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‘A TWO-TIER EUROPE NEED NOT BE A DIVIDED EUROPE’

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 as 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.

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