Working together:

A Euro Group and a non Euro Group

Proposal

by

The Rt Hon Lord Owen

as presented in a speech at a lunch with the Nordic-Baltic Ambassadors on Wednesday, 16 November 2011

Introduction

I enclose a memorandum that I hope the citizens and governments of the European Member States will consider carefully as a modest, but meaningful, reform. One that is fully compatible with the EU Treaties and aimed at a realistic and cohesive positioning for the EU. With Croatia becoming a Member State in 2012 it provides for a 28 Member State framework for dealing with the challenge to the eurozone. Also a framework for the EU as a whole to become evermore competitive, if it is to return to sufficient economic growth over the difficult years ahead in the global economy, so as to provide jobs for our young people.

There is no attempt in this proposal to prejudge. If we are honest, no-one knows exactly what will happen to the structure of the eurozone a year ahead, let alone the next three to four years. The certainties that were the hallmark surrounding the creation of the eurozone are under challenge as never before. Mistakes are now being openly admitted, the possibility of fundamental changes are being more openly explored. But few believe that there is scope for massive changes and major amendments to the EU Treaties that would run the gambit of referenda in a number of Member States before 2014 at the earliest.

These are relatively minor changes going with the grain of the EU Treaties but which in concert could improve the functioning and the performance of the economies of all Member States, those within the eurozone as well as those outside the eurozone.

The Proposal

Through special legislative procedures to make changes to Protocol 14 and 15 of the Treaty on the Functioning of the European Union (TFEU). A few of the changes envisaged are shown in Annex A on the Euro Group and in Annex B on certain provisions relating to the UK. It is proposed to use Article 352 (Annex C) which has been present in all Treaties since the founding Treaty.

Some Member States may be concerned about the validity of any Article 352 decisions under the TFEU in the light of the European Court of Justice (ECJ) Opinion 2/94 (Accession of the EC to the European Convention on Human Rights). To alleviate any such concern it is proposed that these changes should be attached to the Treaty of Accession for Croatia when that draft Treaty is finalised at the end of December 2011. This would ensure no delay and Croatian accession could be ratified as early as possible in 2012 without any referenda being required in any Member State, nor any legal review of the decision making.

Article 352, sometimes referred to as the flexibility clause or implied powers clause, permits the adoption of measures to attain objectives set out in the EU Treaties (but for which those Treaties have not provided the necessary powers). No far reaching changes can, therefore, be made using this procedure, but it is for debate and discussion as to what clarifications and interpretations of the objectives already set out in the Treaties covering fiscal and monetary union would be acceptable under Article 352 and could receive unanimous support within the Council of Ministers.

The establishment of an informal non Euro Group, NEG, is no more than an expression of reality since they have started to meet over meals. This grouping is not a manifestation of a two-speed Europe. Most of these ten Member States want to join the eurozone as soon as their economies meet the criteria for entry; for example, Poland. It is not a grouping that even agrees on the way forward for EU integration. Some want more, some want less. Any idea that it could be led by the UK is wrong. It would simply be a forum for debate and discussion and since it would be chaired by the President of the European Council it would be a convenient way of the President ensuring the cohesion on these matters in the European Council. It is far more divisive to contemplate a situation where the President of the European Council would only chair the Euro Group, adding an important new function to that intergovernmental role, but based on the exclusion of ten, soon to be eleven, non eurozone Member States.

Proposal under Protocol 14 on the Euro Group (EG)

The 17 eurozone Member States would bring forward such changes as could be compatible with Article 352 which were outlined in a letter sent by Chancellor Merkel and President Sarkozy to President van Rompuy, President of the European Council, on strengthening the governance of the Euro area, which I quote from:

"This framework should rely on the following proposals:

- Regular meetings of the euro area Heads of State and Government: these meetings will be convened twice a year and when necessary in extraordinary session to act as the cornerstone of the enhanced economic governance of the euro area. They would in particular check the proper implementation of the Stability and Growth Pact by euro Member States, discuss the problems facing individual Member States of the euro area and take the requisite fundamental decisions on averting crisis. These summits will also assess the evolution of competitiveness in the euro area and define the main orientations of the economic policy in the euro area to promote sustainable growth, foster competitiveness and prevent the build up of imbalance.

