

## TIME FOR A DOSE OF EURO-REALISM

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**Shaun Bailey**, Former Conservative Parliamentary Candidate for Hammersmith and Special Adviser to the Prime Minister, and **Nabil Najjar**, Managing Director of Delta Strategies Limited argue that, in today's globalised world, there is more that unites Europe than divides it, and that Britain's place remains within a reformed EU.

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### INTRODUCTION

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No issue has divided British Conservatives throughout recent history more than that of Britain's relationship with the European Union. Ever since the Conservative Prime Minister Ted Heath instigated Britain's membership in 1973, our Party has been at loggerheads as to how best approach the subject. This disagreement and discord came to a head during the Premiership of John Major, and his support for the Maastricht Treaty and the closer European ties it heralded, eventually caused a rebellion across the Party which forced Major to resign and re-stand for the leadership, ultimately winning.

Following the Party's defeat in 1997, the issue broadly subsided until recent times, when further integration following the Lisbon Treaty of 2007, coupled with the rapid expansion of the Union caused some to question whether continued membership of the EU and the consequences it led to, including increased net migration into the UK, were in fact worthwhile. Today, it seems both public opinion and the conservative family are very much divided on our future within the Union, and the 'Euro-sceptic' wing of the Party has continued to gather momentum. With a referendum on our membership proposed for 2017

## TIME FOR A DOSE OF EURO-REALISM

should the Conservatives win the upcoming election, we stand on the cusp of a historic impasse. Although it is tempting to side with the sceptics and revert back within our borders, we risk alienating ourselves from our geographical, political, cultural and economic allies at precisely the time when we need unity. This is not about Europhobia versus Europhilia: it is about Euro-realism – understanding the fact that we are in, whether we like it or not, and that disassociating from the Union will not change that, and analysing the position functionally as opposed to ideologically. That is not to say that we must accept the Union as it is. Changes must occur, but to flagrantly abandon the Union at such a volatile time is not in our best interests, and nor does it send the right message.

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### THAT WHICH UNITES US IS GREATER THAN THAT WHICH DIVIDES

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The simple reality is that the United Kingdom is forever tied to Europe, and, should we leave the European Union; that will not change. Our shared history, culture and ideals, coupled with our geographical proximity and our intertwined economies and defences will forever connect us with our European neighbours, whether we remain in the Union or not. In an unpredictable, volatile and dangerous world, in which new threats emerge constantly, we are strongest when we stand together with the rest of our continent.

Never has this been clearer than during the recent terrorist attacks that occurred across France in January 2015. The tragic murders which took place across Paris served as a shocking reminder of the dangers we face, but what was even more striking was the way Europe came together in the aftermath of the event. David Cameron stood alongside Francois Hollande, Angela Merkel, Helle Thorning-Schmidt and other European

## SMART GOVERNMENT: A PARLIAMENT STREET GUIDE

and world leaders in a stunning display of solidarity and unity in the face of a barbaric enemy. Our shared values and commitment to freedom, equality and liberty shone through the darkness and made clear the fact that we are strongest when we stand together, and that only by working together with our allies will we best defend ourselves against these threats.

Even if we did leave the European Union, our defence and security will still be tied to Europe through our membership of NATO, meaning we will retain military ties with France, Germany, Italy, Spain and many other EU states. The caveats of the Treaty mean Britain will need to stand with the other signatories in the event of an attack, so that even if we do leave the EU, our fate will remain tied to that of our neighbours.

Now is not the time to withdraw within our own borders, but rather the time to boldly embrace the bonds which unite us, and understand that what happens next-door could well happen to us. We must work together to tackle the challenges we face, be they Islamic extremism, cyber-security or any one of the other dangers staring us in the face.

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### THE ECONOMICS OF AN EXIT

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Since 1994, trade between the United Kingdom and the European Union has exceeded 50% of the UK's total international trade. This sounds significant, but the scale of this dependence becomes even more poignant when one takes into account the fact that, in 2012, non-EU OECD (Organisation for Economic Co-operation and Development) countries, including the United States of America, Australia, Canada, Mexico and Japan, accounted for just below 20% of total trade; only

## TIME FOR A DOSE OF EURO-REALISM

slightly more than the figure accrued through trade with IMF emerging economies which equated to 14%.<sup>18</sup>

