

Meanwhile, the IMF has confirmed the far reaching consequences we can expect in global patterns as a result of cheap natural gas. It has given ‘a significant boost’ to US manufacturing. As natural gas sources expand, the IMF adds, ‘not only is the geography of trade in energy products likely to continue to change, but the geography of manufacturing exports is likely to change as well’.

So in both business regulation and energy policy, EU-wide policies fail individual businesses and individual economies. The principles of central

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<sup>17</sup> See Dieter Helm, The European framework for energy and climate change policies, *Energy Policy*, Vol 64, 2014, and *Carbon Crunch*, Yale. 2012.

policy-setting, harmonisation and protection have ceased to be relevant. German business and Polish energy policy are just two of a growing number of examples of the weakness of the old EU model in promoting growth and prosperity. This is not the place for a full catalogue of the areas in need of revision. That will come after Treaty change. Fisheries, agriculture and social-employment legislation provide other examples – all sectors where, whatever the reasoning in the past, a change of practice and approach is needed – away from protection and centralisation and towards the more flexible and up-to-date patterns which new technology permits.

For two decades we have heard warnings of the immense political dilemmas we face, caused by the information revolution.<sup>18</sup> These, it has been forecast, would involve not simply the rise of popular and individual power and the erosion of centralism and an overbearing state. They would raise questions about the points at which these ‘redistributions’ of power would stop. Would it be in a new, more localised, pattern of democratic stability? Or would the pattern be the break-away anarchy and tribalised hyper-violence we now see on the streets of Syria, Iraq, Egypt and Libya? Why and where should the digital revolution stop in political and social terms, as other revolutions in history have so often failed to do?

These are the questions the EU and its member states must now face. Latter day converts to the radical implications of the digital age are welcome, but many seem unaware of its implications. It is not simply a matter of tearing down EU authority and replacing it with personal empowerment through the internet. In an intensely interdependent world, sovereign independence is not necessarily the outcome. For those who want and believe in the continuation of good governance on democratic lines, a new and much more realistically attuned treaty base for European co-operation and coordination has to be, and can be, created.

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<sup>18</sup> See e.g. the works of Manuel Castells, *The Rise of the Network Society*, three vols, Blackwell, 1996. The opening sentence reads ‘Towards the end of the second millennium of the Christian era several events of historical significance have transformed the social landscape of human life. A technological revolution, centred around information technologies, is reshaping, at an accelerated pace, the material basis of society.’ Also, I comment on the implications of the digital revolution in *The Edge of Now*, Macmillan, 2000.

## IV Next Steps

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To face these questions the reform movement throughout Europe must aim to develop the context, argument and support for a radical change of direction to supersede the integrationist dogma. Today's heresy (for ardent Europeans) must be turned into tomorrow's orthodoxy. Support must and can be won for a new Treaty structure and for the steps to begin in that direction. Another Intergovernmental Conference to address Europe's new needs should be summoned.

The British prime minister has described the EU as an 'organisation in peril'.<sup>19</sup> This it certainly is, although many refuse to recognise it. Its position is unsustainable and the gains of half a century of European cooperation and coordination are at risk. This would be so even if Europe's Middle Eastern and North African neighbouring areas were not already in turmoil. The underlying causes of this worsening chaos are ones from which Europe itself is not immune, with separatist impulses evident from Spain to Scotland. Nor, of course, is Europe immune from the impact of political turmoil on its doorstep.

- A debate must be opened on the imperative of EU reform before the proposed phase of renegotiation or deals gets under way.

It should be emphasised - because the opposite is frequently being asserted - that Britain is not at all alone in wanting a new direction for the EU. If the message is couched in pro-European terms, Britain would have plenty of allies – both amongst member state governments and amongst member state peoples. For the sake of Europe, and not just the UK, the integrationist principles of the EU must be challenged. The peoples of Europe, empowered and connected by digital technology, neither require nor will accept the European integration which is built into existing Treaties.

- Disciplines outside the normal confines and routines of diplomacy should be drawn on to make a case for a new direction for the European Union.

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<sup>19</sup> David Cameron, Mansion House Speech, Nov 2011.

Scientists confirm that this is an age not of centralism, top-down plans, or blueprints but of self-assembly, self-replication and legitimacy built from the bottom up. Engineers maintain that rigid structures are the most fragile; social scientists that centralised authority and government power are fading all round.

Within a few years' time, digital fabrication may allow most products and services to be personalised and localised. Market size and bloc weight will come to matter far less. For engineers, flexible and decentralised systems are already safer and stronger. For today's world we need the flexibility of networks, not the rigidity of blocs.

- Differentiation will be needed if a more resilient relationship between member states and the EU institutions is to be established. More detailed disaggregation of various functions need not lead to a two-tier Europe - as the present approach is all too likely to do. On the contrary, the unbundling and dissection of blocks of competences, with consequent repatriation of many of them, could bring a more varied, and less divisive Europe than the one which exists today. Those who contend that there is no alternative to locking the UK into the integration process or withdrawing from it altogether will be proved wrong.
- A lead should be taken by Britain in proposing the ideas and outlining the next steps - which many people across the Union await.

