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AND THE ECONOMIC CRISIS

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- Deeply rooted Euroscepticism within some quarters of the British Conservative Party was initially thought to be balanced by the formation of a coalition government with the pro-European Liberal Democrats.
- These wishes soon proved to be premature and the British government led by the Conservatives has emerged as a very difficult partner in many fields of EU policy.
- Prime Minister David Cameron's weakened support, the European economic crisis and EMU reforms have geared the British European policy towards an increasing awkwardness vis-à-vis its key European partners and prompted a debate on the re-negotiation of Britain's relationship with the EU.
- Relatedly, Britain's position in the EU has weakened significantly.
- Mr Cameron's recent speech attempts to re-establish some degree of British authority in the EU, and in the event that he fails, to further distance Britain from the EU.
- It is uncertain whether the current trend will prevail after the next British general election, slated to be held in May 2015 at the latest.

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Introduction¹

Britain and the European Union are drifting apart. At the same time as the European Union (EU) is attempting to reform its Economic and Monetary Union (EMU), Britain's Prime Minister has announced that he wishes to negotiate a new settlement with the EU. At first sight, the objectives of these two processes seem to be disconnected. Britain supports the swift crisis resolution and deepening of the EMU. It is not, however, planning to participate in most of the reforms or to sign up to the single currency. Moreover, Britain has suggested that it is considering a withdrawal from substantial parts of the EU's Justice and Home Affairs (JHA), and has voiced dissatisfaction over other fields of EU regulation.

The aim of this paper is to take a closer look at Mr Cameron's European policy in order to get a clearer picture of the ongoing developments. In so doing, the two processes appear clearly connected. It is argued that Britain's position in the EU has weakened because the EU's financial and economic crisis has stressed the role of the eurozone within the EU. A more deeply integrated euro area has become the engine of integration, and it is potentially assuming leadership in other policy fields as well. Consequently, the policy articulated in the long-awaited speech by Mr Cameron is an attempt to restore Britain's position in the EU. If he fails to do so, he must prepare to further distance Britain from the Union.

To advance these arguments, the paper will first focus on the British EU policy. It will argue that Britain has sought a leadership role in the EU to shape the European project and, in so doing, to secure its interests. The return of the Conservative Party to government in 2010, however, suggests a somewhat different approach, and Britain has suffered a loss of influence in the EU as a consequence of its campaign to prevent any further transfer of powers to the EU.

The second part of the paper will look into the implications of the European financial and economic crisis for British EU policy. It is suggested that the EU's

response to the crisis has clearly further distanced Britain from the core of the EU. Largely due to the British reservations, the EU has decided once again to move on without Britain. Relatedly, the increased importance of the Eurogroup has altered the balance of power within the EU. Under the current setup, it would be difficult for Britain to emerge as a leading partner in the EU, even if it desired to do so.

Finally, the paper will analyse the current debate on 'a fresh start' for British-EU relations. It will argue that although it can be explained by domestic political constraints, another key driver of the debate is the fact that the EU is leaving Britain behind. The paper suggests that it would be extremely difficult for Britain to settle for a second-rate membership status, which non-participation in the ongoing reform of the Economic and Monetary Union will inevitably mean over time.

An unwanted political union

In his recent landmark speech on Europe, British Prime Minister David Cameron argued that for the British the European Union is a means to an end, and not an end in itself. It follows that in relation to the EU, Brits 'insistently ask: How? Why? To what end?'²

Raising difficult yet important questions partly explains why Britain is often considered to have a problematic relationship with the European Union. It has been described as an awkward partner and a semi-detached member state, which has appeared to defend its national interests at the expense of common European ones, and often refused to participate in developments suggesting a move towards a closer political union.

The same important questions can be raised in terms of the distinctively British difficulties vis-à-vis the European project. The answers are often related to the Eurosceptic British public, the media, and governments.

On the one hand, for Britain as an island state and a former global maritime empire with a special

1 The author would like to thank Graham Avery, Brendan Donnelly, James Kilcourse and Teija Tiilikainen for their insightful comments on the earlier version of this paper.

2 Cameron, David (2013). 'EU Speech at Bloomberg.' January 23, 2013. Available at: <http://www.number10.gov.uk/news/eu-speech-at-bloomberg/>

relationship with the United States, Europe is only one element shaping the idea of Britishness and British foreign policy. It is also often viewed as a problematic entity and even as a source of enmity and otherness, which some British politicians have continued to exploit in their public discourse.

On the other hand, the British are well aware that they are not immune to the European developments. In terms of the EU, they have seen a degree of Euroscepticism and British pragmatism as an important contribution to the European project in balancing the 'continental utopianism(s)'.