Clearly the trade facilitated by the European Union is fundamental to the British economy, and as with any organisation, membership comes at a cost, although that cost is often significantly overestimated by sceptics. In return for access to a free and integrated market worth over £400bn per annum, Britain gave the EU roughly €14.5bn in 2013. Notwithstanding the fact that UK farmers received €3.1bn in subsidies, researchers received over €1bn in grants and total EU expenditure on the UK exceeded €6.3bn that same year, this seems a comparably small price to pay.<sup>19</sup>

This does not even begin to take into account the job opportunities created within the UK as a direct result of the EU. Our enviable position allows us to offer business access to the largest single market in the world, without the need to sign up to a shared currency, creating an ideal environment for businesses to thrive. Should we leave the EU, the numerous major global corporations who develop and export from the UK across the Union would be faced with significant tariffs when exporting products, and may subsequently leave, costing jobs and tax revenue. Several commentators predict that companies such as Airbus will move their operations to Germany or France, and the numerous car companies which produce vehicles in the UK will move to lower-cost countries within the EU.<sup>20</sup>

When combined, the economic costs of leaving the Union are potentially massive, but there are those who seem to think that we will

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<sup>18</sup> Springford J and Tilford S, *The Great British Trade-Off*, Centre for European Reform, 2014

<sup>19</sup> Vinter R, 'How much do we give the EU, and how much do we get back', *London loves Business*, 21 October 2014

<sup>20</sup> 'If Britain leaves Europe, we will become a renegade without economic power', *The Guardian*, 18 November 2012

## SMART GOVERNMENT: A PARLIAMENT STREET GUIDE

be able to have the best of both worlds. They claim that we will be able to close our borders to our neighbours, renege on our support of the EU's institutions and still retain access to the free market.

It is highly unlikely that France, Germany and the other leading EU nations will accept a 'pick and mix' approach, as evidenced by the reluctance of other member states to allow the UK any flexibility around the Social Chapter of the Maastricht Treaty. Instead, it is far more likely that the UK will need to adopt an approach not dissimilar to that of Norway, and retain membership of the European Economic Area (EEA) – not without significant cost. As it is outside the Union, certain Norwegian products are subject to high EU import tariffs, and subsequent Norwegian counter-tariffs on EU products have led to them becoming very expensive for ordinary Norwegian citizens – French cheese, for example, is subject to an import tax of 400%.

Their lack of input on EU policy is also a problem for Norway – the Head of the Bergen Chamber of Commerce, Marit Warncke, told the Telegraph that *"We are the most obedient of EU members, rapidly implementing directives to the letter, yet we have no say in them. We are sitting outside in the corridors, instead of being at the decision table."*<sup>21</sup> Equally, Norway, despite having no membership or voting rights within the EU, still contributes several hundred million Euros per annum. When extrapolated, that would equate to a UK bill of roughly €2bn per annum to follow the Norwegian model.<sup>22</sup>

Unlike Norway whose relationship with the EU has evolved organically over time, it is hard to imagine the EU member states retaining the same modicum of goodwill towards the UK following an

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<sup>21</sup> Alexander H, 'Is Norway's EU example really an option for Britain?' *The Telegraph* 08 July 2012.

<sup>22</sup> Ibid

## TIME FOR A DOSE OF EURO-REALISM

acrimonious exit from the Union, so it is reasonable to expect the costs of retaining economic privileges to be significantly higher.

So the question remains – if we do indeed leave the EU, how will we compensate for the significant trade deficit that will inevitably occur? Euro-sceptics have put forward a handful of alternatives, but one of the consistent favourites, both in print and in conversation, is that we can tap into our links with the Commonwealth nations, and by boosting trade with these countries, we can make up for the shortfall caused by the exit – but this invites a further question – ‘can the Commonwealth really cover the cost?’.

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### CAN THE COMMONWEALTH REALLY COVER THE COST?

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One of the most consistent claims peddled by our Party’s Euro-sceptics is that we can cover the net loss of trade associated with an exit from the European Union through bolstering trade with the Commonwealth. They often point to the fact that, to date, there has never been a formal trade agreement across its member states, and that, by forging stronger links with the Commonwealth, the UK will more than compensate for the loss of EU trade. Although this rhetoric serves as an easy answer when questions arise around the economic drawbacks of exiting the EU, the simple reality is that is misguided. Firstly, the theory that retaining European trading links and developing new links with the Commonwealth are mutually exclusive concepts is a fallacy, and secondly, the idea that we can replace the £151bn of EU export and £218bn of EU import trade<sup>23</sup> we enjoyed in 2013 with additional Commonwealth trade is highly suspect.

