HOUSE OF LORDS

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The Select Committee on the European Union

Inquiry on

VISIONS OF EU REFORM

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12 pm

Witnesses: Steven Blockmans, Henning vom Stein and Janis Emmanouilidis

Members present

Lord Boswell of Aynho (Chairman)
Lord Davies of Stamford
Lord Green of Hurstpierpoint
Lord Jay of Ewelme
Lord Liddle
Baroness Scott of Needham Market

Examination of Witnesses

Mr Steven Blockmans, Senior Research Fellow, Centre for European Policy Studies and Professor of EU External Relations Law and Governance, University of Amsterdam, **Mr Henning vom Stein**, Head of Brussels Office, Bertelsmann Stiftung, and **Mr Janis Emmanouilidis**, Director of Studies, European Policy Centre

Q134 The Chairman: I suppose, to be pedantic, I should say good afternoon, Lords, Ladies and gentlemen. We reconvene. It is one thing to talk to politicians or parliamentarians; it is another, and, in my experience, mutually complementary, to talk to academics and those who head or influence think tanks. This is a public evidence session with three academics who are active in Brussels. We have a current inquiry for which this will be evidence. The inquiry is called, slightly dramatically, Visions of European Union Reform. In doing that, we are slightly building on the work our Committee has done earlier in looking at the process of reform. We remain interested in the process but, of course, we are now moving a bit more towards the substance—indeed, very much towards that. The question that we have set ourselves is to ask: within this, and within the Prime Minister's four negotiating baskets, is there a vision in urging where a reform of the EU would go and, if there is one, is it tailored to the interests or concerns of the United Kingdom, or does it coincide with the emerging vision of other member states and the European institutions for a European future, all of which could take rather a long time? I cannot think of three academics better placed to help us in doing that. If we can proceed, because time is limited, it would be most helpful if you were to introduce yourselves for the record. We will take a record. That will be both a public document and available to you for any minor corrections in due course.

Henning vom Stein: Yes, I am Henning vom Stein. I have been involved with this issue with Bertelsmann Stiftung since 2013, and here in Brussels, heading the office in Brussels, since 2014. I have a background of 20 years in Brussels, involved with public affairs and different affairs in companies. I have been following intergovernmental conferences, the convention

and the referenda in France and the Netherlands. There is a major change in the perception of the reform needs in the countries of the European Union since the financial crisis. That is much more marked than it was before. It is not about agreeing some principles on a European level and leaving the introduction of new principles to the different countries. The awareness of the reform needs in the different countries has risen very much in the European institutions, especially the European Commission, but also in the public institutions and the institutions of national countries.

The Chairman: So reform is on the agenda.

Henning vom Stein: Reform is on the agenda. That is perhaps also where I have heard a lot of frustration expressed. But I think this is also a window of opportunity because the public perception is that a reform agenda is now on the table. Everybody sees that reform is needed, not only in the European Union but also at national level.

Janis Emmanouilidis: My name is Janis Emmanouilidis. I am director of studies of the European Policy Centre, a think tank based in Brussels. I have been working on different issues relating to the European Union for more than 20 years in think tanks in Germany and Greece, and now here in Brussels. I also have an affiliation with a Polish think tank.

Steven Blockmans: I am Steven Blockmans. I am the head of two units at the Centre for European Policy Studies, a think tank based in Brussels. One is the politics and institutions unit, the other is on EU foreign policy. I am also a professor of European law, EU external relations law and governance at the University of Amsterdam.

The Chairman: Thank you. Just to pick up Henning's point, which I tried to summarise as "reform is on the agenda", would it be your view, and that of Janis as well, that that is the case, or is this something that people have said in Brussels every decade since the beginning of the Treaty of Rome and it never quite happens? What is your take on this? Is there a real chance of reform now?

Steven Blockmans: I agree with Henning that reform is very much on the agenda. It has always been the case here in Brussels. Indeed, the European Union has been in constant reform mode ever since the Treaty of Maastricht, one could say, dealing with leftovers from previous reform treaties. So it would only be logical that, pushed by the reform demands that the UK Government have now put forward, and driven also by some of the frustrations at the shortcomings of the institutional architecture in economic and monetary union or in Schengen—frustrations that are entertained in other member states—that there would be momentum developing towards further treaty change.

The Chairman: Janis, do you share that view?

