



# Britain's EU renegotiation:

The view from our partners

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### Overview

Before holding its in-or-out referendum on EU membership in 2016 or 2017, David Cameron has embarked on a very uncertain renegotiation. This report aims to provide an objective assessment of where the UK's main partners stand at the start of the discussions, and of the type of concessions they would most likely contemplate. On top of substantial institutional analysis and literature review, Policy Network's research team conducted around 40 interviews with senior policymakers, politicians and opinion leaders in six European countries that will play a pivotal role in the discussions: Germany, France, Italy, the Netherlands, Sweden and Poland. The analysis distinguishes between 'low-hanging fruits' and sticking points, and warns against the limits of an uncompromising approach by the British prime minister.

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<https://www.flickr.com/photos/davekellam/414918350>

## Introduction

The risks and opportunities associated with European integration have been fast-changing for Britain over the past few years: from managing regulatory overreaction to the financial crisis to coping with the crisis in the eurozone. Britain is now taking a huge gamble with the prospect of the referendum on EU membership.

Winning the referendum will depend a lot on the UK's partners' good will to secure a 'good deal' for Cameron. The negotiations have begun, and the overall picture is that other EU countries strongly wish to keep Britain in, but not at any price. Europe as a whole has a lot to lose from Brexit, but there is the perception that, if anything, Britain will lose out more. Moreover, despite widespread Eurosceptic sentiments and the noisy presence of anti-EU parties, the mainstream policy-makers from most member states stand firm on the defence of fundamental EU principles.

This report aims to provide an objective assessment of where the UK's main partners stand at the start of the negotiation, and of the type of concessions they would be most likely to contemplate. On top of substantial institutional analysis and literature review, Policy Network's research team conducted around 40 semi-structured interviews with senior policymakers, politicians and opinion leaders in six key European countries that will play a pivotal role in the discussions: Germany, France, Italy, the Netherlands, Sweden and Poland. We also had a dozen high-level conversations in Brussels with influential and knowledgeable commissioners, civil servants, political advisers and MEPs.

The report is structured in three main sections. First, we take stock of the changes that have been taking place in Brussels since last year's European elections and the new European commission's start in office. Second, we turn to the most recent developments in the euro area, the prospect for significant shifts in the near future and how that would be likely to impact on the UK and 'euro-outs' in general. The third section looks at the main 'building blocks' of Cameron's renegotiation agenda: 'ever-closer union', fairness between euro-ins and euro-outs, the freedom of movement and national parliaments (we address the 'competitiveness' pillar in the first main section). For each item, we provide some background analysis and identify the most realistic and plausible outcome based on what our interlocutors told us.

### Main findings

- **The new policy cycle opened by the 2014 European elections and the start in office of the new European commission has marked the coming of age of long-standing British ideas:** a leaner and more focused European bureaucracy, more systematic impact assessments and subsidiarity checks, and the clear prioritisation of a competitiveness and trade agenda. The new German-Dutch dominance in top positions of EU institutions means that reasonably liberal and pro-market thinking will weigh heavily in Brussels in the next few years. France's reformist government also provides a historic opportunity to advance integration in the single market.
- **While David Cameron could already claim this changing EU landscape as a significant victory, he should be careful with managing expectations.** The digital single market (DSM), the capital markets union (CMU) and the energy union are long-term plans fraught with political difficulties. A deal on the Transatlantic Trade and Investment Partnership (TTIP) by the end of 2016 is deemed realistic, although Britain's partners are wary of accepting a final deal that is too reduced in scope and significance. One thing David Cameron could demand as part of his renegotiation agenda is a list of 'achievable' and deadlines showing renewed commitment behind his 'competitiveness' agenda. Also, under this chapter, rather than seeking a fully-fledged opt-out from EU social and employment legislation, he may try to reaffirm and generalise the British opt-out from the 48-hour maximum working week (which is currently based on British workers' individual choice).

- The possibility of Brexit is viewed with deep concern in all countries. Everywhere the political elite recognise that this would be a huge blow to Europe's global position. Hence, despite frustration with Cameron's distant and, at times, arrogant attitude over the last few years, all **Britain's main EU partners say they are in principle ready to help. However, this will not happen at any price:** addressing London's concerns in one way or another is one thing, but this should leave the EU's integrity and fundamental principles untouched, and should not reopen Pandora's Box. Neither are our partners keen to make concessions that will be seized upon by anti-European populists in their own countries. Talk of treaty change is a non-starter, though there is relative openness to the option of a 'British protocol' to be added into EU treaties at a later stage.
- **There is growing consensus that the eurozone's future developments will change the face of the EU-28, making this dilemma the most relevant issue in Britain's renegotiation agenda.** Clashes in the future might arise not from a desire in the eurozone to disadvantage the City, but simply because of the need for the eurozone to act to safeguard its own interests. Nevertheless, the pace of integration in the eurozone, and the 'final destination' of banking, fiscal and political unions remain very uncertain and, at the very least, not compatible with the British government's timetable. Eurozone countries are highly unlikely to design any new measures before 2017, and it might take several years, if not a decade, to complete the institutional architecture.
- **In the meantime, Britain's demand to build a firewall between euro-ins and euro-outs sounds premature to many of our partners.** Traditional allies outside the eurozone such as Poland and Sweden sympathise with British concerns about discrimination and the single market, but they prioritise inclusiveness, transparency and access to eurozone deliberations over changing the voting rules. Core eurozone countries such as Italy, Germany and the Netherlands give assurances against 'caucusing' but they have not bought the idea of new special powers for non-euro countries. Unsurprisingly France is particularly reluctant, stressing that the eurozone cannot live with an outer tier exercising tax and social dumping. Overcoming mutual suspicion with Paris is crucial to any deal on this question.
- **The issue of migration proves equally difficult, if not more so. Cameron fails to convince that the freedom of movement for EU workers is fundamentally flawed.** In most capitals, the perception is that the British problem is home-grown, and that only domestic reforms, such as a more contributory welfare system, can address it. For countries such as France, Sweden and the Netherlands, posted workers represent a greater concern than permanent EU workers. There is sympathy for the idea that more can be done to tackle welfare tourism, and the European commission is already working on this. But there is no prospect that a majority can be constructed in the European parliament for change in social security coordination regulations on Cameron's timetable. Moreover, there is no way that Cameron can hope to change EU treaties to discriminate between EU workers and British ones. His distant and, at first, critical attitude to the EU's management of the refugee crisis has not strengthened his position.

1. Baker, D., Gamble, A., Randall, N. and Seawright D. (2008) Euroscepticism in the British Party System: A Source of Fascination, Perplexity, and Sometimes Frustration, in Szczerbiak, A. and Taggart, P. (eds.) *Opposing Europe? The Comparative Party Politics of Euroscepticism*, Volume 1, Case Studies and Country Surveys. Oxford: Oxford University Press.

2. George, S. (1998) *An awkward partner: Britain in the European Community*, Oxford: Oxford University Press. 3rd edition.

- **The British government can hope to obtain symbolic concessions on ‘sovereignty’ provided they do not mean giving the UK greater leeway to opt out from EU policies.** A fully-fledged exemption from the clause of ‘ever-closer union’ might be too much largesse from the point of view of governments attached to the idea of EU membership as a ‘package’, and worried about the perception this would give to anti-EU forces in their own country. Nonetheless, recycling the June 2014 European council declaration allowing for “different paths of integration” sounds realistic.
- **There is substantial support for the principle of a greater role for national parliaments in EU decision-making as concerns about the European parliament’s lack of legitimacy are widely shared.** However, Britain’s partners do not see this as a major priority, and think this should happen without revising the Lisbon treaty provisions. Cameron could seek to achieve a political agreement according to which the European commission would systematically interpret ‘yellow’ and ‘orange’ cards as de facto ‘red cards’, thereby dropping legislative initiatives outright. Commitments could also be made for greater inter-parliamentary cooperation.

## New institutions, new priorities in Brussels – the relative triumph of British ideas

Whether based on facts or perception, frustration with ‘Brussels’ has played a big role in Britain’s sleepwalking towards the decision to hold an uncertain referendum on EU membership. Many observers interpreted the disastrous result of the 2014 European parliamentary elections as evidence for widespread mistrust of EU institutions and policies. It came to validate David Cameron’s claim in his speech at Bloomberg in 2013 that “there is a growing frustration that the EU is seen as something that is done to people rather than acting on their behalf”.<sup>1</sup> On 27 May 2014, at a special post-election EU summit, the British prime minister reiterated his views: “Brussels has got too big, too bossy, too interfering [...] The European Union cannot just shrug off these results and carry on as before. We need change.”<sup>2</sup>

Very quickly it turned out that other leaders shared the same diagnosis. Angela Merkel said that the result was “remarkable and regrettable”, and that the best response was to “boost growth and jobs”. François Hollande acknowledged that “Europe has become unreadable, distant and unintelligible, even for member states. This cannot last any longer. Europe must be clear and simple in order to be efficient where it is expected to be, and withdraw from where it is not necessary”. It is now a mainstream view that the EU desperately needs to focus and demonstrate its added value to avoid disintegrating. In October 2014, Jean-Claude Juncker was elected president of the European commission by the European parliament after famously declaring that this would be the “last-chance commission”. The new commission took office on the premise of doing fewer things, more effectively, and focusing on big issues.

One year on, it would be dishonest for Cameron to claim that nothing has changed. British priorities and suggested reforms are being implemented. This section analyses the depth of the commission’s steps in that direction, and makes an ‘assessment’ about the mood in EU affairs, asking in particular whether there is sympathy for further initiatives pushed forward by the UK.

1. D. Cameron, “EU speech at Bloomberg”, <https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>, 23 January 2013

2. BBC, “Brussels too big and too bossy, Cameron tells EU leaders”, <http://www.bbc.co.uk/news/uk-politics-27583545>, 27 May 2014

## A more focused European commission: structure and working method

### *The new commission's structure*

Reforming the European commission has long been high on the British agenda for Europe. In the early 2000s, the British government defended the vision of a strong, streamlined commission at the Convention on the future of Europe that drafted the still-born constitutional treaty. One of the major advancements of the text, which the draft Lisbon treaty kept before the 2008 Irish referendum swept it out, was the principle of dropping one commissioner per country. Juncker came back to the quest with great caution in 2014, with the support of most countries. The system he designed took care not to alienate 'small' countries by giving five former prime ministers from Bulgaria, Slovakia, Estonia, Latvia, and Finland a vice-president's role.

The new structure is a clear attempt to break with two well-established practices at the European commission: the principle of equality and non-hierarchy between all commissioners, and the 'silo culture' that saw each single commissioner rule over a specific directorate. The job of first vice-president is dedicated to enforcing the principle of subsidiarity with greater robustness. The five new vice-presidents are, in Juncker's own words, "planners, coordinators, drivers, mobilisers, organisers of ideas and initiatives" in a few strategic areas.<sup>3</sup> Vice-presidents do not rule over any directorate, but they have the power to say no to lower-rank commissioners.