- The Heads of State and Government of the euro area should elect a chairman as a rule for a 2 year and half term. We expressed our wish that you [President von Rompuy] could take on this job.

- The eurogroup of finance ministers should be reinforced.

- The EFSF/ESM missions have been extended by the decisions taken on July 21st. Its effectiveness will be improved and its flexibility increased subject to appropriate conditionalities. To fulfil its new role, the ESM should be equipped with new analytical capacities in particular as regards debt and capital markets analysis to complement the analysis and recommendations provided by the European Commission, the European Central Bank and the International Monetary Fund."

In addition, the following two changes should be included in the Protocol.

- After consultation between eurozone Member States, the ECB and the Commission it would be possible for an existing eurozone Member State to move to the Non Euro Group, as established in Protocol 15.

- The President of the European Council would chair informal meetings of the Euro Group Heads of State and Government.

Proposal under Protocol 15 on certain provisions relating to the UK

The existing ten non eurozone Member States joined by Croatia to make eleven would bring forward such changes as would be compatible with Article 352, to create a Non Euro Group (NEG).

- Merging the wording of the existing Protocol 15 relating to the UK, the Edinburgh Agreement relating to Denmark and the position of the Swedish government on ERM II so that a new Protocol 15 could apply without discrimination to a non Euro Grouping of all 11 Member States not in the eurozone after ratification of the Croatian Treaty of Accession.

- Member States would continue to be free to apply to join the eurozone and admission would be subject to the provisions of the Treaties and Member States within the Euro group would be free to leave, after consultation within the Group and with the ECB and the Commission, to join the non Euro group.

- The President of the European Council would chair informal meetings of the non Euro Group of Heads of State and Government.

- The non Euro Group would agree new wording to elaborate on the existing Protocol 15 (3) wording relating to retaining such "powers in the field of monetary policy according to national law". In the light of experience over the 12 years since the introduction of the euro it would ensure fiscal and monetary freedoms to strengthen the economic growth and competitiveness of their national economies. This would, in some cases, be the logical alternative to the greater integration proposed in Protocol 14 for the eurozone grouping.

- The non Euro Group would be able to adjust their currency exchange rates, they would be able to establish their own corporation tax levels, their own fiscal regimes and their own monetary policy governed by their own central bank. If, at some time in the future, some non Euro Group members wish to adopt the hard ECU of a basket of currencies in order to have a unit of account for trading purposes, that would be feasible and possibly a desirable development. The same can be said for buttressing the NEG by "central bank swap lines and other credit facilities …. to provide a stabilising mechanism for the whole of the Union". (See Annex D: David Owen & David Marsh, *Financial Times,*12 October 2011).

The Future

These changes are cohesive not divisive. Limited, but reflecting an existing reality that there are at present two groupings in relation to currency management within the EU – an informal Euro Group (EG) and an informal non Euro Group (NEG). This proposal makes no judgement as to which grouping Member States will join or stay within. Member State are free to choose whichever grouping they believe is in the best interest of their country but movement out of the eurozone, because of the cost, complication and disruption, would only ever be contemplated when other measures to help retain a country within the eurozone had been judged to have failed.

What this proposal does is to clarify the existing situation in a way that can help any readjustment that may prove necessary. In doing so it makes it easier for an effective economic and monetary environment to develop across the EU as a whole. The EG is, of course, already established while an NEG has yet to be put in place, let alone evolve. Both should remain informal groupings and decision-making should remain governed by EU Treaties agreed by all Member States. Expressions like “fast lane” or “avant garde” for the Euro group are purely subjective. It is possible, for example, that the NEG will, over the next five years, achieve better economic growth rates than the EG. It is certainly not self evident that economic success will be better achieved within the Euro Group. If the eurozone had not gone through the present crisis it might have been possible to continue to pretend that all Member States would eventually use the euro and no existing member of the eurozone would ever leave. That pretence is now over. The eurozone may become universal and it is encouraging for those who want such an outcome that no EU country outside the eurozone has been ready to state categorically that they will never join the eurozone.