Janis Emmanouilidis: Yes, if you look at the past and the current situation, as my colleagues have been saying, reform has always been a pattern of the European Union. At the same time, it depends on what we mean when we talk about reforms. With respect to major reforms which involve changes to EU primary law—EU treaties—that is not really on the agenda. That is not the spirit in this town and it is not the spirit in almost all EU member states' national capitals for various and different reasons. With respect to having a fundamental change which would involve also a reform of EU treaties, that is not on the agenda. Having said that, we are reforming ourselves constantly. If you look over the past five or six years in the context of economic and monetary union, all the reforms which have been made in the context of the so-called euro crisis, sovereign debt crisis, banking crisis—call it what you may—have been very substantial. If you look at the current situation with respect to the so-called migration/refugee crisis, again we see that the EU is under enormous pressure to reform itself. So, yes, reform is a constant, but with respect to major reforms involving treaty change, I do not think there is an appetite for that. If you look at the list which has been presented to us from the UK Government with respect to what reforms they would like to see, I must say that some of these reforms find interest with some member states. But other member states and EU institutions are much more interested in issues other than the ones mentioned in the catalogue coming from London.

Q135 The Chairman: Thank you. I shall break from my normal practice and ask a question about what you might call the immediate context of some of this in relation to security both domestically, in terms of anti-terrorism, and in terms of the geopolitics and security of the European continent generally alongside some of its immediate neighbours and internationally. We are aware of the deficiencies, which you have referred to, in the operation of the European Union, but do you think that this wider geopolitical context is also playing? When member states come forward with reform proposals, is it at least making it easier for them to be considered, providing that they can be fitted in with the existing constraints?

Henning vom Stein: There has been frustration about the European neighbourhood policy over the last few years. The perception that went out was "more for more"—more democracy for more money—but there is a huge problem in convincing our neighbours in reforming to our societal model. That is the situation we have today and I think that the perception of the public is that we cannot handle that within the European neighbourhood, while within the European Union it would create crisis—a rebellion and its consequences—on a single national matter. There is that feeling of interdependency.

Let me link migration to the euro. The perception of interdependency was first that, during the euro crisis, the Germans had become much more interested in the national reform agenda of Greece. The migration topic is very similar and the terrorism issue adds to that; it comes together. So in this perception of interdependency there must be a much broader approach to a European agenda.

I do not think that in this context the word "flexibility" in the letter of the Prime Minister is leading to the right mood or notion on the agenda. My perception in reading the letter is that there is a certain kind of contradiction. The Prime Minister says that we need flexibility and, on the same side of the same page, he says that there is certainly interdependency between the nine outsiders to the euro and the other 19 insiders. He offers, and even asks for, more integration—so, more Europe—with a closer union within the eurozone. You can adapt this contradiction to other issues as well, and the debate towards the referendum has to answer how to manage this.

Janis Emmanouilidis: If you look into issues related to security and to the geopolitical context, this has always been an issue. It is also related very much to the raison d'être of this European project from the beginning onwards. If you want to look at the current situation and ask yourself: how much does security, both internal and external, play a role with respect to the context in which we are now operating? Yes, it does play a role—and it obviously plays a role with respect to internal security, especially after the tragic events that we have seen in so many places, including in Istanbul yesterday. Co-operation with respect to terrorism is an issue high on the agenda these days, and I think it will remain there.

With respect to the migration and refugee crisis, if you look at the root causes, obviously one has to look at the deep geopolitical context, including Syria but also going beyond it. Having said that, yes, security has always played a role and still does so. However, what we have been seeing in the past years, and I think we will continue to see in the upcoming years, is that we have a lot of navel-gazing in Europe—we are concentrating on us. On our own continent, we have so many issues which we have to deal with: a long list of crises which confront us. There is probably a poly-crisis, if you add up all the crises that we are having, as we have not been solving them. In moving from one to the next, we have been adding them. So we are very much engaged with ourselves, and that is why I mentioned navel-gazing. When it comes to the geopolitical setting, we are obviously playing a role that is well below our abilities. At the same time, I do not think that we will see in the foreseeable future, in the upcoming years, major movements with respect to Europe's global role in developing, for example, a common foreign and security policy or a defence policy worth its name. Despite all the challenges that

we are seeing in the areas of security, I do not see the EU progressing hugely on them. Yes, there is a need for more co-operation, but I do not think that we will see a qualitative leap.

Lord Davies of Stamford: Why not?

Janis Emmanouilidis: Why not? Because there is not a readiness on behalf of the member states. This touches very much on the core of sovereignty and the readiness to further integrate, which goes beyond mere co-operation on individual issues, most of which is intergovernmental. I do not see a readiness on the side of member states to co-operate in a way that would deepen integration, because it goes to the core of their national sovereignty. Look for example at the past few months, when Commission President Juncker asked—not for the first time, but it was him this time—about the need for a European army, and you see what the reactions have been on behalf of member states. I do not see much of a wish to go in that direction. It is also because many people think that there are many other things we need to deal with, first and foremost.

The Chairman: Just to pick up on that, do I sense that there is a certain fatigue around here for what might be termed old-style European integration, where you solved the problem by saying that the answer was, in shorthand, more Europe? Is it that fewer member states and their political constituents are now interested in finding solutions which are badged as institutionally European solutions, rather than as ones which are accommodated or maybe flexed between, say, the national level and some European component, or some element of mutual assistance? If you are looking at migration, you do not have to have a single migration agency handling the issue but might have a series of multilevel solutions. Is that the way in which it is evolving, in your view? I am conscious that Steven has not contributed yet.