### *A streamlined work programme*

In July 2014, Juncker presented ten political guidelines to the European parliament. As table 1 shows, they were largely in tune with the five strategic priorities for 2015-20 set by the European council at a summit in June 2014. David Cameron could argue, if he chose, that many of his reform objectives are contained within the five-year plan agreed between the European council and the incoming commission president, which has in turn been endorsed in principle by the European parliament.

In December, the commission presented 23 actions for 2015 in a four-page document. This was a number significantly lower than the previous years, and down from 35 pages in 2010. Meanwhile 80 proposals were withdrawn "for technical or political reasons".

Examples of withdrawals included:

- A directive proposal on improving the health and safety of pregnant workers.
- A recommendation proposal on 'European tourism quality principles'
- A proposal for a new 'circular economy' directive amending existing texts on packaging and packaging waste, electronic waste and end-of-life vehicles
- An amendment proposal of the directive on the approximation of the rates of excise duty on alcohol and alcoholic beverages

3. J.-C. Juncker, "Time for Action – Statement in the European Parliament plenary session ahead of the vote on the College", [http://europa.eu/rapid/press-release\\_SPEECH-14-1525\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-1525_en.htm), 22 October 2014

Table 1: 2014-20 priorities and the commission's 2015 work programme

European Council's five priorities (June 2014)	Juncker's 10 political guidelines (July 2014)	Commission's work programme (December 2014)
A union of jobs, growth and competitiveness	A new boost for jobs, growth and investment (Investment package) A connected digital single market A deeper and fairer internal market with a strengthened industrial base A deeper and fairer economic and monetary union A reasonable and balanced free trade agreement with the US	Investment plan for Europe: European Fund for Strategic Investments (EFSI) Measures to tackle youth and long-term unemployment Mid-term review of the Europe 2020 strategy Digital single market package Measures to deepen the single market (with focus on SMEs and mutual recognition in key sectors) Roadmap on deepening EMU Capital markets union plan Framework for resolution of financial institutions other than banks Aviation package Directive on compulsory exchange of information (cross-border rulings) Action plan on efforts to combat tax evasion and tax fraud Review of the EU's trade policy strategy
A union that empowers and protects all citizens	An area of justice and fundamental rights based on mutual trust	Labour mobility package (improving the coordination of social security systems, EURES and posted workers directive)
Towards an energy union with a forward-looking climate policy	A resilient energy union with a forward-looking climate change policy	Strategic framework for the energy union Roadmap to Paris climate conference
A union of freedom, security and justice	Towards a new policy on migration	Proposals to complete EU accession to the European convention on human rights European agenda on security European agenda on migration
The union as a strong global actor	A stronger global actor	Review of the European neighbourhood policy (ENP) Communication on the post-2015 sustainable development goals
	A union of democratic change	Inter-institutional agreement on better law-making Inter-institutional agreement on a common transparency register Review of the decision-making process on GMOs

Sources: Policy Network's adaptation from European commission and European council <sup>4</sup>

Combined with the better regulation package (see below), such prioritisation gives some plausibility to the claim that "this time is different" and that the EU will "focus on big things" and do less in the next five years.

4. European Commission, "10 Priorities", [http://ec.europa.eu/archives/juncker-commission/priorities/index\\_en.htm](http://ec.europa.eu/archives/juncker-commission/priorities/index_en.htm) ; European Council 26/27 June, "Strategic agenda for the Union in times of change" [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/143477.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/143477.pdf)

One should nevertheless not overestimate the significance of the shift. Some of the 23 actions announced by the commission in December 2013 constitute ‘packages’ that could open the door to several legislative and non-legislative initiatives. This is the case for the digital single market (DSM), CMU and the European migration agenda.<sup>5</sup> The commission has for instance identified 26 separate measures necessary to create a DSM. Also, the commission has been criticised for lacking social and environmental ambition by NGOs and trade unions, who have denounced the abandonment of some legislative projects, for instance the ‘circular economy’ proposal. This has put pressure on the commission to respond.

In any case, the number of legislative initiatives should not be the only criteria to judge whether the new commission’s working method marks a real shift.

### *The better regulation package*

On top of efforts to prioritise EU action, the new commission has accelerated work on simplifying EU legislation. In May 2015, it published a comprehensive ‘better regulation’ package to transform rhetoric into reality.<sup>6</sup> The communication pre-empts criticism by stressing that better regulation is “not about ‘more’ or ‘less’ EU legislation; nor is it about deregulating or deprioritising certain policy areas or compromising the values that we hold dear: social and environmental protection, and fundamental rights including health – to name just a few examples. Better regulation is about making sure we actually deliver on the ambitious policy goals we have set ourselves.” (p4).

In the list of actions indicated in box 2, the revamp of the impact assessment procedure and the extension of the Regulatory Fitness and Performance Programme (REFIT) are provably the two most significant initiatives. Indeed, the European commission’s impact assessment procedure (originally a British idea ‘uploaded’ to Brussels 15 years ago) has long been criticised for being too dependent on internal commission services, and for failing to take into account amendments made throughout the legislative process. The proposals for an independent regulatory scrutiny board within the commission, and for independent impact assessments to be conducted by the three main institutions at a later stage, aim to address these shortcomings.

5. See for instance S. Peers, “Is it different this time? The Commission’s 2015 work programme”, 16 December 2014, <http://eulawanalysis.blogspot.co.uk/2014/12/is-it-different-this-time-commissions.html>

6. European Commission, “19 May 2015 - Better Regulation Package” [http://ec.europa.eu/smart-regulation/better\\_regulation/key\\_docs\\_en.htm](http://ec.europa.eu/smart-regulation/better_regulation/key_docs_en.htm)

**Box 2: the 'better regulation' agenda (May 2015)**

- Longer and more inclusive consultations throughout the legislative process, including delegated acts.
- Explanatory memorandum for each commission proposal detailing how better regulation guidelines apply; how the initiative meets the tests of subsidiarity and proportionality; what stakeholders think of the proposal.
- A new 'Lighten the Load – Have Your Say' feature on the commission's website to allow any citizen and stakeholder organisation to provide feedback on existing EU policies.
- A new regulatory scrutiny board to replace the impact assessment board in order to guarantee non-partial opinion on the impact assessments conducted by the commission's services. It will be made of six full-time members, three of which will be hired from outside EU institutions for a single six-year term.
- Proposal for a new inter-institutional agreement ('IIA') on better regulation: the commission proposes that, in the event of substantial amendments throughout the legislative process, each of the three institutions (commission, council, parliament) can call for the for an analysis to be carried out by an ad hoc panel made up of three independent experts
- A more targeted and evidence-based REFIT programme, building on the version launched in 2012 which aims to remove or amend unnecessary or burdensome legislation and regulation.
- A new REFIT stakeholders platform involving "high level experts from business, social partners, and civil society appointed through an open and transparent process as well as experts from all 28 member states" with a view of bring new ideas into the REFIT programme. The platform will be chaired by the commission's first vice-president.

Source: European commission

As for REFIT, the commission aims to expand what has been achieved since 2012: around 50 changes in legislation, including 17 exemptions or lighter regimes for SMEs. These have included for instance lighter regimes for SMEs on the implementation of the new public procurement framework directive, and facilitating the implementation of the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) directive.<sup>7</sup>

Overall, the new commission has genuinely tried to put some flesh on the bones of a vision that borrows a lot from British pragmatism and concerns about the EU being too technocratic. As Richard Corbett MEP wrote recently, "Cameron could and should claim as a victory various recent or on-going reforms which Britain has supported, including the (much needed) 2013 reform of the common fishing policy [...], the 2014 settlement on the budget, the REFIT programme [and] the negotiations that have just started on 'better regulation'".<sup>8</sup> The way in which this reform thrust is perceived as a positive development in other EU capitals is key for Cameron to boast significant achievements in reforming the EU.

7. European Commission (2015) "Regulatory Fitness and Performance Programme (REFIT): State of Play and Outlook", 19 May 2015, [http://ec.europa.eu/smart-regulation/better\\_regulation/documents/swd\\_2015\\_110\\_en.pdf](http://ec.europa.eu/smart-regulation/better_regulation/documents/swd_2015_110_en.pdf)

8. R. Corbett, "Cameron's EU reforms: steering between the trivial and the impossible", Policy Network, 08 July 2015, [http://www.policy-network.net/pno\\_detail.aspx?ID=4941&title=Cameron%27s+EU+reforms%3a+steering+between+the+trivial+and+the+impossible](http://www.policy-network.net/pno_detail.aspx?ID=4941&title=Cameron%27s+EU+reforms%3a+steering+between+the+trivial+and+the+impossible)

## Assessment of the commission's first year in office in the main EU capitals

Almost a year on, views on the commission's new structure and working method are overwhelmingly positive both in Brussels and the main EU capitals. While the debate is rather subdued in London, Juncker and Timmermans' efforts have not gone unnoticed in Berlin and Paris.

In Berlin, one finds a lot of satisfaction about a more political, less bureaucratic EU, as well as real sympathy and trust in the Juncker-Timmermans tandem. The new Commission's agenda-setting capacity gets a lot of praise and corresponds to what German officials expected. MPs and diplomats stress that this should be enough to accommodate British and Nordic concerns over excessive regulation and too EU being overly bossy.

This view was confirmed to us by a high-level British official at the European commission:

*"[José Manuel] Barroso did not want to open fights with individual commissioners. Today, the secretary-general is the long arm of vice-presidents, who decide on legislation. The commission's work programme is embedded in UK interests. It is policed by Frans Timmermans, who says 'no, no, no'."*

In Paris and Rome, the same satisfaction prevails, although with a slight note of caution. As a government official in Rome observed: *"The new European commission made a good start with limited priorities/strategic proposals. Now, implementation and the quality of the legislation is key."*

In Paris, a foreign ministry official holding a key position related to EU affairs stressed that everything was not perfect, mentioning for instance the "logjam of around 200 texts waiting for approval on Frans Timmermans' desk" given his role in supervising the policymaking process. There is also concern in government circles about the revised impact assessment procedure, which is "well-intentioned", but risks becoming "too long, too complex".

Another sceptical view emanated from another high-rank British civil servant in Brussels, who observed that Timmermans' star was already falling. The publication of the 'better regulation' package and, in particular, the proposal for tripartite impact assessment panels all along the law-making process, seems to have unleashed criticism against what is seen as a new labyrinthine process.

Finally, a commission official observed that the vice-president system had not yet led to any substantial improvement and that some 'tandems' were proving dysfunctional, for instance the Moscovici/Dombrovskis tandem on the euro, and the Cañete/Šefčovič tandem on energy and climate change.