In highlighting their own sovereignty, they have suggested that a move towards a political union or a federation is not in the interests of their country, and not in the interests of other Europeans. They have argued that the rightful authority is now and in the foreseeable future located at national rather than European level, and therefore supranational trends should be resisted.

Relatedly, they have favoured enlargement in the belief that it would obstruct the deepening of the EU. The internal diversity of the EU and its insufficient and arguably illegitimate governance structures have also been understood to work against monetary union and the single currency.

Successive British governments – faced with a distinctively Eurosceptic media and electorate, to which their rhetoric and policies have surely contributed – have nevertheless recognized the importance of the EU for Britain. They have aimed to secure a powerful seat at the EU decision-making tables, thereby shaping the key European developments.

After settling the thorny British rebate debate in the early 1980s, Prime Minister Margaret Thatcher played an important role in agreeing on a road map for the Single Market. Yet she failed to prevent it from turning into a political union. She also supported closer cooperation in the field of foreign and security policy. Later, after the difficult Maastricht Treaty negotiations and growing continental concerns over *Europe à la carte*, Prime Minister John Major attempted to (re-)locate Britain at the heart of Europe.

It was, however, Prime Minister Tony Blair who laboured hardest to engage Britain with the EU.

Under Mr Blair, Britain became a leading partner in the development of European foreign and security policy, as well as a key architect of Eastern enlargement.

Relatedly, Britain adopted rather constructive positions in the EU treaty negotiations of the late 1990s and early 2000s. In the Amsterdam Treaty (1997) the UK dropped its opt-out from the Social Charter. After the British-French St. Malo declaration on European defence, the UK became a leading partner in the Common Security and Defence Policy (CSDP), which was initiated in the Maastricht Treaty and further developed in the Amsterdam Treaty (1997). In the Nice Treaty (2001), Britain worked jointly with its European partners in order to reform the EU decision-making with a view to the Eastern enlargement.

Furthermore, the British government actively engaged with the Convention for the Future of Europe and signed the Constitutional Treaty in 2004. After the treaty was sent back to the drawing board because of the setbacks in the Dutch and French referenda, Blair's successor, Gordon Brown, accepted and ratified the Lisbon Treaty. As Treasury Minister in the governments led by Mr Blair, Gordon Brown had, however, resisted British membership of the single currency – a possibility which was seriously considered by Tony Blair.

Mr Blair's pro-European posture suffered a setback on the continent because of the US-led war on Iraq, which proved to be a highly divisive issue in Europe. By prioritizing Britain's special relationship with the US, Blair distanced himself from his key EU partners. While the war on Iraq cast a shadow over the European aspirations to forge a common foreign and security policy, Britain continued to support more coherent EU external relations in the Convention and Lisbon Treaty negotiations.

New government, old vices

The Conservative Party's return to power in 2010 was greeted with mixed feelings in Brussels and other European capitals. While in opposition, the Conservatives had pulled out of the largest group in the European Parliament, the centre-right European People's Party, and formed their own grouping aimed at resisting any federalist

developments. Under David Cameron's leadership, the Conservatives also strongly opposed the ratification of the Lisbon Treaty and promised a referendum, which could have led to a re-negotiation of the Treaty.

Later, after it was ratified by Gordon Brown's government, David Cameron decided not to pursue a retroactive referendum on the Treaty, and accepted that it had become binding EU law: as a result he was criticized by some members of his party for 'breaking his promise'. Yet for many, this indicated the increasingly powerful position of the Eurosceptics within the party, and, relatedly, an attempt to tackle the rising support of the populist and Euro-sceptic UK Independence Party (UKIP).

The formation of a coalition government after the 2010 general election, with the inclusion of the pro-European Liberal Democrats in the government, was expected to balance the Conservatives' increasingly Eurosceptic tendencies and foster a more positive engagement with the EU.

These wishes soon proved to be premature. When Mr Cameron took over 10 Downing Street, he speedily pushed through an amendment to the national legislation to make the transfer of powers to the EU subject to a referendum. This 'referendum lock' applies to any future EU treaty amendments with such effect and also to British membership of the single currency. Moreover, it also extends to certain EU decisions provided for by the current EU treaties should these transfer competence from the UK to the EU.³

This amendment was accepted by the Liberal Democrats in their Coalition Agreement in the belief that it would satisfy the Eurosceptic wing of the Conservative Party. In addition to this domestic policy motive, the referendum lock is clearly designed to strengthen the leverage of the British government in Brussels. As Richard Rose points out, whenever in the years to come a proposal suggests the expansion

of the EU's existing powers, the British government can refer to the 2011 Act as tying its hands.⁴

More recently (in June 2012), the British government launched a review of the impact of EU legislation known as 'the Balance of Competence Review'. It will look into all aspects of its EU membership with the implicit aim of establishing a basis for the Conservatives' aspirations to obtain repatriation of powers from Brussels. The Treasury Minister, George Osborne, has already suggested that EU employment and social legislation creates a major burden for British small and medium-sized businesses and hence stifles economic growth.

