

SPEECH BY THE RT HON LORD OWEN TO PETERHOUSE POLITICS SOCIETY, CAMBRIDGE, ON WEDNESDAY 22 FEBRUARY 2012

‘HOW TO REMAIN A NATION STATE’

In all the controversy about the eurozone and Greece it is easy to ignore one simple fact: maintaining a core eurozone is creating an unstoppable momentum towards a United States of Europe.

On 7 February 2012 the German Chancellor Angela Merkel indicated very clearly her direction of travel. The eurozone crisis for her is to be the springboard to another Treaty to replace the Lisbon Treaty. She said "Step-by-step, European politics is merging with domestic politics." She called for "comprehensive structural reform" of the EU with closer integration to overcome what she called "major shortcomings".

She had some months earlier, barely recognised in the UK, signed up to campaigning with fellow Christian Democrats across Europe for direct elections for the posts of President of the Commission and much more surprisingly and far-reaching for the President of the European Council. A position that was only recently introduced as part of the Lisbon Treaty as an intergovernmental coordinator of the meetings of Heads of Government. Now following the logic of that earlier position she makes clear that member states ought to be ready to cede further powers to the EU and that the European Commission ought to function more as a European government, with the Council of Ministers acting as a "second chamber" working alongside a strengthened European Parliament.

Yet, intriguingly, she went on to stress, "We want to have Great Britain in the European Union. We need Britain, by the way. I want to say this emphatically, because Britain has always given us a strong orientation in matters of competitiveness and freedom and in the development of the single European Market."

At the same time the way to meet the Merkel aspiration for the UK was given flesh and bone by Viviane Reding the EU Commissioner for Justice, Fundamental Rights and Citizenship, previously a Belgian Christian Democrat, arguing for the convening of another convention, the EU mechanism for creating a new Treaty, for the sort of political union that Merkel envisages and for which she will seek a mandate in the German Federal Election in the autumn of 2013. Commissioner Reding's five point plan, apart from a convention, includes the European Parliament being given full legislative powers with the right to initiate legislation and the right to elect the Commission. The aim would be to have a Treaty ready by 2016 and be ratified by 2019. The Treaty would enter into force in 2020 provided two thirds of the member states had ratified. Those states who do not want to be a party to such a Treaty or fail to ratify would be associates and in an effort to accommodate Britain we could remain – how is not specified - a member of the single market.

These proposals from a Commissioner should be set alongside the provision in the Fiscal Compact Draft Treaty signed up to by 25 member states that says within five years from 2012 a Fiscal Compact should be part of the EU Treaties. Just as the eurozone's flawed design has become obvious, there are still many of its architects who have little hesitation on embarking on a massive new design. They are irrepressible but they have history behind them. Federal structures come about not just through brick-by-brick building but through transformation driven by crisis. Yet Merkel and Reding's design is not based on ever closer union for all. Rather it accepts some will not join. Hence the suggestion it is to be triggered by two thirds of the member states. It seems also to accept in its language about Britain staying in the single market that the UK may not join.

A variable geometry design for Europe is what some of us have been calling for in the UK since 1978. Then James Callaghan, Denis Healey and I went to Cabinet with the proposal to help design the European Monetary System but not join the Exchange Rate Mechanism. That choice moved to the next logical step in 1990 with the acceptance by John Major of European Monetary Union

but with the UK opting out of the eurozone. David Cameron's pre-Christmas mistake was not to opt out of the Fiscal Compact Draft Treaty but to formally opt out of negotiating its design. We should have been part of the 27 and arguing, as was glaringly obvious, that it was insufficient and that there needed to be the Political Compact that Merkel is now talking about for the eurozone to succeed. The basis of most serious critiques of the eurozone always was that a single country was necessary for a single currency. That has now been accepted by the German-French elite who drive the Euro project. Significant though it is, that the received wisdom of 40 years since 1977 has been upended, some will still not be in favour of an overt espousal of a country called Europe. They will try and subsume Merkel's changes into the EU while pretending nothing has fundamentally changed.