Hence, whereas the commission gets a lot of praise for its efforts to address concerns over the EU being too technocratic and distant, expectations should remain realistic. Ultimately, the commission, and the EU, will be judged on what they achieve.

## Realistic expectations about what can be achieved – Cameron's competitiveness agenda

Satisfaction with the EU's priorities and current course of action is visible in most EU capitals, though the single market and competitiveness are not seen as priorities with the same degree everywhere.

In Berlin and Paris, one stresses above all that the EU has to act more strategically on big crises such as Ukraine, migration and Greece. Expectations about making significant steps forward in the fields of energy, the digital single market (DSM) and the capital markets union (CMU) are modest. An agreement on TTIP is deemed possible in Berlin, where senior officials close to Merkel stress that this constitutes a priority for the German chancellor. A Swedish diplomat also told us: *"We love the competitiveness agenda. TTIP would be the best deliverable for the UK in the context of the referendum, though we're concerned about the possibility of a subdued agreement."*

Interestingly, France is increasingly perceived as open to the UK-led competitiveness agenda. A Dutch cabinet member said he was impressed by the reformist agenda of Manuel Valls and Emmanuel Macron and expected them to be helpful on completing the DSM and making the single market for services work better.

In Rome and Warsaw, but also in Portugal<sup>9</sup>, government officials emphasise the degree of convergence between the UK and their own country, especially in the field of the single market, the digital agenda, TTIP and CMU. On TTIP, however, they also recognise the political difficulties. This echoes the view of a senior official at the European commission, who does not believe an agreement will be reached before the end of the Obama administration. For him, *“the European parliament and the public’s lack of trust are tying EU negotiators’ hands. The idea of public settlement court put forward by France and the commission is opposed by business”*.

This view was nevertheless expressed before the European parliament adopted a resolution supportive of TTIP and calling for a new public dispute settlement mechanism (a French-German idea promoted by EU commissioner Cecilia Malmström as a way to overcome resistance to the principle of private investor-state dispute settlement). In the meantime, the US congress also granted President Barack Obama ‘fast-track’ authority to negotiate the trans-Pacific partnership, a pre-condition to any similar procedure on TTIP.

Agreeing on big priorities does not necessarily mean seeing eye-to-eye on the details. In Poland, for instance, the CMU agenda is not seen as an economic opportunity, but rather as a pre-requisite for a more functional eurozone. Warsaw fears a weakening of its financial services industry. On one aspect, though, there is clear convergence with the UK: supervision needs to stay in national hands and should not be transferred to the EU level.

Finally, David Cameron might want to discuss ‘social opt-outs’ as part of his competitiveness agenda. The British prime minister will not go for broke given huge resistance to the idea of a new fully-fledged opt-out on social and employment legislation. Nonetheless, he could seek to clarify the UK’s opt-out from the working time directive. In practice, this could mean generalising the present possibility for individuals to opt out from the maximum working week of 48 hours. This would require an agreement from the European parliament, something which might be out of reach within the renegotiation timetable.

### **Other EU actors and the balance of power in Brussels**

Before Britain enters the difficult phase of negotiating with its partners on its reform agenda, it matters finally to take stock of the institutional balance of power in Brussels, and how the different actors are perceived.

Between 2009 and 2014, the president of the European council played a determining role in shaping agreements between national governments and helping them to make steps forward in particularly hard times. The European council set itself as a key player in EU affairs, away from the traditional ‘community method’ that saw the commission playing a leading role.

9. See op-ed by Portuguese Europe minister Bruno Maçães, “Integrate, don’t centralize”, *Politico*, 20 August 2015, <http://www.politico.eu/article/integrate-dont-centralize-portugal-5g-europe-digital/>

It is tempting to see the Herman Van Rompuy mandate as a historical parenthesis and to claim that, with a Juncker-led commission, the centre of gravity of EU politics has shifted back to the Berlaymont. After all, Juncker is the first president appointed on the basis of his role as spitzkandidat during the European parliamentary election and can claim substantial legitimacy out of it. Moreover, his personality contrasts with the one of his predecessor, Barroso: as commission and parliament officials emphasised, he *“provides leadership and can say no to heads of state”*.

Nevertheless, most interviewees insisted that one should not discard Donald Tusk too quickly. He might have had a slow start and be more interested in foreign affairs, however he played a key role in completing the 13 July agreement opening the door to a third Greek bailout. In most EU capitals, there is a sense that he could play an equally important role on similar difficult issues, such as on the UK demands for reform. While policymakers in Berlin seem particularly keen on Juncker, officials in Paris seem to await more from Tusk. As a French foreign ministry official put it to us: *“France has built a strong relationship with Tusk and with Poland. This was a deliberate choice by President Hollande in 2012, given Poland’s new status as a big country.”* Poland’s status and alliances might of course change in the aftermath of the Polish election to be held in October 2015, at which the rightwing party Law and Justice is expected to provide newly elected president Andrzej Duda with a parliamentary majority, thereby enabling him to defend Polish interests more staunchly.

The European parliament should also be seen as an important player in the upcoming discussions between the UK and its partners. First, the renegotiation could entail the prospect of legislative changes in which the parliament would necessarily play a role. This would be the case if, for instance, a deal was struck on the revision of the regulation No 883/2004 on the coordination of social security systems, a hypothesis mentioned by several of our interlocutors in Berlin and Paris. There is no doubt that the parliament would be a difficult partner if national governments’ intention were to restrict further the payment of welfare benefits to non-EU nationals.

Second, the assembly’s role is not limited to co-legislation and scrutiny of EU policies. Over recent years, it has become more assertive on institutional affairs and has claimed a role on difficult, political questions such as governance of the eurozone and migration. The European parliament’s president (today the German Martin Schulz) attends European council meetings and thereby gets to speak to national leaders on a regular basis. EU leaders seem to have noticed the symbolic importance of going to Strasbourg during plenary sessions. Merkel spoke there in 2012, Hollande in 2013 and Matteo Renzi did so in 2014. More recently, Alexis Tsipras made an intervention in the midst of the Greek crisis. Finally, the European parliament is also an arena in which anti-EU populists, especially Nigel Farage and Marine Le Pen, enjoy a lot of visibility.

As an official from the commission summarised: *“There are four actors in [the British] negotiation: member states, the European commission, the European council, as well as Martin Schultz and committee leaders in the European parliament.”* The commission interlocutors will include Martin Selmayr, President Juncker’s chef de cabinet and a German Christian Democrat; Jonathan Faull, formerly director-general in charge of financial services, who has been put in charge of a special unit to handle the commission’s role in the British renegotiation; and possibly first vice-president Timmermans. For the council, key roles will be played by the new Danish secretary-general, Jeppe Tranholm-Mikkelsen and the chef de cabinet of President Tusk, Piotr Serafin. The commission and council legal services will also be crucially involved.

Finally, it is important to note that the three leading EU institutions are today dominated by pro-EU liberal northern Europeans rather than by the British and the French. According to Bruegel, the Germans hold 16 per cent of head of cabinet and deputy head of cabinet positions, 11.6 per cent of director-general and deputy director-general positions at the European commission, as well as 18 per cent of committee chairs in the European parliament.<sup>10</sup>

10. Mandra, A. “Measuring Political Muscle in European Union Institutions”, Bruegel, 12 April 2015, <http://bruegel.org/2015/04/measuring-political-muscle-in-european-union-institutions/>

They also account for the presidency of the European parliament and its largest political group, the European People's party (EPP). The Dutch hold the presidency of the Eurogroup, and the positions of first vice-president and secretary-general of the commission. France's position has weakened quite spectacularly over the last few years. This should be seen as another helpful factor for the UK renegotiation.

### To sum up

The new European commission has set a new working method, and is laying out a more focused programme, both very much in line with the UK's traditional expectations. They are also welcome in most EU capitals. In many regards, the EU is focused on competitiveness, reform and better regulation today, and is less dominated by French ideas and senior staff. Therefore it is wasteful and counter-productive to continue picturing 'Brussels' as a disconnected, federalist crew, since this does not correspond to the reality any longer. Instead, David Cameron could tell a positive story about how the EU has changed under British leadership, and will continue to do so. A realistic goal he could set himself during the renegotiation is a formal 'agenda of achievables' that would give time constraints on targets such as a deal on TTIP, the roll-out of the CMU and the DSM, and a revision of EU legislation on the coordination of welfare systems. Other leaders might be easily bought into signing up to this.

## General attitudes towards the future of the EU and the upcoming British referendum

Talks about the future of the EU have been frequent in the last few years, but mainly because of the dramatic developments in the eurozone. UK anxieties are not shared by most EU member states and are not necessarily regarded as being part of a wider question over the future of the EU as a whole. This section aims to give a picture of the basic assumptions in other EU capitals about the EU's future. It reviews first the latest developments in the euro area and the plausible way forward for the EU-19, and reports on the views of non-UK senior policymakers and commentators. Secondly, we look at the broader questions surrounding the relationship between 'euro-ins' and 'euro-outs'.

### Unclear prospects for deeper integration in the euro area

On the back of the Greek crisis, there has been much literature arguing for a deepening of the Economic and Monetary Union (EMU), and several official roadmaps suggesting a way forward: the European commission's 2012 "Blueprint for a deep and genuine EMU", the four presidents' roadmap "Towards a genuine economic and monetary union", and more recently the five presidents' report on "Completing Europe's Economic and Monetary Union" initiated by Juncker (see comparative table in annex). The general thrust of these documents is the same: the eurozone needs more integration, fiscal and political union. They also suffer from the same weakness: they are documents prepared by technocrats and left to the discretion of national leaders.

When comparing Van Rompuy's 2012 roadmap with Juncker's 2015 report, there are nevertheless slight differences that help explain the uncertainty surrounding the eurozone's future path. There are three key insights:

First, the Juncker report reduces expectations about a quick breakthrough and seems to send the question of a treaty change for the eurozone back to 2017. In particular, more caution is visible on the idea of a eurozone fiscal capacity – a core element of fiscal union. The report maintains significant ambiguity as to the eurozone's 'final destination' and implies that a lot needs to be done before reaching that stage.

Second, while the idea of ‘contractual arrangements’ was one of the cornerstones of the Van Rompuy roadmap, the new report adopts a less punitive and centralised approach towards national governments. ‘Reform contracts’ were meant to tie governments’ hands into delivering specific structural reforms, with the possibility of legal action if they did not. This triggered a revolt among eurozone members, not the least German-friendly Finland, Austria and the Netherlands. By contrast, Juncker proposes a decentralised system of national fiscal and competitiveness authorities that would closely monitor their governments’ progress towards common EU targets and standards on the one hand, and coordinate at EU level on the fiscal stance and current account developments on the other.

Third, both reports are not particularly clear about the prospect for new eurozone institutions, especially a separate eurozone assembly or a eurozone affairs committee in the European parliament. This suggests significant unease about an issue on which there are lots of disagreements among member states. The most ambitious innovations proposed by the Juncker report are a permanent head for the Eurogroup, and a eurozone treasury (without specifying to whom this entity would be accountable, and how its head would be appointed).