Steven Blockmans: I think that it would be an exaggeration to say that there is a fatigue with the old-style integration. There may be member states that are less interested, the UK being one of them of course, in further centralisation and institutionalisation of the European Union as the only answer to resolving transnational problems. There is a majority of member states which are still willing to subscribe to the notion of ever closer union, and I think that is what lies behind your questions.

We can talk about that later, but I would like to slightly differ from my colleagues on your previous question. I do not think that the UK Government gave enough attention to the geopolitical context in which they have dropped their four baskets of EU reform demands. Other heads of state and heads of Governments are actually resenting the British Prime Minister and his Government for that, especially for sucking oxygen out of certain debates that they feel need to be had in Brussels, especially to tackle challenges and crises of a wider

and more immediate nature. By the way, the four baskets do not seem to address specifically the geopolitical context that you have alluded to. Perhaps on migration, but the emphasis seems much more on the restriction of welfare benefits for EU migrants rather than tackling the issue of refugee flows.

To me, it seems rather paradoxical that the Prime Minister could sign off on a national security strategy late last year which states that it is in Britain's national interest to have a safe and prosperous European Union and then, on the other side, risk destabilising it by threatening to lead the "Leave" campaign if he does not get his way on the fourth reform basket which, as he has reinterpreted it, on the restriction of welfare benefits. It seems rather disproportionate to take the stability of the European Union hostage to such a, dare I say it, trivial reform demand.

The Chairman: Can I just comment on something you said? Over and above the four baskets, which of course were set out in the letter to President Tusk on, I think, 10 November, the Prime Minister made a speech at Chatham House on that day and began to introduce some of the security themes that we have just been talking about. The inference that I got in London was certainly that some of the other member states were quite welcoming of this approach. Did you discern that there is some nuancing of the British position from the four baskets towards a wider agenda?

Steven Blockmans: You started this session by asking whether there was a vision for Europe as such, as expressed by the UK Government. I have not been able to discern it in a single document, but I have picked up pieces along the way from speeches and leaks to the media. If hard security issues come into play, that seems to me to be driven less by the UK Government and more by claims that have been attributed to leaders of other member states, with references to the creation of an EU army by Juncker, which resonated in Germany as well as in other member states. But I do not see that there is a foreign security policy aspect to the reform negotiations.

Lord Liddle: I would just like to pick you up on this. I am not a defender of the Prime Minister's referendum and renegotiation strategy, but are you not missing the significance of something that is a big change? The British Prime Minister is saying, "Give me some changes in these four baskets and I will argue for British membership of the European Union, but at the same time I will also say that if you in the eurozone want to integrate, you go ahead". Britain will no longer be a block on that integration, which a lot of people have always said was the case in the past—"The Lisbon treaty wasn't radical enough because of the bloody British", and all that sort of stuff. That is quite significant, is it not?

Steven Blockmans: I would agree with that reading but we were talking about security issues.

The Chairman: This point is more general.

Steven Blockmans: Yes. That seems to be how the debate has been framed by David Cameron. The notion of "flexibility", as has been mentioned, features quite prominently in his letter. Of course, euro integration and the non-contamination of decisions by the eurozone on non-euro members is quite central to a definition of the European Union where differentiated integration is the future.

Janis Emmanouilidis: I agree with what Steven has said. In principle, this has been a big change. This is not something that we have witnessed just in recent months; for very good reasons, it has developed over several years. If the eurozone crisis had developed further in a negative way and even threatened the coherence of the common currency, the negative effects on the UK would have been enormous. So it is in the interests of the UK to support eurozone integration, which has been done in part although more still needs to be done.

I want to pick up on a word Steven was using: "paradox". We do indeed have a paradox. If you look at the current European Union, the vast majority of member states, as you were saying, are supportive, for example, with respect to further developing co-operation when it comes to global law. I agree with that, but the chances of it happening at a given point in time are rather low if you want substantial changes that might even affect the EU's treaties. If you are expecting that, the chances are low. Not having it mentioned in the letter makes sense, because that would have raised expectations which would probably not have been fulfilled. I am not saying that that is a good thing; I am just trying to be analytical. The paradox here—this is one example; there are others in respect of the eurozone and the current migration and refugee crisis—is that we know, as Henning was saying earlier, how interdependent we are and that the solution can be found only at the European level. We realise that but we are unable to link it to concrete deeds. We are not living up to the facts that we have analysed correctly. We need further co-operation but we are not translating that into reality, and it is interesting to ask oneself why that is not being done. I think there are deep-rooted reasons why that is not the case. I do not want to go into that in depth now; still, there is a paradox that we know that we need to do more at the European level, and we often have recipes that make sense, but we are not implementing them.