Will this new elitist project be any more successful? Even if the pretence continues, European public opinion is becoming less compliant. Are the peoples of Europe ready to become, with the euro as their currency, like the people of New Mexico, Maine, Pennsylvania and California in the USA with the dollar? Just to pose the question is to demand a huge leap of the imagination. Are the leaders just trying to save the euro? Or save the face of three generations of political leaders who have got the eurozone wrong and much else beside?

European leaders have had huge difficulty in persuading their own citizens to follow the path of ever-greater integration. The French rejected the Constitutional Treaty of their former President Giscard d'Estaing in a referendum in 2004. Lest we forget, the French people only voted by the narrowest of margins for the euro in the referendum on the Maastricht Treaty in 1992. The Dutch people, the strongest country in favour of the federalist model in the founding six Common Market nations, voted against the Constitutional Treaty in a referendum and are now one of the most sceptical about further integration. Ireland, Denmark, Sweden all have difficulty with their public opinion. Of course it is possible that out of the chaos of the eurozone crisis will come inner core political unity but there is at least the possibility of rejection. Austerity is the German way of restoring

competitiveness but will that also be the French way, the Italian way? We will see. But if, as I expect, Germany is prepared to fund a continuing Eurozone, provided it is based on being in effect part of a single country, most existing EU member states will be ready to join.

How should Britain react? We should firstly not react! This is our EU by Treaty; it can only be changed by unanimity and we must have a credible but different design and the determination to stay at the negotiating table until there is unanimity. No walk outs, just quiet persistence. We must have the confidence to set out a new design for two Europes - a wider and an inner - that will live alongside, in harmony with each other. It will involve substantial restructuring not only of the existing EU but also the European Economic Area (EEA) that includes Iceland, Norway and Liechtenstein and was to have included Switzerland, but there was an adverse referendum vote.

A wider Europe would have Turkey, not just the EEA countries, if they wished, joining from the outset with the 28 existing EU member states in designing its economic and political contours. It should adopt as its core the existing EU Single Market legislation but there would be no assumption of the free movement of labour. There would be a readiness to continue with EU Environmental legislation and policies. No Common Agricultural Policy (CAP), no Common Fishing Policy (CFP), Social Policy or Common Foreign Security and Defence Policy (CFSDP). It would revert to the Political Cooperation arrangement that existed in the 70's and 80's. Almost all its members would be part of NATO. It would revise the European Convention on Human Rights and revive the Council of Europe.

Countries outside the present EU would be able to join the Community of wider European countries, of eventually around 40, earlier than the existing EU. Such countries as Macedonia, Serbia, Montenegro and Bosnia-Herzegovina. This would be good for the unity of Europe and by virtue of its overlapping membership, there would be good relations with the inner United States of Europe.

As for the inner Europe it would function evermore as a European government with its own currency, the euro. It would amalgamate into one government the present structures surrounding EMU, CAP, CFP and CFSDP, also its institutions, the Commission, European Court of Justice (ECJ) and European Central Bank (ECB). It would also develop a common legal system. The constitutional arrangements for the inner Europe need not concern Britain overmuch since it is barely conceivable that the British people would consider joining such an arrangement. But we should insist that provision should be made for countries in the wider Europe to come into the inner Europe by agreement. For those existing member states not ready, but wishing eventually, to join the eurozone and accept a more disciplined path towards entry they could continue with or opt in to existing EU arrangements.

What would the inner Europe be called? In all logic it should be called USE - the United States of Europe - but in all probability it will wish to be called the EU so as to argue this is a continuous development. In which case the wider Europe should be called the European Community.

Of course there will have to be a UK referendum to choose whether to be only part of a wider Europe or both the wider and inner. It would make sense to take that referendum in principle early. Any formal ratification of an already agreed position could follow if the Conservative and Labour Party decided that on this issue of vital national interest there would be a joint approach. I very much hope there will be. Both to the negotiations within the EU and in the UK referendum with a lot of inter party consultation. The sort of cooperation that looks like happening over the referendum on Scotland. Preferably the Liberal Democrats would also agree to this joint approach. But it is more likely the Liberal Democrats will want to argue in a referendum that Britain should be part of the inner Europe and be prepared to join the eurozone with opt in arrangements should the USE permit them. In many ways it would be a good thing for the inner Europe to have a party champion for there will be many who genuinely want and have wished for some time to be in a federal union.