Therefore, any assumption about the “remorseless logic of monetary integration” (to use George Osborne’s own words in 2011) from a UK perspective should start from the reality of significant hesitations and ambiguities at the core of the eurozone’s debates today. The subdued reactions about the Juncker report have been particularly revealing in that respect. The dominance of the Greek and migration crises in the EU agenda has relegated the Juncker report to a minor point at the European council’s summit of June 2015. National policymakers do not seem to believe in a major breakthrough over the next 12 to 18 months (the expected timeframe for the British renegotiation and referendum).

French and German officials sound neither particularly enthusiastic nor particularly worried. The Juncker report largely borrows from a Franco-German contribution, which was leaked to the press at the end of May.<sup>11</sup> In the working document, Berlin and Paris advocated closer coordination of fiscal, employment and social policies, the introduction of minimum wage standards, greater support to mobile workers, an EU-wide basic corporate tax rate, the set-up of “specific structures” dedicated to eurozone matters within the European parliament. They also suggested examining the next possible steps by the end of 2016.

In Berlin, officials from the foreign ministry and the chancellery stress that there is today more convergence with the French than there used to be. Finance minister Wolfgang Schäuble is for instance said to be supportive of the idea of a eurozone committee at the European parliament, a long-standing French idea.

In Paris, government officials are broadly satisfied with the five presidents’ report as they do not wish to talk about treaty change for the eurozone before the 2017 presidential election. Nonetheless, they show a note of caution, if not of nervousness, vis-à-vis the possibility of a ‘junction’ between the UK renegotiation and eurozone matters. As a government official told us at the end of June: *“Once the Greek problem is solved, we do not exclude that Germany or the ECB try to accelerate and press for more integration, ie going faster than the five presidents report.”*

11. Euractiv.com, “Franco-German eurozone blueprint rattles Cameron”, 27 May 2015, <http://www.euractiv.com/sections/uk-europe/franco-german-reform%20moves-rattle-cameron-314867>

In a surprise move shortly after the 13 July agreement on Greece, President Hollande came out with an ambitious statement that might appear to contradict the views of French civil servants. He called for “a government of the eurozone [with] a specific budget as well as a parliament to ensure its democratic control”.<sup>12</sup> In his statement, he used the word “avant-garde”. Yet experts were quick to denounce a French gimmick: in Paris, governments have been advocating a eurozone government for two decades. As the international relations expert Dominique Moïsi commented to the FT: “He is seeking to unite the pro-Europeans behind him while showing he can stand up to Germany. [...] He may be making those proposals precisely because they lead nowhere. From a domestic point of view, it costs nothing. If things go awry, people will still remember his efforts”.<sup>13</sup>

Dutch government circles believe in the possibility of treaty change in 2017 but not in a major leap forward in terms of fiscal union. They do not think that the French are serious with talks of deeper integration in the eurozone. A lot can be done step-by-step, as the five presidents’ report suggests. Banking union is probably the area in which the most significant progress can be expected.

In Rome, expectations about further integration in the eurozone are very high, hence a dominant feeling of frustration and disillusion about the current slow pace. In May 2015, the Italian government submitted an ambitious contribution to the debate on the future of EMU, which included ideas such as a macroeconomic stabilisation fund based on unemployment variations (often referred to as an ‘unemployment insurance scheme’), a European monetary fund, the swift completing of the banking union, greater ambition in tackling tax erosion and tax avoidance, and the completion of the single market. As a government official told us: *“The five presidents’ report was below our expectations. The Greek crisis was a watershed. We need to speed up the first stage. Some treaty change will be necessary, and they should start no later than 2017.”*

This sense of urgency, of course, does not exist in Poland and Sweden. In Warsaw like in Stockholm, there is still substantial opposition to any form of ‘institutionalisation’ in the eurozone, albeit with the general impression that current talks are not very conclusive for the moment. Swedish officials are wary of getting embroiled in eurozone debates since Sweden, contrary to the UK or Denmark, was never granted a formal opt-out from the euro. Hence the sense that they need to keep a low profile and be ‘tolerant’ with what is happening in the currency union. In Poland, there is certainly more empathy to eurozone concerns than in the UK given the country’s official position as a ‘pre-in’ country. However, a significant part of the political elite (especially from the conservative Law and Justice party, who are likely to have a parliamentary majority after the elections in October) are opposed to Poland joining the euro. Nevertheless, a senior official observed that: *“The more integrated the eurozone is, the more difficult it will be to protect the single market.”* This probably encapsulates best the fears shared between London and other non-euro capitals.

### A ‘two-pillar’ EU? Not so simple

Further integration in the eurozone will inevitably change the EU’s institutional dynamic. In this light, Cameron’s demands of safeguards for non-euro countries are not as absurd. As Chancellor Osborne said in early September, they are “perhaps the single most important issue” in the UK renegotiation.<sup>14</sup>

On the question of how a more integrated eurozone would cohabit with euro-outs, including Britain, positions used to fluctuate on a spectrum going from an avant-garde eurozone building new institutions and setting the pace of EU affairs (‘two-speed Europe’) to the defence of a unitary EU-28. Today, the idea of a differentiated, more flexible EU has probably become more consensual, but a clear and shared vision of how different circles could work together is found wanting. In June 2015, the UK foreign secretary Philip Hammond put forward the concept of a ‘two-pillar Europe’ in an attempt to stress that eurozone cooperation and integration should not spill over to the rest of the EU (something which was more ambiguous with the ‘two-speed’ Europe concept).<sup>15</sup>

12. Reuters, “Hollande calls for the creation of a euro zone government”, 19 July 2015, <http://uk.reuters.com/article/2015/07/19/uk-eurozone-france-idUKKCN0PT0B220150719>

13. A. Chassny, “Hollande eyes push for ‘eurozone government’”, 22 July 2015, <http://www.ft.com/cms/s/0/c0c81c3e-3046-11e5-91ac-a5e17d9b4cff.html#axzz3jG2ud6Uq>

14. G. Parker and A. Barker, “UK seeks EU treaty overhaul to protect City”, Financial Times, 9 September

15. P. Hammond, “We need to make EU more democratic and able to deliver jobs”, Irish Times, 10 June 2015, <http://www.irishtimes.com/opinion/philip-hammond-we-need-to-make-eu-more-democratic-and-able-to-deliver-jobs-1.2243250>

In Berlin, the unity of the EU as a whole has long been a traditional preference. Yet the mood has changed over the last few years. For most of our interlocutors, ‘two-speed’ Europe was already a reality and this did not raise any major concern. High-rank officials in the Netherlands (the country holding the presidency of the Eurogroup) tend to downplay the risks for Britain and non-euro countries, stressing that Sweden and the UK are systematically associated with eurozone deliberations. In particular, our interlocutors denied that eurozone countries twisted Britain’s arm on resorting to the EFSM to fund a bridge loan for Greece in June 2015.

Italian politicians actively promote the idea of a ‘win-win’ two-speed (or two-pillar) Europe. A senior official in Rome said: *“We are interested in both securing the UK’s EU membership and the eurozone’s future. We are open to discuss with the British how to deepen both the eurozone and the single market. But we cannot accept being blocked the way forward by the UK in the eurozone.”*

In France, this view has long been mainstream. As an EU expert observed: *“Instinctively, the French don’t like ‘la grande Europe’ (EU-28). They want to re-make ‘la petite Europe’ [the 1957 Europe of six nations]. They hope to get fiscal and social harmonisation out of it, and the geopolitical upper hand”.* A member of the European affairs committee at the French National assembly confirmed: *“If anything, people see the UK question as an opportunity to reactivate a two-speed Europe scenario. The outer tier would face less economic governance constraints, something which, in practice, already exists”.*

This view seems to be shared by the economy minister Emmanuel Macron. In an op-ed co-signed by the German vice-chancellor Sigmar Gabriel in June 2015, Macron outlined ambitious reforms for the eurozone (largely in line with the Juncker report). The last paragraph is unambiguous about the impact on the rest of the EU:

*“Strengthening the euro is not only about the eurozone. It cannot be isolated from a broader rethinking of the EU, not least because we need to be able to answer the key question: what about the other member states? A stronger eurozone should be the core of a deepened EU. We need a simpler and more efficient union, with more subsidiarity and streamlined governance. The fundamental instrument of EU integration is the single market; we should therefore make a new step towards a better-integrated internal market, with a targeted approach on key sectors like energy and digital economy.”<sup>16</sup>*

Yet Macron’s anglophile views do not necessarily reflect the thinking of the rest of the French administration. A two-speed Europe is not seen as an ideal scenario in other government circles for the very reason that it could open the door to a less regulated circle outside the eurozone. As the debate on the eurozone’s future shows, common standards in the field of employment, wage and tax policy will be on the agenda in the years to come. Paris fears that these standards will not apply for non-euro countries. A senior diplomat said: *“We are not in favour of two-speed Europe: it would mean weakening the acquis, while ignoring the need for differentiation within the euro-area. Some measures are good for the eurozone, but they would not make sense on a too narrow basis, for instance common corporate tax bases and free movement regulation.”* Another French government official was even more explicit: *“We need to clarify the UK’s role in EU economic governance. Does the European Semester and the Europe 2020 Strategy apply to the UK?”*

Equally annoying for the British government is the fact that traditional allies such as the Netherlands, Poland and Sweden are not particularly keen on British-led efforts to draw a waterproof line between the eurozone and the rest. All indications are that these countries draw different conclusions from deeper eurozone integration, and want privileged inclusiveness and access to eurozone internal debates. A senior Swedish diplomat told us: *“Some enhanced cooperations can happen on a non-euro basis. Let’s not lock everything in or out”.* In the Netherlands, there is agreement with the analysis of the Macron-Gabriel paper, but not necessarily with the conclusions.

16. E. Macron and S. Gabriel, “Europe cannot wait any longer: France and Germany must drive ahead”, The Guardian, 3 June 2015, <http://www.theguardian.com/commentisfree/2015/jun/03/europe-france-germany-eu-eurozone-future-integrate>

Therefore, although the link between the 'eurozone question' and the 'UK question' is firmly established, mutual suspicion between France and Britain and the blurriness of EMU's legal foundations makes any clarification attempt difficult. Paris fears tax and social dumping from across the Channel, while London fears losing out on eurozone developments. Both types of concerns need to be formally addressed.

### **Attitudes towards the UK and reactions to the British referendum on EU membership**

Although the events of the last few months (Ukraine, Greece, migration...) have caught most of the attention of EU policymakers, the possibility of Brexit and the prospect of a referendum in the UK have remained on all minds. Apart from a few marginal views, there is no complacency about what could possibly be a political earthquake for Europe, with lasting consequences. Any rational analysis suggests that it remains strongly in the interests of the UK's EU partners to try hard to keep Britain in. As economic and political power shifts away from Europe, the EU itself would be seriously diminished without the UK's economic weight, global reach and vision, transatlantic affinity and military capability.