We live within a unique organisation in the EU, soon to be made up of 28 Member States. It is a mixture of the intergovernmental and the supranational. The mix will probably evolve in both directions, adapting and changing as the 21st Century proceeds. The ever greater integration model may well best suit Member States within the eurozone. But that assumption is being challenged and in countries like the Netherlands, who have hitherto appeared in the past to favour the supranational, their citizens, in the Dutch referendum, voted against the EU draft Constitutional Treaty and continue to question ever greater integration.

The best way of facing the future within the EU is to be realistic about the present. The eurozone has encountered totally predictable flaws in its design. Correcting that design fault is primarily for the eurozone members within the framework of the EU Treaties. But it must, in fairness, be understood that for the present this eurozone crisis makes it less, not more, likely that the eurozone will be universal within the EU. Above all, the false claim by the Commission (see Annex E) that a Member State could only ever leave the eurozone if they left the EU has no basis in the Treaties. That reality was openly acknowledged by Chancellor Merkel and President Sarkozy, when persuading Prime Minister Papandreou to abandon his proposed referendum in Greece. The Treaty language, which deliberately never excluded a democratic decision of a Member State to leave the eurozone, now needs to be clarified. This is particularly urgent when we face signs of democratic instability across parts of the EU. The present escalation in street demonstrations and even violence, give cause for concern that is somewhat heightened by the introduction in two Member States of so-called technocratic governments. Such governments may help in the short term, but in the medium term the EU's fundamental commitment to being a Union of vibrant democracies must be reasserted.

AMENDED VERSION **ANNEX A**

PROTOCOL (No 14)

ON THE EURO GROUP

THE HIGH CONTRACTING PARTIES,

DESIRING to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area,

CONSCIOUS of the need to lay down special provisions for enhanced dialogue between the Member States whose currency is the euro, ~~pending the euro becoming the currency of all Member States of the Union,~~

HAVE AGREED UPON the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

Article 1

The Ministers of the Member States whose currency is the euro shall meet informally. Such meetings shall take place, when necessary, to discuss questions related to the specific responsibilities they share with regard to the single currency. The Commission shall take part in the meetings. The European Central Bank shall be invited to take part in such meetings, which shall be prepared by the representatives of the Ministers with responsibility for finance of the Member States whose currency is the euro and of the Commission.

Article 2

The Ministers of the Member States whose currency is the euro ~~shall elect a president for two and a half years, by a majority of those Member States.~~ **shall appoint as president for their informal meetings the President of the European Council.**

AMENDED VERSION **ANNEX B**

PROTOCOL (No 15)

ON THE NON EURO GROUP
~~ON CERTAIN PROVISIONS RELATING TO THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND~~

THE HIGH CONTRACTING PARTIES,

DESIRING to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area,

RECOGNISING that **any Member State in the Non Euro Group** ~~the United Kingdom~~ shall not be obliged or committed to adopt the euro without a separate decision to do so by its government and parliament,

~~GIVEN that on 16 October 1996 and 30 October 1997 the United Kingdom government notified the Council of its intention not to participate in the third stage of economic and monetary union,~~

~~NOTING the practice of the government of the United Kingdom to fund its borrowing requirement by the sale of debt to the private sector,~~

CONSCIOUS of the need to lay down special provisions for enhanced dialogue between the Member States whose currency is the euro,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union:

1. **The Ministers of the Member States whose currency is not in the euro shall meet informally. Such meetings shall take place, when necessary, to discuss questions related to the specific responsibilities they share with regard to the single currency. The Commission shall take part in the meetings. The European Central Bank shall be invited to take part in such meetings, which shall be prepared by the representatives of the Ministers with responsibility for finance of the Member States whose currency is not in the euro and of the Commission.**
~~Unless the United Kingdom notifies the Council that it intends to adopt the euro, it shall be under no obligation to do so.~~

2. **The Ministers of the Member States whose currency is not in the euro shall appoint as president for their informal meetings the President of the European Council.**
~~In view of the notice given to the Council by the United Kingdom government on 16 October 1996 and 30 October 1997, paragraphs 3 to 8 and 10 shall apply to the United Kingdom.~~

3. ~~The United Kingdom~~ **All Member States in the Non Euro Group** shall retain its powers in the field of monetary policy, **including fiscal regulatory and bank rate policy**, according to national law.