The Chairman: Can I ask you this blunt question: is one of the difficulties that national Governments, not just the UK Government, would have a great problem selling that to their electorates? Is it as simple as that?

Janis Emmanouilidis: I think the simple answer to that simple-sounding question is yes. We have these difficulties, and the situation is not improving as we speak. The pressures on member state Governments are increasing in many member states, with a lot of populists on the right. Populists are also targeting mainstream parties and getting stronger, so yes, there is a problem with regard to the situation in member states with their Governments being under pressure.

Henning vom Stein: I think that there is a huge problem in telling this story, but it depends on who you talk to. There is an intergenerational split, there are the people you were talking to this morning, the members of the European Parliament and there is this mobile Erasmus-generation. Getting rid of what you called the "old-style" fashion for European integration? Yes, there is an opening up of positions in the letter, saying, "Okay, we want to be out in certain areas but please you go ahead". This is a changing environment, moving away from the old style. But at the same time there is a paradox, this contradiction. If you were to open that up and say, "Yes, Europe has to integrate further in certain areas but not all together", that is the old model. Ever closer integration, meaning that we would go and end up at the same roundabout at the end of the story, will not be the future. Not for the French public, not for the Germans and especially, in this situation, not for the Polish. Today there is this window of opportunity to make that story more differentiated. It is not a question of the eurozone and Great Britain; it is the eurozone and another group. In the letter the Prime Minister makes a distinction between the nine and the 19. This is the clearest distinction that people can see today. With that distinction, in saying "Go ahead" there is already an argument for saying, "Go further, go closer, but without us". Putting that "without us" and the four baskets into a protocol for the UK only will not lead to the broader debate that we urgently need within the EU. I argue that he should use this window of opportunity in 2016, just before the elections in Germany and France, to make himself the leader of getting rid of the old-style integration of the EU in favour of a multilayered approach. In making the argument that national parliaments need to be more influential in this process, he is approaching this multilevel argument that you mentioned. Today there is more cross-border institutional integration. It is not the permanent representatives who are the influential people in Brussels but the interim Ministers for migration, but people's perception has not come along with that. It is not right to think that the eurozone should be the most integrated; it is differently integrated.

Q136 The Chairman: I have a quick question, then we shall go on to other colleagues. Does this also have implications for the European institutions? I have set out for shorthand a kind of

traditional model—not quite a command model, but one where things float to the centre and then are decided. If you have this multilayered approach, it is quite difficult both to determine the responsible institutions and, perhaps more subtly, the links between the different layers and different types of participation that are mutually supportive.

Henning vom Stein: Perhaps I may come in on that. If you look at the last years of the crisis, which institution in the European Union was the most visible and best able to manage it? It was the European Council, and the Prime Minister mentioned that in various speeches. He said that not having a seat at the table of the European Council would be a disaster. At the same time, the mirror of that is that you can see the absence of the European Parliament in the process. There were no talking heads telling the European story in the regions and the constituencies. So the old style of bringing positions up to the European level was good for the old days, but now we have to tell the story from the top down.

The Chairman: And that is in order to win political consent.

Henning vom Stein: Yes, and that needs reform. Getting national Parliaments more involved is a very strong argument. That is my personal opinion. Out of that, Prime Minister Cameron could drive a campaign reaching out into the European Union as a whole. We need it in 2016 due to the elections in Germany and France in 2017. If you listen to Berlin, there is no story about the vision of Europe before 2019, and that is too late.

The Chairman: You have taken us into some very deep waters, and in a sense it is a slight departure from our immediate concern with the agenda and the baskets. I think that my colleagues will respond to you, but let us take up the initial theme. We have talked a little about flexibility, but I think that Ros might like to reflect in particular on diversity, and a Europe of 28 rather than a smaller one.

Q137 Baroness Scott of Needham Market: You have begun to go into the territory that I wanted to explore, which is that while on the one hand we can pick up all the points about irritation with the Brits both in terms of the long-term irritation—why are the Brits always so awkward?—and the immediate irritation of why are they taking up our time with a domestic issue when we have bigger things to worry about? We can pick up on the irritation, but we are also picking up on a real determination to sort this out, to get a deal on the table that Cameron can agree to, and all the rest. I am interesting in thinking about what goes on beyond that. If there is some sort of deal that kind of enshrines British exceptionalism, which we know we already have with our myriad opt-ins and opt-outs, what happens then? Does it come to an end with the Brits and that is the end of the story? Alternatively, are we beginning to think more about other countries coming forward and saying, “We want this and that”? To add to

that, to what extent are the sort of changes to which you referred, Henning, not just about treaties and institutions, but about approaches? I am thinking about my own sub-committee which includes energy in its remit. There have been moves recently where a binding target is set at the European level and member states are then left to choose the method by which they can achieve it. That has not required any form of treaty or legislative change, it is just a different way of doing it.