Yet our partners' views of Cameron's referendum are overwhelmingly lukewarm. There is a widespread feeling that the rationale for such a referendum is narrow. And the most common observation is that Britain should not be kept 'at any price'.

Unsurprisingly, the strongest supporters of British membership are in northern Europe. When George Osborne travelled to Sweden and Finland in August, he found ample sympathy. His Finnish counterpart Alexander Stubb declared that "without the UK, there is no EU". Swedish finance minister Magdalena Andersson said: "As a non-euro country I can see lots of good things in having another large country that is also a non-euro member ... of course we (will) work constructively in those discussions that will be coming."<sup>17</sup>

In Germany, the tone is slightly more severe. The UK referendum is taken very seriously, although there is little sympathy for the fact that it is coming at a bad moment. As a senior diplomat observed: "Europe is currently facing several storms on its boarders – Ukraine-Russia, migration, war and terrorism in North Africa and euro disaster. We really have other problems right now". He also stressed: "Reforming Europe means different things in the UK and in Germany: in the UK, it means less integration, in Germany, more – although Germans are currently facing the reality and being less optimistic about further integration."

In February 2015, in her address to the houses of parliament in Westminster, Merkel tried to strike a balance, while playing down expectations: "Some expect my speech to pave the way for a fundamental reform of the European architecture which will satisfy all kinds of alleged or actual British wishes. I am afraid they are in for a disappointment. Others are expecting the exact opposite and they are hoping that I will deliver the clear and simple message here in London that the rest of Europe is not prepared to pay almost any price to keep Britain in the European Union. I am afraid these hopes will be dashed".<sup>18</sup>

The central and eastern Europeans are more problematic. They used to see the British as strong allies when fighting for their earliest possible admission to the EU. Like Britain they remain strong supporters of Nato. However, the real terms reduction in the EU budget advocated by David Cameron in recent years was viewed very negatively as a direct attack on the EU Structural Fund transfers which are vital to eastern European economic development. Attacks on free movement are seen as unfair demonisation of their hard-working nationals.

17. J. Rosendahl, S. Johnson, "Finland says without Britain there is no EU", Reuters, 24 August 2015, <http://uk.reuters.com/article/2015/08/24/uk-britain-eu-osborne-finland-idUKKCN0QT16120150824>

18. BBC News, "Angela Merkel: EU reform not 'piece of cake'", 27 February 2014, <http://www.bbc.co.uk/news/uk-politics-26362034>

In Poland, keeping the UK in is officially a priority. Despite the tensions of the last few years, the political and administrative elite still considers the UK as a major ally to achieve a more liberal, deregulated EU. Nevertheless, Cameron's move towards a referendum puzzles. *"For many people, it's hard to understand"*, said a diplomat. *"In Poland, the EU enjoys very high levels of support at the moment. We don't understand why the UK government does not advertise the EU's positive results and keeps blaming Brussels"*. A leading Polish expert on EU affairs also observed: *"Poland never wastes the opportunity to say no. It could be tempted"*. The outcome of the upcoming legislative election (25 October) will be an important variable: if the newly-elected president Duda gets the backing of a Law and Justice majority, Poland may defend its interest more staunchly. However Cameron's focus on 'competitiveness' and 'cutting red tape', and demands for safeguards for euro-outs, will find support in Warsaw.<sup>19</sup>

Italy also has long had sympathy for the UK, and the Renzi government shares with Cameron the feeling that much more could be done to deepen the single market. However, as the country is locked in a 'life or death' struggle to remain part of the euro, London's recent intransigence on the migrant crisis and on bridge finance to Greece will not help Cameron's case. As a French EU expert told us: *"Each time the UK government does not play collective, everyone hears it"*.

There are also bilateral problems with some member states, for example the historic sensitivity in Spain towards Gibraltar. Gibraltar's strongest defence against Spanish pressure (paradoxically for UK Eurosceptics) are the EU treaties' free movement provisions. It is doubtful how many Spanish nationalists would like to see Britain's departure from the EU for this specific reason, but it is a factor (and a potential negotiating gambit) not to be ignored. Austria, whose governments fought to obtain the phasing-out of Soviet nuclear reactors in bordering member states as a condition to their accession to the EU, is deeply suspicious of UK plans to revive nuclear power with extensive state subsidy and support. It would not be surprising if Austria sought to use the leverage of the British renegotiation to secure assurances on nuclear power.

As often, the attitude of France is one of the most difficult to read, and will be crucial. It might not be overstated to say that the French are schizophrenic about the UK. An EU expert told us: *"Instinctively, a lot of elite representatives think: "fair enough, let the UK go". France will not do 'whatever it takes' to rescue the UK. However, reason dictates that we need the Brits"*. The former view might be dominant among French MPs. Commenting on David Cameron's referendum, one of them said bluntly: *"This is not a French debate. Nobody really cares."* Yet, there is increasing recognition in government circles and in the administrative elite that the global interests of the two nations are now historically aligned. At the Ministry of Foreign Affairs, one hears that keeping the UK in is a priority: *"The UK is France's first international partner. There is no equivalent. We prepare 75 per cent of UN resolutions together. The UK is our largest trade surplus. And yet there is a lot of indifference, if not rivalry feelings towards the UK, among French MPs!"*

However, rational arguments go both ways. French diplomats start from the assumption that their British counterparts know that Brexit would be a folly. *"The UK can't afford being out if it wants to play a global role"*, said one of them. When asked whether France and the UK could not, after all, continue a strong bilateral relationship on foreign affairs and defence outside of the EU, they are adamant: *"European diplomacy offers more and more tools. No country staying out of the EU is a key player"*. They refer to Ukraine, and the UK's late attempt to join the bandwagon of France and Germany as leaders of EU diplomacy.

19. See analysis by A. Gostynska-Jakubowska, "Cameron's renegotiation plans: The view from Warsaw", 06 August 2015, [http://www.cer.org.uk/insights/cameron%E2%80%99s-renegotiation-plans-view-warsaw?utm\\_source=all+email+26.8.15&utm\\_campaign=45b5c49f73-insight\\_cameron\\_view\\_from\\_warsaw&utm\\_medium=email&utm\\_term=0\\_e8506404b9-45b5c49f73-303959793](http://www.cer.org.uk/insights/cameron%E2%80%99s-renegotiation-plans-view-warsaw?utm_source=all+email+26.8.15&utm_campaign=45b5c49f73-insight_cameron_view_from_warsaw&utm_medium=email&utm_term=0_e8506404b9-45b5c49f73-303959793)

## To sum up

As the active phase of Cameron's renegotiation is starting, the odds are rather positive for a success. The Greek crisis has put the emphasis anew on the need for further integration in the eurozone, a key assumption of the British government. There is growing recognition that this will affect the whole EU-landscape, and lead to a new EU architecture. Moreover, most governments are ready to help in one way or another, as it is in their interest to keep Britain in.

This should not lead to complacency among British government circles. Sympathy for the British cause is fluctuating, especially in a context when the EU is facing historical challenges. The sense that the British referendum comes at a bad time, and due to uncontrolled domestic political reasons, is largely shared. David Cameron's muscular and 'selfish' (or perceived as such) attitude in EU summits over the last few years has not improved his credentials among his peers.

## Reactions to Cameron's specific demands for renegotiation

### British demands for reform and renegotiation: four 'building blocks'

The political elites of Germany, France, the Netherlands, Poland, Sweden and Italy agree on one thing: they do not know what David Cameron precisely wants. Their hypotheses are based on press articles and speeches made by the British prime minister and his colleagues over the last two years.

In his 'Bloomberg speech' in January 2013,<sup>20</sup> David Cameron announced the referendum on UK membership and mentioned five principles:

- Competitiveness: completing the single market, TTIP and cutting red tape.
- Flexibility: "We believe in a flexible union of free member states who share treaties and institutions and pursue together the ideal of cooperation", away from the notion of "ever-closer (political) union".
- "Power must be able to flow back to member states, not just away from them".
- Democratic accountability: "a bigger and more significant role for national parliaments."
- Fairness between euro-ins and euro-outs.

Since then, the question of migration has become very prominent in the prime minister's shopping list. In November 2013, he argued that "free movement within Europe would need to be less free".<sup>21</sup> He identified as major issues the "vast population movements caused by huge disparities in income" and migrant workers' access to welfare. In a Telegraph article in March 2014, he mentioned seven explicit targets combining the Bloomberg points, and the migration points, as well as the wish to see less interference from the European Court of Human Rights (an issue not related to the EU as such). In November 2014, he gave a speech on migration, confirming that this question would be central to his renegotiation strategy.<sup>22</sup> He set out specific demands for changes in EU migration rules including a four-year waiting period for eligibility for in-work benefits.<sup>23</sup>

20. The Guardian, "David Cameron's EU speech - full text", 23 January 2013, <http://www.theguardian.com/politics/2013/jan/23/david-cameron-eu-speech-referendum>

21. D. Cameron, "Free movement within Europe needs to be less free", Financial Times, 26 November 2013, <http://www.ft.com/cms/s/0/add36222-56be-11e3-ab12-00144feabdc0.html#axzz3jMiPxCNk>

22. His immigration speech later that year set out specific demands for changes in EU migration rules including a four year waiting period for eligibility for in-work benefits

23. BBC News, "David Cameron's EU speech: full text", 28 November 2014, <http://www.bbc.co.uk/news/uk-politics-30250299>

Finally, when presenting his demands to his counterparts at the June 2015 European council summit, David Cameron grouped them up in four areas: sovereignty, fairness, competitiveness and immigration. These four areas have effectively been identified as the key discussion blocs by the UK's EU partners. However, with the exception of the French, they complain openly about the lack of specifics. Here is what we heard from senior government officials and civil servants in other EU capitals about the current lack of visibility:

- *"We need to understand UK demands better".* (Rome)
- *"We are pleading for more detailed proposals"* (Warsaw)
- *"We are in listening mode. Ideally we would want to receive a white paper from David Cameron spelling out his demands."* (Berlin)
- *"The right approach is one in terms of 'building blocks', similar to MFF [Multi-annual Financial Framework] negotiations. Cameron should beware of formulating too specific demands. We would seek to give Cameron a 'global offer' which could give him satisfaction without accepting his demands as such".* (Paris)
- *"We don't expect to receive a list of specific UK demands, and we will not suggest a list on our own. We'll wait and see."* (Paris)

### Reactions to the demand for treaty change

David Cameron has insisted that his renegotiation agenda requires treaty change, albeit with little clarity about what he means in practice by this. The government does not expect treaty change to be ratified in all member states before a British referendum. However it seems to be exploring some legally binding form of pre commitment to treaty change.