The British Home Secretary has also indicated that she is willing to exercise the so-called block opt-out from JHA, which was negotiated in conjunction with the Lisbon Treaty. In practice, it enables Britain to withdraw from the majority of police and criminal justice measures adopted under the Maastricht Treaty before the EU court of justice takes over their jurisdiction in 2014.

The British government has also proved to be a difficult partner in setting up the European External Action Service and related efforts to forge a common European foreign policy. During the implementation of the Lisbon Treaty, Britain highlighted the added value of the EEAS in issues where it complements national policy and works as a power amplifier of its policies, such as the sanctions against Iran and the Middle East peace process.

However, according to observers, the Conservatives have become obsessed with the risk of 'competence creep' in the field of foreign policy, and Foreign Secretary William Hague has instructed UK diplomats to be vigilant on this issue. One of the most controversial issues has been the EU's representation in multilateral fora. Britain has raised objections against the EU's aspirations to speak on behalf of the member states in matters of shared competences.

3 House of Commons (2011), 'European Union Act 2011.' Available at: <http://www.legislation.gov.uk/ukpga/2011/12/contents>

4 Rose, Richard (2012), 'Now Britain's euroscepticism is developing real teeth' in *Europe's World*. Available at: http://www.europesworld.org/NewEnglish/Home_old/Article/tabid/191/ArticleType/articleview/ArticleID/22036/language/en-US/Default.aspx

In the negotiations for the new multiannual financial framework governing the EU budgets until 2020, Mr Cameron adopted a very strong position and argued for a reduction in EU spending in real terms. He also managed to secure some support from other members, as austerity features high on national budget negotiations in many net contributor countries as well.

While many observers have had difficulties seeing the rationale behind the current British government's EU policy, it does make sense in the broader campaign and election promises of the Conservatives to repatriate powers from Brussels. Within this context, Mr Cameron has been keen to restate concerns over the unidirectional transfer of powers from national capitals to Brussels. He has repeatedly suggested that power should be able to flow both ways, as noted in the Laeken Declaration and conferred in the Convention for the Future of Europe.

The British government also appears to be concerned about the effects of the Lisbon Treaty; concerns which were already voiced by the Conservatives (in opposition) at the time of its ratification. While the implementation and impact of the Lisbon Treaty has been largely overshadowed by the economic crisis, it is changing the EU's political system profoundly. Moreover, the rules governing qualified majority voting will change substantially after the five-year transition period, which will come to an end on 31 October 2014.

The qualified majority will thereafter need the support of 55% of member states (currently 74%), representing a minimum of 65% of the EU's population (the so-called double majority).⁵ Importantly, the Treaty has already transferred the bulk of EU law-making under ordinary legislative process, and in so doing has increased the role of the European Parliament and qualified majority voting in the EU Council. These recent and future changes suggest that Britain can more easily be outvoted in many fields of EU decision-making – an issue whose significance is likely to be further highlighted due to

5 The European Council agreed that the new system will take effect in 2014. In the first three years, until 2017, a member state may request that an Act be adopted in accordance with the qualified majority as defined in the current Treaty of Nice.

the deepening integration of the euro area and its increased political weight within the EU.

The impact of EU crises on Britain

In the light of the above, the return of the Conservatives to power in Britain has clearly geared the British EU policy towards a more hesitant and at times hostile direction. It is, however, the European financial and economic crisis and the ensuing EU developments that have placed the British relationship with the EU under increasing strain.

First, because of its own financial and economic crisis and ensuing austerity policy, Mr Cameron has argued that the measures taken to stabilize the eurozone must be funded by the Eurogroup. Britain has provided some assistance for Ireland. It has, however, refused to participate in the European stability mechanisms, yet it is involved in the EU loan programmes through the International Monetary Fund (IMF). While Britain has supported the strengthening of the IMF's financial capacities, it has resisted proposals aimed at earmarking the IMF resources for Europe.

Second, Britain's relations with the Eurogroup deteriorated further when Mr Cameron used his veto to block an EU treaty amendment because British demands for concessions on, and exemptions from, EU financial markets regulation were not accommodated. In a move of great significance, the Eurogroup circumvented this veto and demonstrated that it is ready to proceed without Britain, by pushing ahead with the so-called Fiscal Compact Treaty concluded outside of, yet closely connected to, the EU system.