Henning vom Stein: Yes, I think today there is an idea an agreement on a reform agenda, for example, for the energy market, the healthcare systems, the education systems, social security, labour markets, youth unemployment. Regulating quotas at the European level and then go back implementing them does not really lead to the fruits that we could have by dynamising these things in a single market. This cuts it short. For example we have made calculations about Greece being in or out of the eurozone and the UK in or out of the European Union on a trade basis. If you approach the single market only as an arena for trade, you do not analyse the dynamism which lies within the existing supply chain network. That is not good. It is about the global value chain. For example, let us look at Poland's economy. Some 10 years after enlargement, Poland is just moving towards better management of integrating of its own economy within the supply chain and value chain system of the single market. From an outside view, the functioning and reliability of the supply chain system that we have in the single market is the key argument for foreign direct investment. You would not find it in any other cross-border situation in the world. So it is a reliable system. Competitiveness is not about reducing the burden, it is about investing in networks. That will lead to a new level of international and global competitiveness for the European Union. If you are on the outside because you do not agree, you are not investing in the decision-making process towards that future potential, and you are not building up the right business model for your economy.

Janis Emmanouilidis: Perhaps I may go back to the initial question you raised with us in respect of irritation and awkwardness. As you highlighted, the UK being an awkward partner is not a new picture. But if we look at the long-term perspective, in some ways the EU has moved in a direction which has become more British while other member states have also moved in a direction that is more British in the sense of being more pragmatic. There is now a lot more pragmatism evident in many member states which does not make business at the EU level any easier. In that sense there is a kind of imitation which is not driven by the UK, rather it is driven by things which have happened and the reactions that we have seen in member states, including political developments which Lord Jay mentioned earlier. One question asked was that there is British exceptionalism, and might others follow in that? As we all

know, British exceptionalism is not new, it is not a new quality in these negotiations—they are developing negotiations and we do not know exactly what the outcome will look like—but we know at the same time that the outcome will not be as massive or in-depth as some might have thought or even hoped for some years ago. I do not see it as a path that others will follow when they themselves would ask for more exceptions. What I would fear more, from more of a general EU perspective, is if the referendum leads to what you call a Brexit. That would open up an avenue which could become in more substantive terms difficult for the future of the European Union. Other member states might argue: is that an avenue that we might look at? I am half German and I would have also argued the same thing when the German Finance Minister was advocating a temporary exit by Greece from the eurozone. That would have opened a door which I think would have been dangerous for the EU in general terms. If that is the avenue which we would be led down, that could mean that others might follow, or argue that they should follow it. That would be a very negative move from the general European perspective.

The Chairman: Can I pursue that for a moment? Are you implying that if there were to be a Brexit vote in the referendum, the European institutions would want to play hardball—it was an argument that was made in the earlier political debate—because they would need to set an example by showing that a withdrawing state availing itself of its rights under the treaty to withdraw was not going to have an easy ride on the way out? Is that your view?

Janis Emmanouilidis: If you follow the logic which I have tried to develop, I think that it would be a sound political reaction to a Brexit in the sense that one would not want to set a precedent which might go in the wrong direction. So, yes, I reckon that if we see that kind of outcome from the referendum, it could lead to this kind of reaction.

The Chairman: Steven, do you want to add to that?

Steven Blockmans: Yes, I would think so. Certainly I do not think that it would be a soft exit for the UK if the Government were to follow up on a majority no vote in the referendum, or rather a "leave" result.

The Chairman: Is that the agreed view of you all? Does that include Henning? Would the Council and the Commission play hardball in Article 50 negotiations?

Steven Blockmans: I would think so. You would have what is essentially the reverse of an accession procedure. It would be carved up into multiple chapters that each would be dealt with on their own merits. The remaining 27 member states would try to safeguard as many interests as they possibly could in the renegotiation with the UK, which obviously would be

standing alone in that context. So, yes, I do think that it would be hardball. I also think that two years would be insufficient to come to a satisfactory conclusion for both sides.

Lord Davies of Stamford: How long would you estimate?

Steven Blockmans: I would not know, but if one looks at how long it takes to negotiate accession to the European Union, which of course departs from a different starting point, requiring lots of preparation and upscaling for the acceding country, it takes between five and 10 years. Even in the Icelandic model, which was supposed to have been very swift, we were two years down the line before Reykjavik pulled the plug on its accession negotiations. I do not think it would be that easy, especially if one would have to carve up parts of the single market in the sense that Prime Minister Cameron seems to want in his fourth reform basket. I do not think it would be that easy. Flexibility and diversity would be here to stay. They have been around for a while. The UK has five opt-out protocols, exceptions and derogations; other member states have two. It is remarkable that in the ongoing renegotiation process, which mostly happens behind closed doors, the four baskets and the negotiations have been ring-fenced only to the UK. It seems that other member states have not yet put their own claims on the table. If Cameron wants the legal straps and belts that he is looking for on each of these reform demands, which potentially would have to lead down the line to the negotiation of a protocol or even to treaty change, who knows what other member states might bring to the table at that stage and what exclusions they would seek?