4. Articles 119, second paragraph, 126(1), (9) and (11), 127(1) to (5), 128, 130, 131, 132, 133, 138, 140(3), 219, 282(2), with the exception of the first and last sentences thereof, 282(5), and 283 of the Treaty on the Functioning of the European Union shall not apply to the ~~United Kingdom~~ **Non Euro Group Member States**. The same applies to Article 121(2) of this Treaty as regards the adoption of the parts of the broad economic policy guidelines which concern the euro area generally. In these provisions references to the Union or the Member States shall not include the **Non Euro Group** ~~United Kingdom~~ and references to national central banks shall not include ~~the Bank of England~~ **those central banks of the Non Euro Group**.

5. The ~~United Kingdom~~ **Non Euro Group of Member States** shall endeavour to avoid an excessive

government deficit.

Articles 143 and 144 of the Treaty on the Functioning of the European Union shall continue to apply to the ~~United Kingdom~~ **Non Euro Group**. Articles 134(4) and 142 shall apply to the ~~United Kingdom~~ **Non Euro Group** as if it had a derogation.

6. The voting rights of the ~~United Kingdom~~ **Non Euro Group** shall be suspended in respect of acts of the Council referred to in the Articles listed in paragraph 4 and in the instances referred to in the first subparagraph of Article 139(4) of the Treaty on the Functioning of the European Union. For this purpose the second subparagraph of Article 139(4) of the Treaty shall apply.

The ~~United Kingdom~~ **Non Euro Group** shall also have no right to participate in the appointment of the President, the Vice-President and the other members of the Executive Board of the ECB under the second subparagraph of Article 283(2) of the said Treaty.

7. Articles 3, 4, 6, 7, 9.2, 10.1, 10.3, 11.2, 12.1, 14, 16, 18 to 20, 22, 23, 26, 27, 30 to 34 and 49 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank ('the Statute') shall not apply to the ~~United Kingdom~~ **Non Euro Group**.
In those Articles, references to the Union or the Member States shall not include the ~~United Kingdom~~ **Non Euro Group** and references to national central banks or shareholders shall not include the ~~Bank of England~~ **central banks of the Non Euro Group**.

References in Articles 10.3 and 30.2 of the Statute to 'subscribed capital of the ECB' shall not include capital subscribed by the ~~Bank of England~~ **central banks of the Non Euro Group**.

8. Article 141(1) of the Treaty on the Functioning of the European Union and Articles 43 to 47 of the Statute shall have effect, whether or not there is any Member State with a derogation, subject to the following amendments:

(a) References in Article 43 to the tasks of the ECB and the EMI shall include those tasks that still need to be performed in the third stage owing to any decision of the ~~United Kingdom~~ **Non Euro Group Member States** not to adopt the euro.

(b) In addition to the tasks referred to in Article 46, the ECB shall also give advice in relation to and contribute to the preparation of any decision of the Council with regard to the ~~United Kingdom~~ **Non Euro Group** taken in accordance with paragraphs 9(a) and 9(c).

(c) The ~~Bank of England~~ **central banks of the Non Euro Group** shall pay up its subscription to the capital of the ECB as a contribution to its operational costs on the same basis as national central banks of Member States with a derogation.

9. ~~The United Kingdom~~ **Individual Member States of the Non Euro Group** may notify the Council at any time of its intention to adopt the euro. In that event:

(a) The ~~United Kingdom~~ **Member State** shall have the right to adopt the euro provided only that it satisfies the necessary conditions. The Council, acting at the request of the ~~United Kingdom~~ **Member State** and under the conditions and in accordance with the procedure laid down in Article 140(1) and (2) of the Treaty on the Functioning of the European Union, shall decide whether it fulfils the necessary conditions.

(b) The ~~Bank of England~~ **national central bank of the Member State** shall pay up its subscribed capital, transfer to the ECB foreign reserve assets and contribute to its reserves on the same basis as the national central bank of a Member State whose derogation has been abrogated.

