

SPEECH BY THE RT HON LORD OWEN TO A MEETING OF THE CANADIAN INTERNATIONAL COUNCIL, TORONTO, CHAIRED BY THE FORMER CANADIAN FOREIGN MINISTER AND MINISTER OF DEFENCE, WILLIAM GRAHAM, ON TUESDAY 3 MAY 2016

The UK, Canada and a United States of Europe

My visit to Canada is to explain the In/Out EU referendum in the UK due to be voted on the 23rd of June. It is not to convert you in Canada to why I think the political time has come when we should leave the EU. We owe it to you rather as longstanding friends to explain the circumstances and help you to understand what is going on. Why our political parties and even families are divided. Why some, like myself, who were enthusiastic supporters of entry, in my case since 1962, now find ourselves wanting to leave.

There have been two phases in the history of the EEC (Common Market) that started with the original six: France, Germany, Italy, Holland, Belgium and Luxembourg in 1956. The first phase was broadly successful and the UK joined when President Pompidou replaced President de Gaulle at the start of 1973 after a cross party struggle in the UK Parliament. That decision was re-confirmed in the referendum of 1975 by a large majority and it was possible to believe that there was the 'whole hearted consent' that Prime Minister Edward Heath had said initially would be necessary. This phase that evolved into the European Community ended with the decision to create a euro currency in the Treaty of Maastricht in 1992.

The second phase was an experiment when what was soon to be called the European Union decided to embark on something that had long been discussed - monetary union but with a design that had never been sustainable in the world's history - namely to create a currency without a country. The UK Conservative government after their electoral victory in 1992 and after being forced out of the European Monetary System was deeply split. The struggle was between those who would have liked to veto the whole concept and those who thought we could live alongside a Eurozone provided we were opted out and were retaining our own currency. In Germany the Bundesbank opposed this design for the euro in principle and fought to retain the Deutschmark but was overridden by Chancellor Kohl. In France a referendum on the Maastricht Treaty was very narrowly won by President Mitterrand in September 1992.

Initially the early part of this second phase gave some grounds for hope that the euro might succeed: but then in the midst of the global economic crisis of 2008 a crisis developed in the Eurozone. That euro crisis is still with us in 2016: posing a question at the heart of the UK referendum debate. How long do you continue being associated with a failed experiment that could lead to a euro collapse?

It is instructive to recall how President Obama's first Secretary of the Treasury viewed

the euro. He has used some very tough language about the Eurozone in his book *Stress Test* published in 2014. He writes about 2010 "The second drag on our recovery was Europe, which was in financial and economic disarray" and "the European mess was a serious threat to us."..."The sudden panic in Europe was shocking."..."Now Europe was burning again, and it did not seem to have the tools or the desire to control the fire. The Eurozone was sixteen (now 19) nations with sixteen fiscal policies and sixteen banking systems..."

Geithner writes in words with which I totally agree. "For all the flaws of the US system, our fragmented regulatory agencies were at least part of the same nation, with a common language and traditions. And we routinely transferred resources to economically weak regions through our national budget."

The same can be said of you in Canada having maintained your own currency in relation to the US. You also weathered the global crisis far better than the US. The design of your trade agreement NAFTA with the US and Mexico has three currencies.

The European initial model of a Common Market, albeit with, in part, a supranational structure and a law making capacity, then expanded qualified voting in order to run a single market in the middle 1980s and with it opened the prospect of monetary union. That was the bridge too far for those of us in the UK who hoped the European Union was never destined to become a country.

Today in 2016 the euro crisis is in its seventh year and still basically unchanged. This is despite constant urging by Geithner and his successor as Secretary of the Treasury, Jack Lew and our Chancellor of the Exchequer, George Osborne. The Eurozone is now practicing quantitative easing under the European Central Bank (ECB) Chairman Draghi and this technique used by the US and UK may have influenced the welcome recent 0.6% quarter growth figure in the Eurozone. Hopefully this growth will be sustained, but the flawed design remains and as Geithner wrote looking back "after building some credibility with the markets, the Europeans quickly squandered it, a pattern that would recur over time."