There are precedents in the Danish protocol of 1992 and the Irish protocol of 2008. Both instruments containing legally-binding assurances sufficient to persuade the Danish and Irish electorates to approve treaty changes they had previously rejected in national referendums. However these legally binding guarantees were largely specific to the member state concerned. It is therefore difficult to envisage how a legally-binding protocol could embrace a significantly wider agenda of treaty changes.

One possibility is that the European council might agree to issue a declaration setting out an agreed direction of change. There have been many such declarations before, for example the Laeken declaration of 2001 that set the agenda for the constitutional convention and subsequent treaty negotiations. The British stance has been relatively relaxed about such declarations in the past, precisely because they were not seen as having the same binding legal effect as treaty change.

One can envisage that an eventual package might emerge consisting of three elements:

- A protocol that contains legally-binding opt outs and guarantees specific to the UK.
- A declaration of some (but lesser) legal effect about the future direction of treaty change in the EU.
- When it comes to specific changes in EU legislation, regulation and policy, a formal white paper tabled by the European commission could be endorsed by both the European council and European parliament. The contents of such a paper could be quite detailed, including draft amendments to EU legislation. However it could not pre-empt the detailed legislative process.

Britain's EU partners agree on one thing: fully-fledged treaty change in such a short period of time is unrealistic. The Italian government is probably the only one to be keen on treaty change, but rather in the context of eurozone integration, and they have no illusion about it happening only after 2017. However, most governments are also wary of accepting too quickly the solution of a protocol, as this could trigger demands from other member states.

- *"A 'Danish protocol' would probably be acceptable. However, Cameron should not seek a document tailor-made to UK demands: this would open Pandora's Box, and other governments could be very creative."* (Paris)
- *"We will not discuss treaty change. It is too early to speak about a Danish protocol, but it would be more compatible"* (Paris)
- *"There is no time for treaty change if the [UK] referendum takes place in 2016. Nobody wants to open Pandora's Box"* (Berlin)
- *"We would discuss British demands under two conditions: that they do not require treaty change, and that they do not entail discrimination. We fear the cost of a protocol in terms of how other member states react. It is highly probable that many of them would also claim some opt-outs, as a result we would end up with less coherent and weaker EU."* (Warsaw)

The mood is similar in Brussels. A senior civil servant at the European parliament said: *"there is no sympathy for what is seen as the UK creating an uneven playing field, hence demands should be modest. The renegotiation would provide change in theory, not in practice: there are already a lot of opt-outs. This could be done by either declaration to add a protocol at a later stage, or a free standing treaty on simplified revision procedure, although the European Parliament might not allow member states to sign an intergovernmental treaty. But Schulz and Verhofstaft are open, and there is optimism about the possibility to accommodate reasonable demands"*.

At the European council, Donald Tusk's entourage is, likewise, mildly optimistic: *"There is support for modest, constructive proposals. But Tusk's position is that treaty change will be very difficult"*.

## Attitudes on the four building blocks

### Britain no longer part of 'ever-closer union'

#### - The issue

An opt-out from 'ever-closer union' is David Cameron's most insistent and specific demand. It is also said to be the easiest one to deal with given its mere symbolic dimension.

Far from unambiguously promoting political union, EU treaties show a great deal of caution.<sup>24</sup> The wording appears in the aspirational preambles of EU treaties, as well as at article 1 of the treaty on European Union (TEU). In the latter, the full text is: *"This treaty marks a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as openly as possible and as closely as possible to the citizen."* This version, which includes an explicit reference to the subsidiarity principle, is the result of John Major's negotiation at Maastricht. Also, articles 4 and 5 of the TEU directly address concerns about excessive centralisation, with detailed prescriptions on the division of responsibilities between the EU and member states, and on subsidiarity and proportionality.

24. See analysis by Richard Corbett MEP, "Cameron's EU reforms: steering between the trivial and the impossible", Policy Network, 8 July 2015, [http://www.policy-network.net/pno\\_detail.aspx?ID=4941&title=Cameron%27s+EU+reforms%3a+steering+between+the+trivial+and+the+impossible](http://www.policy-network.net/pno_detail.aspx?ID=4941&title=Cameron%27s+EU+reforms%3a+steering+between+the+trivial+and+the+impossible)

The prime minister is presumably targeting his renegotiation strategy at those Eurosceptics whose constant refrain is that “the British people voted to join a Common Market in 1975, but never to join a political entity which is now the European Union”. George Osborne also recently talked about the EU as a “single market of free trade”, thereby expressing the wish to return to a more simple and focused UK-EU relationship, away from any of the developments that might arise in the eurzone.

At the June 2014 European council, Cameron succeeded in securing agreement to a political interpretation of what ‘ever-closer union’ means today. The conclusions read: “The European Council noted that the concept of ever-closer union allows for different paths of integration for different countries, allowing those that want to deepen integration to move ahead, while respecting the wish of those who do not want to deepen any more”. Cameron now wants to go further and secure a formal British opt-out from ‘ever-closer union’. He is not insisting on a treaty change that would apply to all member states, but wants to cut a special deal for Britain.

In practice, however, member states might be reluctant to relinquish for several reasons. First, anti-EU forces are lying in ambush, ready to accuse their governments of giving more space for Britain while continuing to surrender their own nation’s sovereignty. Second, it is unclear whether the exemption should apply to the UK only, or to other non-euro countries.

What do the UK’s European partners think?

The reception across Europe is lukewarm, but this is rather testimony of the attachment to the ideal of European integration than of serious barriers against meeting David Cameron’s demand.

French officials are probably those who sound the most difficult, as if they were seeking to extract a high price and contain other demands. Diplomats are adamant they will not accept any change to ‘ever-closer union’. One of them even told us: *“The UK signed up to this when it joined the EEC, and again at Maastricht. It would be the first time that a member state would withdraw from part of the acquis.”* In fact, everyone in government circles finds the European council statement of June 2014 satisfactory. There is implicit openness to recycling it in a UK-specific protocol.

In Berlin, ‘ever-closer union’ is taken very seriously and there is clear reluctance to talk about a specific treatment for the UK. For a senior German MP, Europe does not need an ‘ever-closer union’, so it should avoid making any change to the wording. Officials from the ministries of foreign affairs and economic affairs note that ‘ever-closer union’ touches upon the debate about the future direction of the EU, and said that it could not be removed easily.

Italy, Poland and Sweden sound more accommodating. In Warsaw there is a view that the UK has already opted out from EMU, justice and home affairs, and is reluctant on defence. In principle, an opt-out from ‘ever-closer union’ should not be a big deal, but a legal formula is needed. Similar pragmatism is visible in Rome and Stockholm. Swedish officials like to stress that they are not federalist and say they would accept a UK protocol on ‘ever-closer union’ despite the fact that they do not have any problem with the formulation themselves.

### **Fair treatment between euro-ins and euro-outs**

On top of the general opt-out from ‘ever-closer union’ David Cameron is seeking general safeguards from deeper integration in the eurozone that might affect the single market. In December 2011, he sought – with no avail – to get back a veto power on financial services legislation as a precondition for signing the treaty on stability, coordination and governance (usually referred to as the ‘fiscal treaty’).

*- The issue*

David Cameron is certainly right to bet on closer bonds tying eurozone members to each other, and to argue that there should be formal recognition of the fact that the division between euro-ins and outs is a permanent one. Arguably, high frequency meetings and close coordination are likely to result in a greater sense of belonging and solidarity within the eurozone over time. However, it would be excessive to claim that this will necessarily translate into the eurozone 'caucusing' as a bloc against euro-outs. There may be clashes in future that arise not from a desire in the eurozone to disadvantage the City, but simply because of the need for the eurozone to act to safeguard its own interests.

From a legal point of view, the UK's position looks relatively safe. Non-discrimination within the single market is a core principle of the EU treaties. Rulings of the Court of Justice have consistently upheld that core principle. A good example is their recent overturning of an attempt by the European Central Bank to insist that clearing houses dealing in euro-denominated securities are physically based within the euro area. A more thorny issue might be the enhanced cooperation on the financial transaction tax (FTT), which is deemed detrimental to British business. In 2014, the Court of Justice rejected the UK challenge on account of the fact that the tax was not in place yet. It is impossible to predict what the ruling will be once the tax will be in place.

Politically, nothing indicates that the eurozone will behave as a bloc and deliberately act against UK interests in the near future. Divergences of view abound on market regulation in all key sectors, from energy to digital services and financial services. Even FTT initiated by 11 member states in 2012 is not a eurozone initiative. The Netherlands, for instance, are not part of it. Moreover, the tax is still not expected to be in place before 2017 because of substantial disagreements within the 11 volunteering countries. The latest working version suggests that the levy will apply to a wide range of assets, but at a very low rate.

The weakness of Cameron's case also comes from the fact that very few countries except Britain say they will 'never' join the eurozone. Most euro-outs still see themselves as eventual members of the single currency someday, or at least want to keep the option open. This poses an obvious political conundrum which divides the present euro-outs. Britain wants its status outside the single currency to be more clearly recognised in treaty form, with stronger safeguards against discrimination by the 'ins'. Other member states presently outside the euro (for example Sweden, Poland and Romania) are not so keen on their status as 'outs' being recognised as permanent, precisely because their fear is a reverse one: to be kept in a state of second class membership, even when they aim in time to join as full members of the euro club.

Meanwhile, it looks unlikely for Cameron to widen to other fields the type of safeguards he obtained on banking regulation. When the decision was taken to give the ECB the role of single supervisor for the 24 countries participating in the banking union in December 2012, voting rules at the European Banking Authority were changed in order to accommodate non-euro countries. A double majority of both euro and non-euro countries is now requested to adopt secondary legislation. Most observers tend to play down the UK victory: not only does it not apply to primary legislation, but it will cease to apply when the number of euro-outs reaches four or below. In other words, there will never be a veto power for the UK.

### - How do the UK's partners react?

The UK's main partners give reassurances that deeper integration in the eurozone will not be directed against the single market and its interests. Nonetheless, they tend to minimise the threat, and they do not want to consider any new special treatment for the UK.

A senior political adviser at the EU commission said: *"There are fewer reasons today to be concerned about discrimination against non-euro countries. On financial services, Jonathan Hill has been much more reassuring than [Michel] Barnier. British fears are based on perception rather than reality."*

Unsurprisingly, Poland and Sweden are the countries in which there is the greatest sympathy for British concerns, though they do not necessarily draw the same conclusions in terms of demanding safeguards. A Swedish senior diplomat told us: *"There are clearly some tendencies in the eurozone we don't like, for instance the push for qualified majority voting on bridge finance for Greece. We would not welcome eurozone special institutions. But we don't intend to throw our weight behind the UK because, ultimately, a strong, workable eurozone is in our interest."* Ideas such as double-majority voting in the field of financial services are not particularly welcome. Instead, Stockholm insists on transparency and access to eurozone discussions and documents, something Warsaw is very keen on as well.