I think a dividing line along these lines in Europe will soon become fairly clear cut. It will become an inescapable choice with the pace forced by the urgent needs of the eurozone. Probably a decision in principle will need to be taken in the UK before the fixed term date for a General Election in 2015. There will, if the past is anything to go by, be for some months the usual British reluctance to face up to the reality of this German-French plan. It, incidentally, will not change much if Sarkozy loses in France in May or Merkel loses to the Social Democrats in 2013.

In September 2013 Merkel will seek the German public's endorsement for her future design in the Federal Election. The German Constitution deliberately does not provide for referenda. Also new Bundestag legislation covers even simplified amendments to the European Treaties making it harder to adjust the Treaties, for the most part suggested by their Constitutional Court. This all makes the European convention route of negotiating more attractive in Berlin. In London too the European Act 2011 will be used to block any amendments not fully acceptable through referenda and a broader intergovernmental negotiation has its merits.

The implications of all this for the Labour Party are profound, particularly given Tony Blair's support for most of the EU integration of the last decade. Labour leaders would be wise to start out on an in-depth discussion within their party to align themselves more closely with British public opinion on Europe and decide with their grass roots membership whether to opt for the wider or the inner Europe. There are strong political arguments for Labour not allowing themselves to be just dragged along by public opinion close to the General Election in a desperate bid to halt the Conservative Party attracting more votes. In 2012 there is no better guiding speech for Labour than that of Hugh Gaitskell, their then leader, at Labour's Party Conference in 1962. A federal Europe he said, "may well be the answer to their problems. It is not necessarily the answer to ours." The British choice that Gaitskell saw as possible, in the then Common Market, has, because of the Eurozone, become a reality. It was a prescient speech of a leader who understood the limits of

the European project and yet he was a true internationalist. Albeit, he was a sentimentalist about the Commonwealth, but better that way than a cynic. For still today the Commonwealth connection is one of Britain's arguments for retaining permanent membership of the Security Council.

Any UK political party that ignores the rapidly emerging challenge in Europe is putting its head in the sand. It is appropriate to make this speech here in Peterhouse for this European reality has been accepted by Brendan Simms, a fellow of this college and Professor in the History of European International Relations in a recent article "Towards a mighty union: how to create a democratic European superpower." Appearing in the January edition of *International Affairs*, he wants to create a more perfect union modelled on that which the Americans did after the War of Independence. That design has much intrinsic merit. But the structure of a USE will probably turn out to be a mixture of Merkel, Reding and Simms.

I am starting to believe that a German-led USE will come about even if it is rejected in a referendum in France or Holland or Italy. Certainly it will not be stopped if less than two thirds of the member states opt for a USE for this threshold suggested by Reding will be dropped if it looks like preventing a USE emerging. That is the way the European elite have always proceeded and they are not about to be thwarted.

The complete collapse of the eurozone would have stopped a USE but that now looks unlikely to be allowed to happen firstly by Germany but also by the rest of the world, particularly the USA, fearing the effect of a collapse for their own economies. Not all the present eurozone members may stay within the eurozone but a substantial core is set to survive, though in a very different structure, with tough austerity and supervision programmes attached. Those austerity packages may be off-putting to some countries who had expected a slower pathway to eurozone membership and a few countries may, even in the eurozone, find the undemocratic nature of some of what is likely to emerge on the fiscal and economic side so difficult to live with that they will

opt for the wider single market European Community and reject a USE. Some EU countries economies may be too weak to be offered USE membership even if they are still members of the eurozone but that issue will play out during the design period from now until 2015 - 16. One side effect of transformation will be that the traumas of the 2013 five-year EU budget negotiations will largely be avoided since any arrangements will be seen to be temporary for this period. During the transition opt outs from the existing EU may start and be helpful for those who have decided not to join the USE.

END