The EU/Eurozone has meanwhile become so dysfunctional that despite international pressure to reform, it still believes it can continue without introducing a mechanism for fiscal transfers. The Greek crisis also remains unresolved and could soon turn very nasty without debt write offs. There is not sadly the political will, the cohesion, nor the political capacity to change the Treaties to support transferring money between rich and poor parts of the Eurozone. Short of being driven to reform in the midst of a euro collapse the Eurozone is very likely, as I discovered on a visit to Berlin earlier this year, to remain unchanged until 2023, maybe 2025 or possibly even longer.

The question is whether the UK should get out from under the EU/Eurozone for economic as well as political reasons? Find new global markets and greater

independence. The analysis of the former Governor of the Bank of England, Mervyn King, in his new book with the thought provoking word "Alchemy" in its title is both clear and simple¹. The Euro crisis will continue, a euro collapse will follow unless in effect a country emerges inside Europe to run this currency with a fiscal union.

The circumstances which led up to this choice arising in another In/Out referendum started with the emergence of the UK Independence Party (UKIP) and has been kept running by a growing number of MPs, now over 130, in the Conservative Party and a significant number of Labour voters but not MPs. All three party leaders conceded, eventually and reluctantly, before the 1997 General Election that there would have to be a referendum before we could join the euro. In 2013 David Cameron announced that if the Conservatives won outright in the 2015 General Election there would be an In/Out referendum before the end of 2017. That pledge was announced incidentally before the Scottish referendum in 2014 when the Scottish people rejected independence.

We are now in the midst of this EU referendum and by common consent it is at present far too close to call. The unprecedented intervention by an American President visiting and taking David Cameron's side during a British election period has created a slight backlash in the polls. I want to believe that this backlash is indicative of a fighting spirit in the British electorate that is determined to leave. In large part because they are becoming evermore aware of the two key issues, economic and political, underlying their vote.

On the issue of the economy for all the unwarranted fear that is being engendered by those who want to remain in the EU, many people believe the economic issues are not as one sided as is presented and they can see the reality that there are opportunities in the global market. Practically all the voices of doom we hear today were telling the British people sixteen years ago we had to join the euro. To counter that nonsense I helped create a cross party organization, New Europe, of which I was chairman in 1999. Together with Business for Sterling we were able to wrap up our campaign in 2005 when joining the euro was no longer a threat. Tony Blair, then Prime Minister, had hoped to call a referendum endorsing euro membership in the summer of 2003 on the back of a "Baghdad bounce" in the opinion polls. The failed aftermath to the invasion ensured there was no "bounce" in the polls.

On the issue of political independence British Prime Ministers have been forced by public opinion, despite powerful Cabinet Ministers in all three main parties who wanted the Cabinet to ignore public opinion, to concede referenda. Some of those Cabinet Ministers were and still are believers in the euro and a few are closet Federalists. The deep reason for wanting to rule out euro membership is political as

¹ Mervyn King, *The End of Alchemy, Money, Banking and the Future of the Global Economy* (Little, Brown, 2016).

well as economic. It is recognised by more and more people as the political mechanism whereby we could be sucked into being part of the country that is necessary to make the Eurozone work.

A belief in Federalism has waxed and waned in Europe. Of course the founding fathers of the European Economic Community, people like Jean Monnet and others wanted Federalism to be the end result. In Canada Monnet's biography by Eric Roussel is probably better known because it is not published in English but only in French. It reveals how much of his life was spent in America. General de Gaulle thought of Monnet as an American agent and in the Second World War Monnet was close to Franklin Roosevelt and subsequent US administrations worked with Monnet and he was a friend of John Foster Dulles, the influential Secretary of State under President Eisenhower.