(c) The Council, acting under the conditions and in accordance with the procedure laid down in Article 140(3) of the said Treaty, shall take all other necessary decisions to enable ~~the United Kingdom~~ **a Member State** to adopt the euro.

If the ~~United Kingdom~~ **Member State** adopts the euro pursuant to the provisions of this Protocol, paragraphs 3 to 8 shall cease to have effect.

10. Notwithstanding Article 123 of the Treaty on the Functioning of the European Union and Article 21.1 of the Statute, the Government of ~~the United Kingdom~~ **a Member State** of the Non Euro Group may maintain its 'ways and means' facility with ~~the Bank of England~~ **its national central bank** if and so long as the ~~United Kingdom~~ **Member State** does not adopt the euro.

Emboldened = new wording.

ANNEX C

The Lisbon Treaty: Treaty on the Functioning of the European Union

Article 352

1. If action by the Union should prove necessary, within the framework of the policies defined in the Treaties, to attain one of the objectives set out in the Treaties, and the Treaties have not provided the necessary powers, the Council, acting unanimously on a proposal from the Commission and after obtaining the consent of the European Parliament, shall adopt the appropriate measures. Where the measures in question are adopted by the Council in accordance with a special legislative procedure, it shall also act unanimously on a proposal from the Commission and after obtaining the consent of the European Parliament.

2. Using the procedure for monitoring the subsidiarity principle referred to in Article 5(3) of the Treaty on European Union, the Commission shall draw national Parliaments' attention to proposals based on this Article.

3. Measures based on this Article shall not entail harmonisation of Member States' laws or regulations in cases where the Treaties exclude such harmonisation.

4. This Article cannot serve as a basis for attaining objectives pertaining to the common foreign and security policy and any acts adopted pursuant to this Article shall respect the limits set out in Article 40, second paragraph, of the Treaty on European Union.

ANNEX D

"It's time for a radical blueprint for a new Europe"

by David Owen and David Marsh

The two-year old euro sovereign debt crisis is entering a very dangerous phase. Whatever happens in the stand-off pitting Greece and other indebted countries against their creditors, the relationship between the European Union's members and non-members of economic and monetary union seems set for far-reaching change. Given the great uncertainties facing the eurozone, it is time for Britain, Poland, Sweden and the other Emu non-adherents to formalise their position by establishing the "Non-Eurogroup" (NEG) as a central, constructive element of the EU.

This move to enshrine the 10 EU countries outside the euro in a definitive group would bring many benefits. These are well-run economies, at least as stable as those in the euro. The UK, Sweden and Denmark have lower long-term interest rates than most eurozone countries; Sweden's 10 year government bond yield is lower than Germany's. The Czech National Bank has lower short-term interest rates than the European Central Bank. Poland's growth record in recent years is the best in the union.

Setting up the NEG would establish rights and responsibilities for non-eurozone members, ending the long-held European position that non-membership of the euro represents a form of second-class EU citizenship. It would protect these countries from political and economic discrimination. It would allow a formal mechanism for countries to move between the two groups, calling a halt to to the absurd interpretation of many eurozone governments that if a country such as Greece were to leave the euro, it would have to quit the EU altogether. A separate group for the non-euro states would not mean that they would remain permanently outside the euro, but it would recognise the reality that, in most cases, this state of affairs will last for longer than many had previously thought.

Bringing together central banks and governments from 10 countries in a secure framework that could be buttressed by central bank swap lines and other credit facilities, the NEG would provide a stabilising mechanism for the whole of the union. The new group would help Europe better withstand euro strains and would be a source of unity, in contrast to the divisiveness of the present set-up.

The new constellation would have to be negotiated. The sooner that started, the better. The British government has so far shown astounding insouciance in the face of plans by the Eurogroup to move to a more "federal" structure to repair some basic eurozone design flaws such as the lack of fiscal union. Countries such as Sweden and Poland that have relatively pro-European views have displayed alarm or irritation at being potentially excluded from Eurogroup councils, but have failed to put forward practical alternatives.