Lord Jay of Ewelme: Just to continue on the Brexit theme for a moment, in the discussion so far we have stressed the importance for Britain and the EU of Britain's full participation in CFSP. I think, for example, of the Iran negotiations, to which over a number of years Britain made an important contribution for both our own benefit and for the benefit of the EU. Against that background, if there were to be a Brexit, what effect do you think the absence of Britain from the European Union would have on the conduct of the common foreign and security policy of EU foreign relations?

Steven Blockmans: Well, foreign policy writ large—not only CFSP, but development co-operation, humanitarian assistance, enlargement and neighbourhood policy—would suffer if the UK were to leave the European Union. On development aid co-operation, Britain is one of biggest contributors to the budget. About one-sixth of budget revenue is derived from the British quota, and it would have an enormous impact on the overseas development assistance that the EU can give. It is currently the biggest in the world. It would be the same on humanitarian aid and, ironically, on the budget for CFSP, at least as far as it comes from the general budget of the European Union; but perhaps less so in recent years on the enlargement

policy of the Union, seeing the reversal in position that the UK has undergone. You are absolutely right in pointing to more classic CFSP matters where Britain has taken the lead, for example, in negotiating sanctions against Iran and against Russia over Ukraine. The European Union would lose one of the three big member states in this respect in forging common foreign policy, and it would essentially drive Germany and France closer together. Trade has already been mentioned in a previous context.

Where I do see that secession from the EU by Britain would potentially benefit the European Union in this area is in common security and defence policy. Reference was made to a European army. There are certain member states which want to go in the direction of differentiated integration and to pool resources, budgets and planning and have an operational headquarters here in Brussels under the form of enhanced co-operation. Certain member states feel that Britain has been very much putting on the brakes, and that brake would be lifted.

Q138 The Chairman: Building on this question—this is perhaps unfair to you, and if the others want to contribute they can come in—what impact would it have on its general credibility, heft and clout in world negotiations if the European Union were deprived of one of its major member states, not only losing the resources or market access, potentially, of that state but sending the signal that it did not want to be a member of the EU? Is this significant or is it fictional as an issue?

Steven Blockmans: It is very significant. Already a very powerful negative signal has been emitted and was picked up in Washington and Beijing.

The Chairman: And in Moscow?

Steven Blockmans: Yes, differently though. It would result in huge reputational damage to the European Union if one of its biggest member states—with France, the only real military power of the European Union with the nuclear deterrent in its tool box—a member of the Security Council, the G7, the G20 et cetera, turned its back on the European Union, which is seeking to play a bigger role on the global stage, a more comprehensive role which, aside from its trade persona, sports a diplomatic and even, in the future, a military arm.

Henning vom Stein: It would be difficult to keep that policy area at the level of the European Union. If that happens, it will come to the level—whatever the outcome—of a core European Union. Britain, with its engagement and its reputation, can keep that issue on the agenda of the EU of today, but ownership and commitment are needed. There is a need for European-wide debate on this. It is not only a UK issue. If Britain left the European Union, this policy area would go down into something else, which would be the remainder of it. Additional

flexibility would be needed because other countries will also not join this. Look at Poland; there is a lot of dynamism in this process. Keeping in could be an argument for keeping that level of debate in this EU arena alive.

Janis Emmanouilidis: The general effect of the UK leaving the European Union would be very negative, with respect to internal potential negative developments following thereon, but also with respect to the external role in more policy terms. In terms of the reputational issue, it would do harm to the European Union. Having said that, if you look back over the past years and compare the position with 10 or 15 years ago, the UK's role in foreign policy proper and more generally has become less, and many member states are not happy about the fact that the UK has not been playing a strong role when it comes to issues related to foreign policy. For many other member states, not having the UK on board would be very negative news. They want a stronger role for the UK when it comes to foreign policy.

Lord Jay of Ewelme: Could you give some examples? We talked about Iran as a matter where there has been involvement. I suppose in Ukraine there has not been. Are there other examples which you would cite, or is it just the French and the Germans acting together on Ukraine and Britain not being there?

Janis Emmanouilidis: When you started to make your intervention, immediately Ukraine came to mind. It is the case where it became most obvious, but the budget for investment in UK military infrastructure having gone down, which we have witnessed in other member states, also plays a role.