The State Department's longstanding support for a United States of Europe has been pretty obvious over the decades. But that has been checked by the Pentagon. I often discussed this with my very good friend, the former Secretary of State Cyrus Vance. Declassified documents from the State Department archives show that the US funded Monnet's European Movement in a memorandum signed by General William J. Donovan, previously head of the wartime Office of Strategic Services (OSS), the precursor of the CIA. In 1949 Donovan, who was not officially in government, became the Chairman of the newly formed American Committee on United Europe (ACUE) promoting European Unity. Allen Dulles was then on its board. One memorandum from Donovan dated 26 July 1950 reveals a campaign to promote a full-fledged European Parliament. In 1958 ACUE provided 53.5% of the European Movements Funds² and the European Youth Campaign was 100% funded by ACUE.

A memorandum released from the State Department archive is of great significance to our own UK referendum today. Written on 11 June 1965 it apparently instructs the Vice President of the European Community to pursue monetary union by stealth, suppressing debate until the "adoption of such proposals would become virtually inescapable."³

The most worrying aspect of President Obama's recent visit to the UK was not that he came but because I suspect he was the first serving US President to ever write an article in any newspaper, (in the *Daily Telegraph*⁴) to claim that post war the peace in Europe had been maintained by the US and the EU without at least linking it to NATO. That is not only by any standard of objectivity incorrect but it demonstrated

² Ambrose Evans-Pritchard, 'Eurofederalism financed by US Spy Chiefs', *Daily Telegraph*, 19 September 2000.

³ Ambrose Evans-Pritchard, 'The European Union always was a CIA project, as Brexiteers discover', *Daily Telegraph*, 27 April 2016

⁴ President Obama, 'As your friend, let me say that the EU makes Britain even greater', *Daily Telegraph*, 23 April 2016.

why the future of NATO is something that will have to be fought for in the next decade within the US. In the 1980s the last time NATO had to be fought for was with public opinion in Europe and President Mitterrand played an important role.

President Obama was correct to accuse us Europeans of being “freeloaders” in NATO and it is not tolerable that the US should be able to claim they are paying between 73-75% of NATO's budget. In his *Atlantic* magazine interview President Obama also claimed he had told David Cameron that if the UK did not hold to the pledged NATO contribution of 2% of GDP that would adversely affect the special relationship. The British government has made good on that pledge but there is much more that needs to be done.

Three weeks ago I was in Paris speaking on a European Movement platform along with the former Prime Minister of France, Michel Rocard. He is an old friend and a convinced European federalist for France, just as I am a convinced anti-federalist for Britain. Now we both agree that it is time for the UK to leave the EU. Why? The reason on my part is that resolving the Eurozone crisis not only needs a more integrated Europe but a federalist Europe creating to all intents and purposes a country. Without it I do not believe the euro currency can survive. A collapse of the Eurozone we know in the UK would be very damaging to us; far more damaging incidentally than to the US. We are not totally shielded by not being part of the Eurozone as our exposure stems from our membership of the EU and being neighbours.

Let me illustrate why. I have a house in Greece and have watched in horror the tragic consequences of a near collapse of the euro in that country. The stark poverty, appallingly high unemployment, empty shelves in pharmacies and restrictions on Greeks drawing out euros from banks has had a profound impact on the political credibility and the economic viability of the EU. Have that happen in a large country like Italy or two other countries, like Portugal and Spain, and the effect on the UK would be devastating. So great has been the impact of the present crisis that there has been for nearly five years no threat of a UK veto on the necessary treaty amendments to reform the euro. The UK would in the past have automatically blocked those amendments for fear of presaging too great a degree of political integration; for similar reasons we have not wanted to agree measures to end the democratic deficit in the EU, such as electing a President of the Commission, or the President of the Council composed of Heads of Government, or giving more power to the Parliament. Now by leaving the EU the UK can completely remove all such obstacles, imagined or real to a federal Europe emerging.