A useful way forward would be to press for changing the language of Protocols 14 and 15 in the European Treaty, which leave non-euro states in an unsatisfactory half-way house en route to inevitable adoption of the euro. Instead, NEG would be given proper status as an essential part of the EU, equivalent yet also linked to the Eurogroup. None of this would detract from the non-euro states' ability to participate fully in economic reform efforts and in European integration across areas such as competition policy, trade relations and research policies.

There would be a chance to introduce the principles of the NEG in the next few months thanks to a decision by the 17 eurozone states that Herman Van Rompuy, president of the European Council, should chair at least two summits a year of eurozone leaders. This is part of what Nicolas Sarkozy and Angela Merkel call a (not-yet-defined) "economic government". It is true that the eurozone needs a new system of governance; holding off a euro collapse is in everyone's interest. But we must not forget that the president of the council is enjoined under Article 15.5 (c) of the Treaty to "endeavour to facilitate cohesion and consensus within the European Council." Any new position for the president should be authorised by Treaty amendment. To preserve necessary balance, Mr Van Rompuy (or his successor) should also chair a summit at least twice a year of non eurozone countries. This would establish both the legitimacy in every respect of the non-euro EU states and also the role of the president as serving the interests of all EU states with no hint, as exists in the present Treaty language, that non-eurozone status is somehow imperfect. Such a rule would also make clear that a future Council president could come from a non-eurozone state.

All these points are important for the future of Europe. The non-euro states can play a vital role in galvanising Europe to overcome its economic and political difficulties. In a cooperative and fair-minded manner, they should be allowed to get on with that task.

Lord Owen is a member of the advisory board of the OMFIF think-tank and a former UK foreign secretary. David Marsh is co-chairman of OMFIF.

Financial Times, 10 October 2011

“A two-tier Europe need not be a divided Europe”

by David Owen

I profoundly hope in both the EU’s interests and those of the UK outside the eurozone that the latest “deal” to tackle the debt crisis succeeds. But I doubt that it will. The devil, as always with the eurozone negotiations, is in the detail and if the 17 eurozone countries have the cohesion and courage to implement it.

The invocation by Angela Merkel, the German Chancellor, of the spectre of war in Europe if the eurozone, and, by extension, the EU, were to fail is both wrong and dangerous. The EU will not break up if the eurozone fails nor would this lead to war. Ms Merkel was born in 1954, seven years after the Berlin Airlift overcame the Soviet ban on food and coal passing through East Germany to reach a beleaguered West Berlin. She was only 2 when Soviet forces invaded Hungary and 14 when that was brutally repeated in Czechoslovakia in 1968. Containing Communist Russia and challenging its ideology, both on the economy and human rights, were essential preludes to the collapse of the Berlin Wall in 1989. Neither could have succeeded without Nato and — to be blunt — the formidable strength of the US in Nato.

My belief that Nato is more important than the EU in preserving peace was strengthened by my time as EU negotiator in the former Yugoslavia from 1992-95. Since then it has become ever clearer that the world needs both Nato and the EU. This year Ms Merkel chose not to support military intervention in Libya with a no-fly zone. That was a sovereign decision that I respected, even though I disagreed with it. But it raises some fundamental questions about how Ms Merkel sees Europe’s political future.

Hitherto, Germany has been a linchpin within Nato, ready to exert its growing influence, as Ms Merkel did in August 2008 when she challenged the simplistic US view of what was happening between Russia and Georgia. Germany’s stance benefited Nato overall and helped to contribute to the political climate that, last Thursday, allowed a Swiss compromise proposal to be agreed by Georgian negotiators, clearing Russia’s path to joining the World Trade Organisation, ending an 18-year application process.

It is clear that Ms Merkel is moving towards a form of fiscal union for the eurozone. But there is still a chance that the voice of the Bundesbank, although less intrusive than in the past, will ensure Germany insists that the eurozone does not embark on an inexorable path towards a United States of Europe. In that design, it is essential for the EU to retain its overall combination of intergovernmental and supranational decision-making. Therefore the President of the European Council must remain, as at present, a figure chosen by the heads of government of member states. It is a significant shift that Ms Merkel appears to support her party’s decision to champion the case for making this post elected across the whole EU.