Boldness should be Britain's friend. This country should not hesitate to show that the Lisbon Treaty was based, as many argued at the time, on a flawed analysis of how the world works now. The UK should not hesitate to lay the groundwork for a new Treaty and garner support for a new Intergovernmental Conference (IGC) to carry it forward.

- The search for a solution to the Euro problem should not hold things up. The Euro will continue for years ahead to require constant, expensive treatment to survive. The problem could take ten years to resolve itself. The likely upshot will be that the Eurozone countries will turn out to be no longer the core and that different functional groupings of EU states will be as vital, if not more so.

*David Howell*

Logic may dictate an eventual centralised political union of Euro-states. But reality, and psychology, suggests the opposite.

If the EU is to be on a more secure basis of legitimacy and political support, it must reform and update. That would give the UK and other states sensible and sustainable relationships with European neighbours and friends. It would lead to a modern, realistically differentiated divide between national and supra-national powers and between bilateral alliances and collectivism which would have the best chance of commanding voters' support in a British referendum.

Before the Treaties can be opened and changed a new IGC should convene. Before that, the momentum must be developed for a Europe-wide alliance to be gathered round the cause of urgent and fundamental reform. If Treaty change inevitably lies ahead in the EU, despite the fears of governments and despite all the promises and devices of the Lisbon Treaty, let Britain ensure that its skills, talents and experience are used constructively to redirect Europe in a sensible, sustainable direction, to the benefit of *all* member states.

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Reform and redirection of Europe will take time. It will not result in clear, neatly-tied – down and agreed changes to the EU structure or to the relations between Britain and the rest of the EU. Reform in Europe will be a long and frustrating struggle. But without serious reform would piecemeal negotiations do much better? Or would they take just as long?

If the EU is to reform, support for change must be built at many levels, recognising that the world has changed almost beyond recognition for good and bad. More important than boxes ticked or concessions won from negotiation (and unlikely to be met on a convincing scale in the time available), will be the persuasive signs that the old EU, centralising and integrationist, has been checked and turned, and that the EU has begun, however gradually, to move towards an organisation with a clearer direction and a structure more appropriate to a transformed 21<sup>st</sup> century world.

In the years to come British trading strength and prosperity will depend on

gateway networks, especially the fifty-three nations of the Commonwealth, which give access to fast-growing new emerging markets as much as, or even more than on a protected regional zone such as the EU, whether reformed or not. The IMF now estimates that by 2020 the markets of the USA, China and the Commonwealth will be larger than the EU.<sup>20</sup>

The digital age has transformed markets, governance, international relations and the conduct of foreign policy. That was obvious to some twenty years ago and is becoming obvious now even to front line politicians contending with day-to-day events.<sup>21</sup>

To beat a vision one needs a better vision, one more attuned to the new realities. The EU project was driven from the start not by legalities or treaty drafts but by a vision – good and relevant at the time. It was never intended to be realised solely through governments. One of its chief architects, Jean Monnet, always insisted that national governments would have to be bypassed for successful integration.

But the European ideals that inspired an earlier generation now need to be re-interpreted in a totally different age. Although the rallying cry today is ‘Renegotiation, Reform and Referendum’ the ordering is wrong. Reform must come first. The European Commission itself must become an instrument for reforming, rather than centralising the existing Union.

To those who see themselves as practical men and women and suggest it is ‘impossible’ or ‘not on’ to change the pattern, the answer can already be found in the urgings of European leaders who say that the EU ‘desperately needs reform’, that it is sinking under the weight of its welfare budgets,<sup>22</sup> and that the organization is ‘in peril’<sup>23</sup> or that ‘the system will explode’.<sup>24</sup> The answer is in countless voices from both pro-European and sceptical sources acknowledging that the EU is in crisis and calling for ‘a new Euro

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<sup>20</sup> *World Economic Output*, IMF, April 2014.

<sup>21</sup> See H Kissinger, *World Order*, Ch 9, Allen Lane, 2014.

<sup>22</sup> As warned graphically by Angela Merkel, ‘Europe accounts for just over 7% of the world’s population, produces around 25% of global GDP and 50% of global social spending’, *Financial Times*, 16 Dec 2012

<sup>23</sup> David Cameron, Mansion House, Nov 2011

<sup>24</sup> Nicholas Sarkozy, Mulhouse, 19<sup>th</sup> Nov 2014.

*David Howell*

treaty that should be able to face the test of democracy in member countries'.<sup>25</sup>

Trends are now emerging, as an age of technological revolution of unparalleled force unfolds, which are going to change the European Union irrespective of governments, politicians or idealists. Whether these shifts are labelled left-wing or right-wing in traditional political terms is supremely irrelevant. To help guide and accommodate them constructively, statecraft of a high order, together with massive intellectual application, are going to be needed. A confident Britain should offer its very best, in terms of leadership and initiative, in the work of constructing a better, stronger Europe. To adapt the words of Karl Marx on his Highgate tomb, the philosophers have only interpreted the EU in certain ways. The point, however, is to change it.

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<sup>25</sup>Loukas Tsoukalis, *The Unhappy State of the Union*, Policy Network, 2014.

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