It was noteworthy that on 27 April Michael Heseltine, a prominent Conservative and supporter of remaining in the EU, was honestly saying "One day we will join the euro. There's no hurry and I don't think it's going to happen in my lifetime" (he's 83.) There are many like him in the remain campaign who take this view but pretend euro entry

will never happen. David Cameron now claims it will never happen. But promises are cheap at this stage in the campaign from people who want voters to ignore the inexorable direction of travel toward a country called Europe which was so greatly enhanced by the creation of the euro.

Take defence - as integration develops the arguments for EU defence will grow. The UK has been opposed to "EU common defence" as appeared for the first time in the Maastricht Treaty but we acquiesced. It has proved damaging to NATO. The UK then agreed to "autonomous defence" under Prime Minister Blair and President Chirac. That inevitably meant two autonomous planning centres for defence in Europe, one in the EU, one in NATO. Every US Secretary of State for Defense since Blair and Chirac gave credence to that vision of European defence in St Malo in December 1998, has publicly opposed it. The most recent the former Secretary of Defense, Robert Gates.

But the US State Department does not oppose the build up of the EU's Foreign Office, or as it is more blandly called the European External Action Service (EEAS) replete with Embassies and Ambassadors around the world. The EEAS has just spectacularly doubled its budget in 3 years from just short of €500 million in 2012 to one billion euros in 2015. Increasingly the External Action Service of the EU is becoming a foreign and defence department of a government.

It is hard to escape the conclusion that the US and the UK are divided over a single state emerging in Europe and over its implications for NATO and there are different conflicting objectives inside the US government between the State Department and the Department of Defense.

The advantage of the UK leaving the EU is the clarity of objectives it brings to the development of Europe. It will end the pretension, the besetting sin of the EU. The UK will return to self government, making its own laws, controlling its borders with a points system for immigration and be free to trade as it wishes worldwide. The rest of the EU will determine who becomes in effect part of one country with its own monetary, defence and foreign policy. Far from being of itself damaging, it allows the EU - if it can summon the will - to resolve the eurozone crisis. When this will happen is anyone's guess.

By creating an EU country, probably not as large as the nineteen in the present Eurozone, there would be a global economic stabilising effect. The size of this true Union would depend on the financial discipline its poorer members will apply in exchange for fiscal transfers from the richer. Those who are not in the Union would remain in the Single Market, more akin to the old European Community which had a structure covering foreign policy coordination called Political Cooperation. Both entities Union and Community would remain in NATO along with the UK and with the existing countries inside NATO not in the EU.

There would be a special responsibility for the UK as an integral part of leaving the EU to devote effort and more resources to NATO. We could use all our saving from EU defence in CSDP and from EU CFSP in the EEAS budget by agreement with the EU as soon as we take the legal power and give the standard notice for withdrawing from an international treaty⁵. This would not therefore require the full EU Treaty amendment procedures and risk national referenda in other member states. Only the UK amongst European states, with the possible exception of Norway, is likely to want to do this or be in a position to strengthen NATO over the next decade. The UK could, however, work together with Canada to help maintain the very necessary, indeed all important, political commitment of the US to NATO. How could this be done?

One important area would be for Canada, the UK and France to work together within NATO on the creation of a fully capable rapid reaction force to be at the disposal of the UN as well as NATO and based on the French aircraft carrier and the two British aircraft carriers being built. I saw and much appreciated Canada's commitment to difficult peacekeeping in Southern Africa when I was Foreign Secretary. Your Foreign Minister, Donald Jamieson, negotiated in Pretoria with me, Cyrus Vance and the German Foreign Minister Hans Dietrich Genscher, what 12 years later was the UN resolution on which Namibia became independent. In 1992-1995 as the EU peace negotiator I worked in the Balkans with Canada very closely and you were even ready for a year to put your troops in blue helmets into Srebrenica.

I am convinced that NATO must be retained as the most effective international defence organisation in the world. The US will respond to more effort from Europe and that is now the UK's main responsibility but we can be greatly helped by you in Canada.

END

⁵ The [*Vienna Convention on the Law of Treaties*](#) 'Part V: Invalidity, Termination and Suspension of the Operation of Treaties' (Articles 42 – Article 72).