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<sup>23</sup> ‘UK Overseas Trade Statistics with EU: January 2014’, *HM Revenue and Customs, 2014*

## SMART GOVERNMENT: A PARLIAMENT STREET GUIDE

In fact, since the London Declaration of 1949, the United Kingdom has spearheaded the Commonwealth of Nations, one of the primary purposes of which is the facilitation of free inter-Commonwealth trade, and this connection has allowed us access to that market since that date. In 1997, a report commissioned by the Commonwealth Secretariat found that, despite the absence for formalised treaties, Commonwealth nations enjoyed a 'cost advantage' when trading amongst each other, and furthermore, overhead costs of inter-member trading were reduced by as much as 15% when compared to comparable trade with non-member nations.<sup>24</sup>

This is not to say that the Commonwealth has been utilised to its maximum capacity, and of course there is always scope for increased trade across its membership. Yet this does not need to occur at the expense of our highly profitable relationship with the EU. In fact, in 2013, a trade agreement was signed between the EU and Canada, which is worth over £1.3bn per annum to British businesses and our economy,<sup>25</sup> further reinforcing the fact that we can hone relationships with the Commonwealth both independently and in unison with our economic partners across Europe. The Commonwealth is a worthy and viable trading partner, but the claim that boosting our trade relationship with it will plug the black hole that leaving the EU will create, is unsubstantiated.

The Deputy Secretary-General of the Commonwealth, responsible for Political Affairs, Masire Mwamba, made clear the fact that the organisation should not be seen as an alternative to the EU during an event at the Houses of Parliament in early 2014. She emphasised that the Commonwealth is a loose and free organisation not bound by treaties,

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<sup>24</sup> Lundan S ad Jones G, 'The Commonwealth Effect and the Process of Internationalisation', *The World Economy* 24/1 2001 pp.99-118

<sup>25</sup> *Department for Business, Innovation and Skills*, 18 October 2013

## TIME FOR A DOSE OF EURO-REALISM

and that it should not be viewed in competition with the EU. She said that there should be 'no conversation around the Commonwealth replacing the European Union', and argued that the UK can leverage its position within the Commonwealth to deliver meaningful trade with other members, but that it will never take the place of the EU.<sup>26</sup>

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### CAN WE 'SPLIT THE DIFFERENCE'

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The European Union is far from perfect, but we are better off in than out. Rather than jumping ship and risking an economic backlash, we should take the lead in rebuilding a more competitive, democratic and effective union. If the Conservatives are returned to power in May 2015, either as part of another coalition, or with the majority so badly craved, David Cameron will have to go about his attempted renegotiation with haste, with the prospect of an In-Out Referendum looming only two years away. He will need to leave the negotiating table with enough of a compromise so as to placate the moderate Euro-sceptics; and in doing so, place the 'In' campaign in a position to argue that the benefits outweigh the costs.

The European Union, with its multifaceted agenda, is not a binary organisation. It is not entirely a case of 'in or out', and as John Major showed during the Maastricht negotiations, clever negotiation can allow a government to moderate the extent to which it must abide by the Union's social policy restrictions. David Cameron himself has shown willingness to confront the EU-juggernaut on a handful of occasions, when the stakes were particularly high. In early 2013, he played a leading role in securing the first EU budget cut in its fifty six year history – and not an insignificant one either, with the total

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<sup>26</sup> Masire Mwamba in conversation with London Conservative Future, 26 March 2014

## SMART GOVERNMENT: A PARLIAMENT STREET GUIDE

amount saved in the region of €80bn.<sup>27</sup> He fought back once more to flatly reject the £1.7bn 'bill' issued by the EU in response to the UK's improved economic performance. By categorically rejecting the instruction, and negotiating effectively, that bill was eventually halved to little over £850m – still expensive, but a drop in the ocean when taken against the economic benefits Britain enjoys from its membership.

