

Article on the EU for the Evening Standard, Monday 20 August 2012

The German Chancellor Angela Merkel is back at work in Berlin after her holiday. She has a heavy burden on her shoulders for avoiding a collapse of the euro - but she also faces a country full of angst.

On a visit last week to Canada she was still claiming that greater European integration holds the key to resolving the eurozone crisis. She may well be right. For it is very hard to see a single currency working without a single country to stand by that currency.

The German people are talking a different language. They are, in increasing numbers, expressing deep concerns about Germany's capacity, as well as their willingness, to fund the two big eurozone economies in trouble, Spain and Italy. Portugal, Ireland and Greece's financial woes are well known. They in comparison are becoming something of a sideshow. There are in addition growing concerns about Cyprus, Slovenia and even France being buffeted by financial pressures. Yesterday I was in Athens. The austerity package in the city is biting harshly, while in the countryside there are fewer signs of the burdens becoming intolerable. But it is appearing likely that instead of August being the crucial month for Greece, that will come later. Perhaps in September when a 31 billion euro disbursement needs to be agreed, or in October 8 and 9 at a meeting of European heads of government. It is even possible that it could be not until mid-November that the key decision is taken as to whether to rescue or to let Greece default. But that all depends on whether global confidence can be maintained in the euro as a sustainable currency by temporary measures.

So far, against many dire predictions, muddling along with limited help from the European Central Bank and the IMF has worked - just. One reason for believing that might continue is that in the background is President Obama's overwhelming concern that no European financial crisis is risked prior to the American November election.

In addition there is an unpredictability about the contagion effect of a Greek default. Some risk-averse advisers are in favour of muddling on, saying: better to deal with the crisis as a whole. First find out, they argue, the true position in Spain. The same scrutiny needs to apply to Italy, where the problems are different to Spain, but nevertheless deeply worrying. Only when the full price of multiple bailouts is known can a long-term sustainable option for the eurozone be found. Chancellor Merkel has always had in mind 2013, around the federal German elections, as the best time for settling any new structure. She is also very mindful of the Dutch election this September, a crucial potential ally.

If five or more of the present 17 eurozone countries leave, or alternatively all become fiscally integrated and politically more unified, there will be profound implications for the then-28 EU member states, including Croatia. Last week Methuen published a book I have written called Europe Restructured, which explains how the present mess in Europe developed since 1962. More importantly it also describes how the mess can be relatively simply resolved. I helped lead the campaign against Tony Blair ever being in a position to win a referendum on the UK joining the euro - and we must never forget that he planned for such a referendum on the back of a so-called "Baghdad bounce" in the polls in

summer 2003. In essence, I do not believe the British people will ever accept the degree of political integration that it is now obvious is the necessary accompaniment to eurozone membership.

But what I do believe the British people will accept is continued membership of the Single Market. That element has already been separated out from the rest of the European Union Treaty language in the Economic Area Agreement which all EU member states are part of. Now with the addition of Norway, Iceland, Lichtenstein and Turkey and later some other European states, that could become instead a customs union and be called the European Community, covering some 32 states. The European Union would become the name for the eurozone. At least before the end of 2016 and quite possibly in 2013 the British people should decide in a referendum whether they want to remain part of that Union, in anticipation that at some future date the UK might wish to join the euro. Knowing that such a restructuring is both negotiable and worthwhile helps one approach the day-to-day struggle over the eurozone.

The UK should put no obstacles in the way of integration within the EU provided those who want that greater integration facilitate the separation out of a European Community for all EU member States based on the Single Market. Meanwhile this week in the eurozone, Chancellor Merkel and French President Francois Hollande meet in Berlin to be followed by the Greek Prime Minister coming to Berlin and Paris. The Greeks want a two-year extension of their fiscal adjustment plan.

Then in the middle of September, the German Constitutional Court is due to rule on the constitutionality of the fiscal pact negotiated by Merkel and 24 other EU heads of government, as well as on the legality of Germany backing a permanent bailout fund of 22 billion euros for the EU. If this was not momentous enough, there is a growing movement in Germany demanding a referendum on Europe, because they do not accept the big political parties' "step-by-step" path for greater integration without changing the Basic Law on which Federal Germany is founded. Hitherto, post-war Germany has wanted to have nothing to do with referenda. The fact they are even considering this is confirmation that big changes are afoot in Europe. The British political parties need to come together urgently in a mood of national resolve to help shape these developments.

Against all this potential upheaval in Europe, it is hard to see an early political resolution of the eurozone crisis. But global markets operate under no such restraints.

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