I subscribe to everything that Steven said, but there is one thing where I would have a bit of a difference of opinion. With respect to other member states and their readiness to implement in practice what they often say in Sunday talks, we often hear pledges that we need more co-operation with respect to foreign and security defence policy, with people even asking for a European army, but they do that in their Sunday reaction. On the Monday, reality comes, and in their readiness to invest and to do the things that would be necessary to implement that, many member states are not doing their part. We have seen that on many occasions in the European Union, not only with respect to foreign policy. One often likes to hide behind others and say that it, because XY is not doing AB, we are unable to do so.

The Chairman: Thank you. I think what we will do now, and I am conscious of the time, is perhaps distil the remaining exchanges into two. One is to invite Lord Green to give his thoughts on what might be termed the economic and trade case and the competitiveness issue. Then I will ask Lord Davies to come in on the ever closer union issue, which we have not specifically addressed yet.

Q139 Lord Green of Hurstpierpoint: If I may add an observation on the preceding discussion, it seems to me, and I am not an expert in security policy, that there is not a whole lot of difference between the British and the French postures vis-à-vis any common European policy. Yes, the French are more involved in the Ukraine, it is true, but when you talk about common European defence capabilities, the French are as reluctant to give up their independent capabilities and right to make their own decisions as the British have ever been. That is a comment on which you may or may not wish to respond.

To turn to the economics of it all, two of Prime Minister Cameron's baskets have to do with economics. One is the eurozone question and the other is the single market. In the case of the eurozone, he has called for guarantees that protect the position of the non-eurozone members. As the largest non-eurozone member, we clearly have a special interest in that topic. To what extent do you think that people in this town and around the eurozone member state capitals recognise that this is not just about protecting the single market interests of a non-eurozone member but also about protecting the ability of the London capital market, which is really a European capital market, to function effectively as the capital market of the European Union even though it is not a member of the eurozone? That is question one.

On the single market itself, the Prime Minister has called for a bundled commitment to the single market, to trade and to competitiveness as a demand for an all-embracing change in the DNA of the European Union towards more competitiveness, openness and flexibility. What might that amount to in specific terms? The phrase he has used, "one clear commitment that writes competitiveness into the DNA of the whole European Union", is a piece of rhetoric that almost any member state could sign up to across the political spectrum. But what does that translate to in specifics if he is to be able to go back to the British people in a referendum saying, "I have negotiated real change in the way that the EU does things"?

Henning vom Stein: I have written a paper on how the euro is more than just a currency, and about the integration of the real economy.

The Chairman: Can you share that with us? That would be really helpful.

Henning vom Stein: Yes. So it is not just a currency; it is an important factor for the business model of countries. Look at Greece. Inside the eurozone, it has to find a different way for the future and completely re-establish a functioning and competitive business model within that framework of a monetary zone. Being outside this framework, like the UK is, leads to a different point of departure. London for example is a financial market cluster. I do not see where the problem would be in guaranteeing its functioning within the single market, the UK being outside the Eurozone The exchange rate should not be the problem being efficient with

its own currency.. However, remember that in 1992 on Black Wednesday the pound had to leave the exchange rate mechanism. London might be able to be a cluster for financial services as long as the euro is an anchor currency. That is in fact the argument in the letter that if the eurozone can handle its future, the UK and the other outsiders will be able to handle their own economic environment in the single market. There is interdependence. If you drive the logic of protocols, of exceptions and individualism, to the edge, it will not become a sustainable and stable system.

The Chairman: There is a kind of symbiosis.

Henning vom Stein: I think the public has to hear this. It is about value chains and supply chains. Take for example the Benelux and North-Westphalian cluster. It is not the money there; it is the material competence and logistics of the harbours in Amsterdam and Rotterdam.. That is the argument I am making. The European institutions and the whole of the atmosphere has become much more micro. Look at Portugal. Why do you have two harbours doing the same? Why is there no distinction between the business models of the two harbours there? That was completely out of the range of thinking in the 1990s and was not on the table. With regard to your question, yes, there is a possibility to handle the cluster of the London financial market if the whole set-up of the single market is functioning. And in this set-up, there should be an argument for saying that we do not all want to share the euro. There should be the ability for the British people to say, "Leave us alone with this euro perspective, and this not only with a protocol for a permanent opt-out. "We want this European Union to be a multicurrency union" should be put as an argument on the table. It would also open up a new perspective for the eurozone itself as well: if Greece does not survive in that monetary union, it could leave and join another layer of integration within the EU.

Lord Green of Hurstpierpoint: It has one or two other more specific implications, such as the ECB not trying to force euro clearing to take place within the geography of the eurozone, because that cuts across the interests of the single market.

Henning vom Stein: Yes, you would not have a seat on the general council of the ECB. You have to live with those consequences of not being in the club. "Club" is perhaps not the word, but there will be consequences, and political negotiation is needed to handle these things. Inside, it should be possible. Outside, it will not be possible.