Third, the economic and financial crisis, coupled with British marginalization, has further encouraged the Eurosceptic forces in Britain, and undermined the pro-Europeans, including the Conservatives' coalition partner, the Liberal Democrats.

Amid these challenges, Mr Cameron has been pushed to clarify his position. To resist the increasingly powerful political forces suggesting a British withdrawal from the EU altogether, he has promised to work for a better deal for Britain in the EU.

It is, however, rather difficult to see what concrete gains Mr Cameron can expect to achieve by launching a re-negotiation process: firstly, the EU is based on several layers of governance and Britain has already opted out of the single currency and Schengen cooperation; second, participation in the Single Market and the CFSP/CSDP are seen to be important for British interests.

As the latter is largely based on intergovernmental decision-making and the unanimity rule, any new opt-outs are unnecessary. Distancing itself from the Single Market, which has been argued to be vital for British interests, is also a rather dubious project. Although Britain wants concessions on the EU's employment and social legislation, it has restated its long-held view that the most important element of the EU is the European market area. Currently, its importance is highlighted by the increasing global competition as well as the US-EU free trade negotiations.

Former US policy planning chief Anne-Marie Slaughter has noted that if the US and the EU can agree to merge their markets, the cost of a British exit from the EU would go way up, and Britain would once again become an island economy, but this time one walled off from a transatlantic sea.⁶ The long awaited speech by Prime Minister Cameron suggests, however, that the exit is not on the current government's policy menu. Nevertheless, the British influence in shaping the development of the Single Market would be drastically reduced in the event of some sort of opt-outs, or a lighter version of membership of it.

The Single Market is largely based on supranational governance in the form of extensive EU legislation, which is also extended to the participating non-EU members such as Norway and Iceland. It follows that modification of the existing rules set by the Single Market legislation should be sought through the EU's legislative processes, in which Britain takes part, unlike non-EU members.

Treaty amendments, on the other hand, signal more profound aspirations to change the nature of the

EU in this field and must be agreed by all members. While Britain has highlighted that deepening integration of the eurozone and amending the treaties governing the EMU signals a change in the nature of the EU, there is very little evidence that other members would be willing to change the foundations of the Single Market.

A 'fresh start' as an answer to the external and internal challenges

The Conservatives' aspirations clearly relate to the assumed European and domestic political gains. Within a broader European context, Mr Cameron's campaign is designed to restore at least some degree of authority for the UK in the EU.

Mr Cameron's propositions clearly aim to open a new chapter in the debate on the future of Europe – a debate launched by the EU institutions under the patronage of the leading Eurogroup members. The European Commission's blueprint envisages deeper economic and political integration with federalist tendencies. The first steps are currently being taken by the Eurogroup, and other member states are expected to follow over time.

Some observers have indeed suggested that it is not Britain that is leaving the EU, but that the EU is leaving Britain behind. This has also raised concerns among some of the other non-euro members such as Poland and Sweden. Charles Grant has noted that an increasingly institutionalized eurozone might lead to a differentiation of interests and conflict of rules between the eurozone and the non-euro members, which would fracture the Single Market.⁷ Relatedly, some of the most economically liberal eurozone members are worried that the British, Polish and Swedish marginalization in the EU will weaken their position in the Union.

Prime Minister Cameron's speech is expected to resonate with these and other concerns related to the ongoing EU developments and the economic crisis. He has explicitly reached out to the European national parliaments within which Eurosceptic

6 Slaughter, Anne-Marie (2012). 'America will reaffirm its commitment to Europe.' In *The Financial Times*, December 26, 2012. Available at: <http://www.ft.com>

7 Grant, Charles (2012). 'A three-tier EU puts single market at risk.' In *The Financial Times*, October 25, 2012. Available at: <http://www.ft.com>

voices have increased, as well as the wider European public dissatisfied with the burden-sharing or hit hard by the economic crisis.

His five-point reform plan for Europe will undoubtedly be closely examined, and it might attract some support. It is hard to disagree that the EU should work for competitiveness, flexibility, subsidiarity, democratic accountability and fairness, as stated in his speech.

Nevertheless, the Eurosceptic tendencies might hijack his more constructive agenda; and the launched campaign may indeed go down in history as the last attempt to convince Britain's European partners that an ever-closer union will not work.

Domestically, it is hoped that the debate on Britain's relationship with the EU will deflect the electorate's attention away from the current government's difficulties in turning the British economy towards the growth path, as arguments blaming the previous government or the euro crisis for the British difficulties are starting to lose ground.