In preserving such a balanced design it is not acceptable for the President of the European Council to chair informal meetings of the Euro Group without such a change being ratified by treaty amendment and being accompanied by a decision that he or she should also chair informal meetings of the ten countries not in the eurozone, creating a new non-euro group.

In this way the Presidency would still serve all member states. Such treaty amendments could be made by unanimity and attached to the accession treaty for Croatia that is due to be agreed by the end of the year. Ratification would not require referendums in any of the 27 countries.

It may be that treaty amendments emerge that are necessary for the functioning of, say, the European Central Bank during eurozone negotiations in November and December. Provided that they are limited and can be convincingly argued as measures likely to make the enlarged 28-nation EU function more effectively, there is no reason why the UK should insist on a referendum.

One problem might be Ireland, which wants changes negotiated before its second referendum to be incorporated in a new treaty. In particular, it wants authorisation to retain its right to keep corporation tax as low as 12 per cent. That may create opposition from eurozone members . One way round might be to write into a new protocol for the non-euro group that matters such corporation tax and any transaction taxes are decisions for individual states and into the euro group protocol that they are subject to negotiation.

A non-euro group would be a mechanism for unity rather than division. Unlike in the Maastricht treaty, its protocol could reflect the reality that eurozone membership is not inevitable and that some countries may never join. Such is the reality in the UK. Other states may not join the euro for at least ten years. There is also a chance that some eurozone members may want to leave to have the freedom to devalue. Some in the non-euro group may develop a basket of currencies as a quotable European currency unit. It would not be a two-speed EU, but a two-category EU, with one group more integrated than the other. No one can be sure which will create faster growth.

The Times, 31 October 2011

"The Eurozone isn't Europe, let the IMF sort this debacle" by David Owen

A eurozone may survive, but it will not be the present 17 member state eurozone. What will emerge, if it is to survive, will be smaller and more focused around German financial and monetary disciplines. There will no longer be dramatic EU summits with Nicolas Sarkozy, accompanied by a reluctant Angela Merkel, creating an impression of progress soon to be followed by the grim realisation that little has changed. For instance, the announced 50% haircut in Greek government bonds has not yet been voluntarily accepted. All too little of the actual detail, whether participation ratios or other technicalities, has been agreed. As always, political headlines have shown little understanding of market realities.

Even changes of government now in Greece, soon in Spain and probably in Italy, important though they will be for domestic decision-making, will not be the determining factors. Global market realism will from now on decide whether countries will default. The tone of comments from Germany, Austria and Holland will become tougher and more detached. France will have to turn inwards and grapple with its own financial problems. The UK will have to stop preaching, and recognise that its current policy mix is stifling growth.

All in all, politicians in Europe are busted. The IMF is poised to play a key role and much will depend on its managing director, Christine Legarde: if she wishes to retain authority she will have to look less like a former French finance minister and more like a global disciplinarian; the IMF is too valuable an institution in the present crisis for it to be seen as a European plaything.

How have we got to this debacle? President Sarkozy is clearly fed up with David Cameron in particular and the British in general for their "island" view of the eurozone crisis. In many respects this is sad, because we have just finished a Franco-British initiative in Libya that has been a considerable success. It is also not wholly fair, since both Cameron and the chancellor, George Osborne, have risked the ire of backbench anti-eurozone MPs on two fronts.

First, the UK government said, naively, that the only way out of the eurozone mess was to follow the logical path and build a fiscal union, –conveniently ignoring that many member states were not willing to surrender power over handling their economy.

Second, Cameron and Osborne put political flesh on that theoretical bone by offering to ratify treaty amendments to make such a fiscal union possible. The government was ready to allow the new simplified revision procedures in the Lisbon treaty to be applied without the referendum specified in the new European Act 2011. To do this, under the exemption allowed for in the act to give a new power to an existing EU body – in this case the European Central Bank – ministers were ready to say that the change was not "significant" to the UK outside the eurozone. Such a decision could have been open to challenge by any member of the public, and had to be authorised by parliament.

Sarkozy's problem is that, at the time his frustration boiled over at the G20 summit, he knew better than anyone else that this theoretical solution is exactly that – a theory.