David Cameron will need to step up once again, and use his political leverage to barter for a more effective Union. He will have allies – Angela Merkel herself has expressed concern at Britain's proposed exit from the EU. It is fair to say that Germany will not wish to remain the sole economic powerhouse in the Union, at a time where the shared currency they themselves are tied into faces repeated battering as its various expenders suffer economic difficulty. The election of Syriza in Greece will do nothing to allay these concerns. Cameron will also be able to tap into the European Conservatives and Reformists Party, the anti-federalist political group in the European Parliament founded under his leadership of the Conservative Party. This grouping now houses seventy two MEPs from fifteen countries, and is the third largest political group in the European Parliament. Between them, there should be enough clout to deliver some degree of repatriated powers to the United Kingdom.

With clever negotiation, a series of concessions can be secured. Perhaps the most politically important will be the ability to curb the free movement of peoples across the European Union. Free movement of peoples is a founding tenet of the European ideal, and as such, it is unrealistic to expect that the UK will see control over

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<sup>27</sup> Chapman J, 'Cameron wins historic cut in EU's spending', *Daily Mail*, 8 February 2013

## TIME FOR A DOSE OF EURO-REALISM

its borders repatriated. David Cameron has, however, already indicated that he will push for the power to curb migrant welfare, calling it 'an absolute requirement in renegotiation'.<sup>28</sup> There is some debate about whether such a concession will require formal treaty change, and if so, whether referenda must be held across member states, but, in principle, this is achievable. If we can reduce the financial incentives traditionally associated with inter-EU migration to the UK, we can limit the number of immigrants at a local, more casual level. Measures such as withholding 'in work' benefits and social housing until an EU worker has been in the UK for four years, and stopping child benefits for the children of EU workers living elsewhere in Europe should go some way towards reducing the flow of migrants.

Secondly, the Conservatives have already put forwards plans to limit the enforceability of rulings from the European Court of Human Rights (ECHR). Under proposals to be included in the coming manifesto, the British Parliament will be given power to veto ECHR judgments, curtailing its power and repatriating sovereignty to Westminster.<sup>29</sup> Justice Secretary Chris Grayling has gone even further, pledging to replace the EU-wide Human Rights Act, with a British Bill of Rights. Whilst this pledge has been made before, ahead of the 2010 General Election, this time, the pressure will be on to deliver it, and amid the broader debate on European membership, it is likely that it will come to pass. This will allow the UK to mould its own, bespoke charter of codified rights for its citizens, accountable to British lawmakers and courts, and free from the interference of European Union bureaucracy. Finally, a move to

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<sup>28</sup> Maclellan K, 'Cameron tells EU – let us curb migrant welfare, or risk EU leaving', *Reuters* 28 Nov 2014

<sup>29</sup> Bowcott O, 'Conservatives pledge powers to ignore ECHR rulings', *The Guardian* 3 Oct 2014

## SMART GOVERNMENT: A PARLIAMENT STREET GUIDE

strip back some of the excrescent encroachments of EU policy, including fisheries policy and Common Agricultural Policy (CAP) and ensuring that the UK no longer heavily subsidises redistributive funds such as the Cohesion Fund will help level the playing field.

As well as pulling back, there are steps we can take to reform the European Union from within. We should take the lead in trying to maximise efficiency and ensure the EU becomes more competitive on the global stage. By leading the campaign to unshackle the European workforce, to cut red tape and to deregulate financial markets, we can set about building an effective, competitive European Union from within.

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### CONCLUSIONS

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A recent poll by Comres and OpenEurope found that, a referendum over EU membership under the current terms would see 41% of participants vote to leave and 37% vote to stay (20% undecided). However, should 'a new settlement' be reached, 32% would vote to leave, versus 47% to stay (18% undecided).<sup>30</sup> Clearly, the public is keen to see the goalposts shifted, but do not wish to sever ties entirely.

If we can achieve a renegotiation which repatriates a degree of judicial authority, limits the amount we pay out into redistributive and collective schemes, and allows us a degree of control over our borders, that should be enough to placate the moderate Euro-sceptics. These migratory, judicial and social amendments to our relationship with the Union will place the UK in a healthier position. We need to establish what we can achieve both in terms of

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<sup>30</sup> Comres and OpenEurope polling, May 2013

## TIME FOR A DOSE OF EURO-REALISM

spearheading changes where possible, and repatriating powers where necessary, we can move towards a Euro-realistic approach to dealing with the EU. If we can achieve this, whilst at the same time ensuring that we retain access to the significant economic benefits the EU provides, then we will have achieved a sustainable, mutually beneficial and positive renegotiation with – enough to make most of the UK population comfortable enough that they will vote to remain within the single biggest market in the world.