Mr Cameron's speech should indeed be understood as the launch of the next British general election campaign. He argues that the next Conservative Manifesto in 2015 will ask for a mandate from the British electorate to negotiate a new settlement with EU members. And when the new settlement is reached, he would hold a referendum offering Britain the simple choice of staying in on new terms, or leaving the EU altogether.

The campaign is clearly motivated by the Conservative ideology and hostility towards the minimum employment and social standards, which are seen to emerge from the continental models and penetrate the UK through EU regulation. Cameron's policy seems to restate Margaret Thatcher's dissatisfaction with the architecture of the Single Market and the move towards the EMU and deeper political union. In her famous Bruges speech, she said that 'we have not successfully rolled back the frontiers of the state in Britain, only to see them re-imposed at a European level with a European super-state exercising a new dominance from Brussels'.

More broadly, the rhetoric that power should flow both ways – to and from Brussels – and Mr Cameron's emphasis on British interests in terms of a

better deal resonate with the assumed revival of British nationalism and exceptionalism. The gains of the UK Independence Party (UKIP) and increasingly powerful Eurosceptic wing within the Conservatives have been shaping the Prime Minister's policy for quite some time.

The Prime Minister's own party is largely divided between those who favour pushing the UK 'nearly out' and those who would like to see the UK 'really out' of the EU. The position of the small pro-EU fringe has become increasingly difficult within the Conservative Party, yet many of the party's financial supporters in the business world are strongly opposed to Britain leaving the EU.

The general British Eurosceptic tendency is not, however, as forthright as often assumed. An interesting change has taken place simultaneously with the hardening of the British EU policy and in/out referendum debacle. In November 2012, 30% of Brits wanted to stay in the EU, while 51% thought that Britain should leave. On the eve of Cameron's speech in January 2013, 40% wanted to stay in, while only 34% were sure about leaving. Relatedly, the polls display a swing away from UKIP.⁸

The picture is further complicated by the regional variation in EU support figures. Scotland, for instance, is the most pro-European region in Britain and many Scots (although still a minority, according to recent opinion polls) would like to quit the UK rather than the EU. Moreover, Prime Minister Cameron will face a Scottish referendum in 2014 with a single yes/no question on Scotland leaving the UK, before the suggested UK referendum on EU membership. Cameron has strongly campaigned to keep Scotland in the UK and the possibility of further devolution might indeed fortify his argument that power should flow both ways – to the centre and from it. His position would weaken, however, if the Scots became increasingly worried about the UK's future in the EU, and decided to leave the UK and file an EU membership application.

8 <http://yougov.co.uk/news/2013/01/21/eu-vote-stay-40-leave-34/>

Conclusion

The Conservatives' campaign for a better deal for Britain might gather greater than anticipated momentum, and push the Prime Minister to move towards new territories with unknown consequences. His cards might also turn out to be rather weak in the current European grand game, and prove to be costly for his political career.

Mr Cameron's suggestion that EU members should be entitled to re-negotiate their current membership conditions is likely to be very difficult to advance. His suggestion would weaken the argument that treaty commitments should be honoured ('pacta sunt servanda') and lead to several additional re-negotiation proposals from different EU capitals.

Cameron's policy might also slow down the suggested treaty reforms in the near future and further emphasize limited rather than extensive revision. It might also envisage yet another intergovernmental treaty among the euro members and others willing to join. Thus David Cameron's re-negotiation aspirations leading to a better deal for Britain might be reduced to not much more than an exit option, which he aims to prevent.

It is, however, uncertain whether he possesses sufficient political clout in Europe and Britain to manage the process and prevent Britain from drifting away from the EU. On the continent, some have already suggested that the British withdrawal would actually make the EU more functional, and that the damage to the Single Market and the European project as a whole could be restricted and managed.

Interestingly, Prime Minister Cameron's coalition partner, the Liberal Democrats, have assumed a rather low profile in the debate. So far, the Liberal Democrats have accommodated the Prime Minister's policy, yet the party has voiced concerns over the current developments and highlighted the EU's importance for Britain. As the Liberal Democrats' pro-European tendencies are well-known, the party can easily place the responsibility for the government's current EU policy on the Conservatives and David Cameron.

Relatedly, the Labour Party also seems to have adopted wait-and-see tactics. Its current leadership has largely focused on national politics and the

economy, and allowed the pro-European members of the previous Labour governments to voice concerns over Cameron's EU policy.

Both parties have suggested that they are not in favour of a referendum, and they are well positioned to articulate their alternatives to Cameron's policy, should it start to crumble already before the next British general election scheduled for May 2015 at the latest.

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