Having spent months trying to persuade Merkel that the ECB should become the lender of last resort, Sarkozy found last week that path was totally blocked. The new president of the ECB, the Italian Mario Draghi, who replaced Frenchman Jean-Claude Trichet, made public statements that were worse from Sarkozy's point of view. Draghi's refusal to allow the ECB to purchase, on a major scale, eurozone countries' government bonds was done in a way that stiffened German resistance and has closed this issue for many months ahead – perhaps for years.

Pretension, the besetting sin of the present EU, has to end. The 17-member eurozone has to be set within a new EU framework that can adapt to market realities – also one which accepts political realities. Leaving the eurozone cannot be also a decision to leave the EU. Pretending that was the consequence in order to instill fear in a population reluctant to face austerity was a deceit that has backfired on the politicians. The EU cannot now embark on another bout of wholesale treaty reforms over monetary union. To do so risks referendum defeats that would almost inevitably occur in either Ireland, the UK or possibly Holland or France.

There is one vehicle for treaty amendment to achieve a modest redesign that could be ratified by the spring of 2012, namely the Croatian accession treaty, due to be finalised in Brussels by the end of December – and it is not subject to referendum. Also Article 352 of the Treaty on the Functioning of the European Union, which has existed since the creation of the European Community, could be used as a legal base for modest legislative proposals that have to achieve the objectives of the EU and where there is no more relevant treaty article to use. To guard against a challenge in the European court of justice any changes made under this provision should be ratified in the Croatia treaty.

The EU must, first and foremost, end the pretence and establish that all 28 members are free to enter or leave the eurozone while staying in the EU. Then it must introduce a number of practical revisions to introduce Exchange Rate Mechanism II into the criteria for entering the eurozone; formalise the Swedish position outside the eurozone; create greater cohesion by authorising the president of the European Council, as has been requested by the eurozone countries, to chair the informal meeting of the Euro Group but also informal meetings of a new non-euro group. It must also introduce within the Euro Group a more disciplined framework for handling fiscal and debt policies, all of which are compatible with existing EU monetary objectives.

Another change is that the IMF, not the EU, must supervise any default and transition from the euro grouping to the non-euro grouping, guiding them through establishing a new national currency that would be devalued. Transitional management is something the IMF has done successfully many times in the past. This would be a far more cost-effective use of any British expanded IMF facility than keeping the weaker EU countries in the eurozone when they are already either in default or inexorably headed towards it.

Guardian, 8 November 2011

ANNEX E

EC: Eurozone membership "irrevocable"

"No one can leave the euro", the European Commission insisted on Thursday (September 8th) (Reuters)

No country can leave the Eurozone, or be forced to do so, the European Commission (EC) said on Thursday (September 8th), following a Dutch call for heavily indebted member states, such as Greece, to be kicked out of the area if they cannot abide by its fiscal rules.

"Neither exit nor expulsion from the euro area is possible according to the Lisbon Treaty under which participation in the euro is irrevocable," Amadeu Altafaj, spokesman for EU Economy Commissioner Olli Rehn, told reporters in Brussels.

Such an option is not even being considered, he added. Altafaj also noted that the review of the Stability and Growth Pact that sets down the debt and deficit limits Eurozone members must stick to has not been completed yet.

"We are still trying to agree what is on the table," the spokesman said.

His remarks followed a fresh Dutch government proposal, calling for the appointment of a new EU commissioner for budgetary discipline with powers to impose various penalties on countries persistently breaking the Eurozone fiscal rules.

Those would include placing such nations under the stewardship of their partners in the common currency area, curbing their access to EU funding and suspending their voting rights. The final penalty persistent violators of the budget rules could face would be expulsion from the Eurozone, Dutch Prime Minister Mark Rutte and Finance Minister Jan Kees de Jager explained in an opinion piece British daily *Financial Times* carried on Wednesday.

"In the future, the ultimate sanction can be to force countries to leave the euro," the two officials wrote, admitting that the Lisbon Treaty would have to be amended to allow the expulsion of members from the 17-nation zone.

SETimes.com 9 September 2011