Italy, though a eurozone member, is very reassuring. Government circles stress converging interests between London and Rome in securing both the UK's EU membership and the future of the eurozone. Providing the UK reassurances on the single market sounds plausible as long as the UK government lets other countries move on.

Unsurprisingly, Germany and the Netherlands are more cautious. In Berlin, a senior diplomat found no objection to the banking union's double majority system, but insisted that a more general veto for non-euro countries was unrealistic. It was unclear which procedure could satisfy this demand. Nonetheless, two high-level officials in Berlin and the Hague who will play a role in the discussions with the UK said they would be open to "procedural assurances", i.e. a mechanism allowing the UK and other non-euro countries to pull an emergency brake when they think their interests are discriminated against.

In Paris, diplomats and government advisers are more openly reluctant to give in. They observe that other non-euro countries with no prospect of joining, such as Denmark and Sweden, *"do not complain"*. The UK might have a special interest in financial services, but they are *"always consulted and associated when they request"*. Paris's sensitiveness on this question is also related to the impression that the UK is seeking an opt-out from tax and social policies, two areas in which eurozone members might want to adopt common legislation. This is true, for instance, of corporate tax coordination, which Paris and Berlin are pushing forward. A government official was particularly specific: *"On the in-out question, let's see what the UK suggests. We expect something like an alert mechanism. But we will neither discuss new opt-outs nor double-majority systems. The probability that eurozone countries take unanimous decisions against UK interests is near zero, especially on financial services. The UK should not be granted any sort of 'double opt-out' (from both the euro and some EU-28 policies)."*

Interestingly, we heard the same concern in Brussels regarding the reach of the EU's economic and social governance (the European semester). An adviser to a European commissioner observed that the goal of social convergence was not a matter for eurozone countries only.

On the euro-ins/euro-outs issue, in the absence of clarity by 2017 on the shape of a more integrated eurozone, Britain has little hope of changing the voting rules. Cameron should satisfy himself with a combination of a legally binding protocol re-emphasising the principle of non-discrimination, and providing for procedural assurances, such as an observer status at Eurogroup meetings, and a possible emergency brake.

## **A new deal on migration**

### *- Different perspectives on migration*

Cameron's demand to renegotiate the freedom of movement in the EU might have sounded like a brutal anti-EU, anti-migrant attack two years ago, but it does less so today in the context of the migrant crisis. The new mass inflow of people from the Middle East and Africa presents all EU member states with dilemmas. Germany's decision to close borders with Austria a few days after declaring its doors would be open to migrants reflects mounting pressures within the passport-free Schengen area. The difficult decision on a compulsory scheme to relocate 160,000 migrants will be difficult to reproduce, and will necessarily lead to further calls to renegotiate the Schengen rules. Although refugees and European mobile workers are not the same thing, questions over Schengen's future echo Cameron's concerns about unregulated freedom of movement across the EU.

The UK's wish to renegotiate free movement targets EU (permanent) workers as there is the perception among the public – founded or unfounded – that they come and settle down in too high numbers. Data from the Migration Observatory estimated net migration to be 300,000 in 2014, far above the government's objectives to reduce this to the tens of thousands, and 54,000 higher than in 2010. While there has been a decrease in the number of working migrants coming in, the upsurge is due to jobseekers both from inside and outside the EU.<sup>25</sup> Clearly the dynamism of the British job market is a major pull factor.

And yet, perspectives are different from the UK and from other countries, which makes the prime minister's task difficult. Against the background of the migrant crisis, Schengen countries are mainly preoccupied with surveillance at the borders of the area, and the better enforcement of the Dublin regulation on asylum requests. The stalemate in Calais is certainly the indirect result of an ill-functioning Schengen area, and the UK has an interest in collaborating with France and other countries. However, despite the UK's opt-out, London's reluctance to participate in relocation efforts of asylum seekers already arrived in Europe had not gone down well in other countries.

Moreover, when it comes to intra-EU migration, the debate is framed differently in other countries. One million Romanians are estimated to be living and working in Italy. Germany has always welcomed cheap and skilled labour from Turkey and, more recently, central and eastern Europe as part of its global competitiveness strategy and as a way to tackle ageing. In France, the issue is not so much permanent EU workers than posted workers in specific sectors (such as construction and agriculture). Pressures from the Front National regularly prompt mainstream politicians to take a tough stance against Schengen and creeping Islamisation, but beyond the re-installment of temporary border controls, this does not reflect any serious attempt to overhaul the freedom of movement principle.

Finally, differences in welfare systems and entitlements also explain various degrees of sensitivity. The non-contributory British welfare system, mainly focused on 'need', might feed the impression that EU workers and jobseekers come to the UK as they know they will enjoy the same benefits as Britons from day one, especially in-work benefits such as tax credits and child benefits. Strain on public services is also regularly quoted as a major downside from EU migration being too high. Evidence for an excessive fiscal burden is thin. In 2014, a major study conducted by UCL stressed the fact that, far from being a burden, migrants from the ten post-2004 EU entrants are net contributors.<sup>26</sup>

25. H. Warell, "UK net migration jumps 42% in blow to David Cameron", *Financial Times*, 26 February 2015, <http://www.ft.com/cms/s/0/70bd6232-bd99-11e4-9d09-00144feab7de.html?siteedition=uk#axzz3j92t6IA>

26. For instance "Positive economic impact of UK immigration from the European Union: new evidence", *UCL News*, 5 November 2014, <https://www.ucl.ac.uk/news/news-articles/1114/051114-economic-impact-EU-immigration>

### - How EU partners react to UK demands

The assumption that the British negotiating position on the migration question is far weaker than most of our politicians accept was confirmed in our conversations with senior officials in the most important EU capitals. In general, there is very limited understanding and sympathy for British demands, with the notable exception of welfare abuses.

Poland will probably be the most difficult country to deal with. Free movement is a major factor behind large support for EU membership. The UK debate and some remarks of its most senior politicians about undeserving migrants from Eastern Europe have triggered infuriated reactions. David Cameron should also factor in the likely win of Law and Justice at the legislative elections in October. This would give President Duda a strong majority. Paradoxically for a conservative president, Duda is perceived in Germany as more pro-European than his Law and Justice predecessors, in particular the Kaczyński brothers. He is expected to stand up firmly behind the freedom of movement principle.

Swedish officials are less acrimonious about Cameron's rhetoric and demands on migration, but they have a firm and uncompromising stance. *"To say that we need to tighten up EU migration is a non-starter in Sweden"*, the former member of a past social-democratic government told us. The principles of freedom of movement and non-discrimination are untouchable, as Swedes are strongly attached to them. After the 2004 enlargement, Polish workers became an issue. However they are today much better integrated, and have been accepted as members of Swedish trade unions. The only angle from which there might be common ground between the UK and Sweden is on migrants from Romania. All our interlocutors stressed how much the streets of Stockholm and other Swedish cities had changed lately, with a lot of Roma begging in the streets and not necessarily looking for a job. Although this is considered as a bilateral issue between Sweden and Romania, Stockholm would probably welcome additional EU measures to tackle the issue.

In Italy, the political elite have no sympathy for Cameron's tough stance on the asylum crisis and are not very supportive of Cameron's demands. As a senior government official told us, the free movement question is *"a very domestic issue, which requires national legislation changes mainly. Though we are open to measures against welfare tourism."*

In Berlin, German officials tend to say that free movement is "not negotiable" and that the UK problem is one of domestic legislation. However, the misuse of benefits (especially child benefits) is of concern, especially among CDU/CSU-circles. Closer to the 2017 general election, this might become a real political issue. Our interlocutors showed some openness to a debate on this particular point. However, they think that there would be a "price to be paid" for eastern European countries in terms of budgetary windfalls.

In France like in the Netherlands, extra-EU migration and posted workers are seen as much bigger priorities than permanent workers claiming benefits. As a French MP told us, *"temporary work agencies have specialised in hiring EU mobile workers, for instance to work in vineyards near Bordeaux and in Languedoc. This had a direct impact in terms of the FN vote."* Both countries would like to strengthen the directive on the posting of workers (96/71/EC), which was revised in 2014 after tough Franco-Polish negotiations. A senior Dutch official stressed that if the Netherlands were to give Cameron a hand on migration, they could not afford to be seen as too close to the UK as this would be perceived negatively in eastern Europe.

Therefore, when it comes to Cameron's more specific demands, and the legal options to deal with them, reactions are even more careful. The most reasonable option is the strengthening of social security coordination, namely a more effective fight against 'welfare tourism'.

As the European commission's work programme for 2015 implied, and as was confirmed to us by a European council official, some measures in that sense will be presented in the autumn. It will not include the revision of the 2004 citizenship directive, but possibly measures on better implementing regulation 883/2004 on the coordination of social security systems. The regulation provides that migrants from other member states shall enjoy the same benefits and be subject to the same obligations under the legislation of any member state as that state's nationals, including non-contributory cash benefits. However, there is also no prospect that a majority can be constructed in the European parliament for change in social security coordination regulations on Cameron's timetable.

In Paris, diplomats have identified seven or eight specific demands within the "free movement" building block. One of our interlocutors mentioned the fight against sham marriages and the state responsible for unemployment benefits abroad as interesting discussion topics. He observed that deporting criminals was already a legal possibility. He stressed, however, the demand for a four year period to enjoy in-work benefits crossed a red line since it was contrary to fundamental EU principles.

On the 'four-year' question, most analysts agree on the fact that such a move would go against EU treaty provisions on non-discrimination. In August, UK government lawyers came to the view that "imposing additional requirements on EU workers that do not apply to a member state's own workers constitutes direct discrimination which is prohibited under current EU law."<sup>27</sup> They argued that the only possible way to enforce this new qualifying period would be to apply it to everyone, including British citizens. Other EU capitals are aware of this and stress more generally that the UK could take domestic action to make its labour market less flexible, for instance by raising the minimum wage while diminishing tax credits (precisely what George Osborne announced in his July 2015 budget), regulating zero-hour contracts or better enforcing social rights on EU temporary or posted workers. One option is that member states might agree to a statement that they do not regard British measures on in work benefits as discriminatory. This would discourage intervention by the European court of justice. Even so, this will be a hard and maybe costly sell for countries like Poland.

On the migration question, as matters stand, there is no obviously happy outcome. A major reform package to re-regulate migration within the EU is necessary to bolster public support for European integration. Yet elements of this reform package could put David Cameron at odds with his own supporters. This would involve:

- tightening EU-wide labour market and social security rules;
- a recognition that contribution is a condition of entitlement;
- action to curb potential benefit abuse;
- more proactive deployment of a larger EU budget, to tackle migration pressures at source, both outside and inside the EU, as well as help member states and localities under migration stress;
- better enforcement of the EU common border; and
- a fair sharing of the refugee burden.