Janis Emmanouilidis: Just a word on what you started with, with respect to the UK, France and security and foreign policy. I think that the French would be very unhappy in the case of a Brexit with respect to that area, because in terms of strategic thinking they are probably the ones who are most like-minded in the European Union in their approach to foreign policy.

Having said that, and coming back to economics, the point with respect to the potential for discrimination against non-euro countries is valid. It is a point that has been raised over the past years when we have seen reforms in the area of economic and monetary union in the euro area, and it has been raised by many other member states, too. It is valid and it is also recognised by other member states. If you look at the experience of past years, when decisions were taken there were always moments when there was an awareness of the fact that it might be discriminatory or might have discriminatory effects, which always meant that non-euro countries were consulted in one way or the other. Given that that is a precondition, the non-euro countries will not stop the euro countries from further integrating—which, as we discussed in the beginning, is also in the interests of the UK. Having said that, there is room for something like what people call an emergency brake at the European Council level to make sure that when decisions are being taken—and there is a precedent in the area of justice and home affairs—at the level of the European Council things can be stopped if member states feel that it is moving in a way that discriminates against them.

With respect to the single market and competitiveness, this is an area where we ought to ask ourselves what we can offer—I witnessed the end of your previous discussions and heard many witnesses asking themselves what could be offered—with respect to that area. Here, what can be offered is rather limited. There are certain things that are already under way when it comes to cutting red tape. By the way, it might have been smarter politically to do that later in the first phase of the Juncker Commission and then to offer it to the UK—that is a side remark—as some people had already been saying early on in the process. That could have been an asset, which was not used.

What could you offer in addition? It is very difficult to make a concrete offer in that area, not least because the key to competitiveness lies at national level; it is the member states themselves that have to make their economies competitive. The EU's ability to influence that is there, but it has certain limitations. However, having said that, there is something that people now take for granted, which might not be taken for granted for ever, which is that in the European Commission there is a general attitude that less is more; let us concentrate on some things but not overdo it. That approach is different from what we have had in the past. If you could enshrine that in some way—I do not know exactly how—to say in effect that this is an approach that should also be followed in the future, it could be offered in the future and I think that many member states would support it, as they are supporting.

The Chairman: That is subsidiarity in action, is it not?

Janis Emmanouilidis: It is subsidiarity in action, and it is also something that we are already witnessing. By the way, I am among those who are not as fearful about the argument as some with respect to subsidiarity, because there is already a lot of subsidiarity control inherent in the system, but we have seen a political development with respect to regulating, which has a link to competitiveness and which could be prolonged in one way or the other.

Steven Blockmans: I will add just two footnotes to what my colleagues have said. First, on the similarity in approaches by the UK and France on defence issues, I concur with what has been said before, but the two countries also signed the 2010 Lancaster House treaties, which seemed to be approached through very different lenses. Looking at it from your side of the Channel, the UK clearly sees it as a bilateral treaty that allows for defence co-operation with the only other military power in Europe and allows the UK to do that outside the European Union—whereas for France the philosophy is very much integrationist and an effort to use the Lancaster House treaties as a way of bringing the UK into further co-operation on CSDP.

The other footnote was about the emergency brake that Janis mentioned. In fact, CEPS and Bertelsmann Stiftung had a simulation game with members of 14 other think tanks around Europe simulating the European Council negotiating its way through the four reform baskets. On the issue of non-contamination of non-eurozone members by eurozone decisions, we could not reach agreement on the classic type of emergency brake as we know it from the treaty. The best possible compromise that we arrived at was not the double-majority mechanism that exists in the European Banking Authority Regulation but, rather, a system which — in cases of vital and stated reasons of national interest of countries with derogations from eurozone legislation — the Council must delay the voting on economic and monetary issues until the matter has been debated by the European Council.

The Chairman: I think we are probably reaching the limits of your tolerance. You have been very gracious with your time. We have a number of unanswered issues, some of which are self-evidently important for the negotiations. One is the issue of migration. Another is the question of how these vehicles may be delivered to be legally watertight. In a sense, that will perhaps come out of the decisions of the next month. There is also the question of ever closer union, which Lord Davies has taken a particular interest in. It is probably in the common interest that we subsume that as a third area that we have not completely covered. If you feel strongly about that or other matters—I know that Professor Blockmans in particular, as a law professor, has a strong background in that—we would love to hear from you, perhaps at leisure, as to what it all means and whether it means something substantive or is merely a political device or a comfort. What we should probably do at this stage is stop and say how

very grateful we are, how very much you have stimulated our thinking and taken it into other areas that are peripheral to this and are perhaps a long way from what is, at the moment, in the public debate, although perhaps it should be. In the words of trade negotiators—we have one in the room; a former Minister, Lord Green—let us develop the concept of a living relationship. You can contribute to us and we can perhaps share with you as this develops. It has been very fruitful for us. I record our thanks, and close this session.