27. M.Dathan, « David Cameron's EU renegotiation could mean young British adults losing key benefits », The Independent, 11 August 2015, <http://www.independent.co.uk/news/uk/politics/david-camersons-eu-renegotiation-could-mean-young-british-adults-losing-key-benefits-10449452.html>

## A greater role for national parliaments

Another aspect of the 'sovereignty' chapter of the UK renegotiation agenda is the role of national parliaments, a very symbolic and sensitive matter for British Eurosceptics. Although the Lisbon treaty already gave national parliaments a more formal power in the EU decision-making process, Cameron has implied since his Bloomberg speech that he wants more.

### - The issue

National parliaments have traditionally, and to various degrees across the EU, tried to scrutinise the government on EU affairs. They also play a significant role when transposing EU directives into national law. In some countries, ministers and heads of states are 'grilled' before and/or after a meeting of the (European) council in Brussels, and EU affairs committees are particularly powerful. This is not the case in Westminster, where there is little interest in what is considered low-key and unrewarding work. The division between the Lords and Commons does not help structure a powerful parliamentary voice. Also, successive UK governments have never been eager to come and discuss EU affairs with parliamentarians.

Since 2009, with the entry into force of the Lisbon treaty, national parliaments can object to draft EU legislation. When a third of them do so, this is considered as a 'yellow card' and the European commission must rethink the matter. When half of them oppose the proposed measure ('orange card'), the commission must put the matter to the relevant council of ministers. The yellow card has only been used twice so far, against the creation of an EU public prosecutor and against a proposal to legislate on the right to strike. Despite the limited use of existing opportunities, senior Conservative figures such as William Hague have suggested creating a 'red card' giving a number of national parliaments the power to stop an EU legislative proposal outright. The House of Lords European Union select committee has proposed a new 'green card': under this arrangement, a group of national parliaments could take a positive initiative in proposing the need for legislative change.

### - How partners react

There is substantial backing behind the idea for a greater role for national parliaments, but senior officials in other countries think existing legislation is sufficient. They observe that existing mechanisms tend to be neglected, and that the subsidiarity agenda rolled out by the commission is the best way to address British concerns in that field.

Strong parliamentary democracies such as Sweden and Germany are in principle very supportive of national parliaments. In Sweden, the government systematically gets a mandate from the parliament before any important EU discussion. Senior civil servants in charge of EU affairs said Sweden would welcome more visits to national parliaments by EU commissioners, and more cooperation between parliamentary committees. They did not want to talk about changes in the 'card' systems. In Germany, a member of parliament said there could be some openness to the idea of a blocking minority. Yet this would risk being perceived as undermining efforts to make the European parliament more legitimate. More generally, cultural differences explain the relatively low interest in giving national parliaments a bigger role. As we could hear in Paris: *"This is a 'non-question' in France for cultural reasons: the parliament has much less power"*.

Some compromise could be found on the interpretation of yellow and orange cards. In Paris, a diplomat suggested that the commission could be asked to justify its decision after a yellow card has been submitted. In Brussels, Richard Corbett MEP observes that a 'red card' could be introduced de facto if the European commission decided to treat any yellow or orange card as such. If necessary, the European council could add extra pressure by urging the commission to withdraw its proposal.

## Conclusion

What can Cameron realistically hope to renegotiate? And on the premise of which arguments can he lead a pro-EU campaign?

Our interviews with around 40 senior government officials, civil servants and opinion-formers have revealed very ambivalent feelings towards the UK's agenda of EU reform and renegotiation. The possibility of Brexit does not raise eyebrows anywhere, and is seen as a potential disaster. This does not mean however that all European governments are ready to do "whatever it takes" to rescue Cameron.

The report shows that, far from the substantial reset of the UK-EU relationship trumpeted by Conservative leaders past and present, Cameron and Osborne will only be able to tinker on the margins. There are several powerful reasons for this. First, no other EU government wants to open Pandora's box or wishes to see a substantial change in the EU's institutional equilibrium at such challenging times for the EU. Second, the timing is bad: German and French elections in 2017 make political leaders in these countries reluctant to make too excessive concessions, especially in Paris where Marine Le Pen would be a forceful critic. Finally, the British government's isolationist attitude has been problematic over the last few years and has irritated even traditional allies. As a Swedish interlocutor told us, "*Cameron needs to make us want to help him*".

Migration is proving the most difficult area of the four renegotiation blocks, and Britain's slow response to the refugee crisis has not attracted a lot of sympathy. As President Hollande remarked at a press conference on 7 September, "Everyone must understand that you can't demand solidarity when there's a problem and shirk your duties when there are solutions."<sup>28</sup> It will be impossible for Cameron to discriminate against EU mobile workers in favour of British workers when it comes to in-work benefits. Nevertheless, there is some sympathy for the idea that more can be done to tackle 'welfare tourism'. Cameron should seek to obtain more effective coordination measures between national social security systems as part of a deal.

On sovereignty and fairness between euro-ins and euro-outs, Cameron might obtain more than symbolic gestures. Most partners, though unconvinced, seem ready to contemplate concessions on how 'ever-closer union' applies or does not apply to Britain in a Europe of differentiated integration. There should not be huge opposition to a formulation guaranteeing the integrity of the single market on the back of deeper integration in specific areas, and an 'alert mechanism' could be envisaged as a way to give the non-euro countries an emergency brake. Cameron should also find comfort in the fact that the eurozone does not show any separatist tendencies, and is not on the verge of making a federal leap forward. There might be a new treaty for the eurozone after 2017, but it is too early to know what it will include, and it could provide the UK government with another opportunity to clarify the boundaries.

David Cameron's best weapon for the EU referendum campaign might be to brandish a list of 'achievable' in the field of trade and competitiveness. Pressure from the British government has already influenced the EU institutions' move towards a narrower focus on a limited number of priorities since the Juncker commission's start in office last year. Completing a deal on TTIP and making substantial progress towards the digital single market and a capital markets union are priorities shared in most EU capitals. The British prime minister could use this momentum to ask for reiterated commitments and specific deadlines. Only in this way can he demonstrate that the UK is leading in Europe, and is making its vision of a "single market of free trade" (to use George Osborne's own words) come true.

28. H. Samuel, "UK must not 'shirk duties' on refugees if it wants EU reform support from France, warns Hollande"; The Telegraph, 7 September 2015, <http://www.telegraph.co.uk/news/worldnews/francois-hollande/11848899/UK-must-not-shirk-duties-on-refugees-if-it-wants-EU-reform-support-from-France-warns-Hollande.html>

## Annex 1: British priorities for Europe

In February 2014, ahead of the European parliamentary elections, the UK minister for Europe David Lidington outlined what would be the UK government’s agenda for Europe. He mentioned five strategic areas:

- Competitiveness, by harnessing ‘extra-EU growth’ through trade agreements, liberalising services and digital markets and cutting red tape.
- Free Movement, by addressing the flaws of the existing settlement, in particular the excessive burden on the welfare systems of net recipient countries.
- Fairness between euro-ins and euro-outs
- Learning the lessons from Ukraine on energy by diversifying supply, building more interconnections and liberalising energy markets.
- Democratic accountability, in particular by granting national parliaments the collective power to veto a Commission proposal (‘red card’).

Four of these goals correspond to the very core of what David Cameron hopes to discuss in the next few months. Comparing these objectives with the priorities announced by the European Council and Juncker in the summer of 2014 highlights a lot of commonality, except perhaps on labour mobility and migration. The Commission’s competitiveness agenda seems to fit particularly well to UK preferences, and the appointment of Lord Hill as Commissioner for Financial stability, financial services and capital markets union could legitimately be claimed as a victory for David Cameron.

UK priorities (2014)	European council’s five priorities (June 2014)	Juncker’s ten political guidelines (July 2014)
Competitiveness Digital single market Deepening the single market for services Free trade agreements Cutting red tape	A union of jobs, growth and competitiveness	A new boost for jobs, growth and investment (Investment package) A connected digital single market A deeper and fairer internal market with a strengthened industrial base A deeper and fairer EMU
Fairness between euro-ins and euro-outs		A reasonable and balanced free trade agreement with the U.S.
Restrictions on free movement	A union that empowers and protects all citizens	An area of justice and fundamental rights based on mutual trust
Energy union	Towards an energy union with a forward-looking climate policy	A resilient energy union with a forward-looking climate change policy
	A union of freedom, security and justice	Towards a new policy on migration
	The union as a strong global	A stronger global actor

Sources: UK government, European council, European commission

## Annex 2: Roadmaps on the future of the eurozone (2012-2015)

	Four presidents report (2012)	Five presidents report (2015)
<b>Process and timing</b>	<p>3 stages:</p> <ol style="list-style-type: none"> <li>1. Fiscal consolidation and Single supervision mechanism (end of 2012-2013)</li> <li>2. Common resolution authority and 'contractual arrangements' (reform contract) between the EU and member states (2013-2014)</li> <li>3. Creation of a shock-absorption fiscal capacity and increasing degree of common (fiscal) decision-making (post 2014)</li> </ol>	<p>3 stages:</p> <ol style="list-style-type: none"> <li>1. Deepening by doing</li> <li>2. Completing EMU (potentially from 2017 onwards, after the Commission presents a White Paper)</li> <li>3. Deep and genuine EMU (at the latest by 2025)</li> </ol>
<b>Possible without treaty change</b>	<ul style="list-style-type: none"> <li>– Enforcement of new fiscal and macroeconomic rules</li> <li>– Banking Union</li> <li>– Closer coordination economic, social and employment policies</li> </ul>	<ul style="list-style-type: none"> <li>– Advisory European fiscal board to coordinate and complement national fiscal councils</li> <li>– Euro area system of competitiveness authorities</li> <li>– Tighter monitoring of (national) structural reforms implementation, while leaving a degree of freedom on the details to member states</li> <li>– Completing the banking union: single resolution fund and European deposit insurance scheme</li> </ul>
<b>Likely treaty change requirement</b>	<ul style="list-style-type: none"> <li>– Reform contracts</li> <li>– Eurozone fiscal capacity</li> <li>– Common decision-making on budgetary aspects</li> <li>– Integration of the treaty on stability, coordination and governance into the EU framework</li> </ul>	<ul style="list-style-type: none"> <li>– Binding convergence towards "high-level standards" in the fields of "labour markets, competitiveness, business environment and public administrations, as well as certain aspects of tax policy"</li> <li>– A fiscal stabilisation function</li> <li>– A euro area treasury responsible for "collective decision-making"</li> <li>– Integration of the ESM into EU treaties to move away from "complex and lengthy" decision-making process</li> <li>– Full-time presidency of the Eurogroup</li> </ul>
<b>Democratic accountability</b>	<ul style="list-style-type: none"> <li>– Close association of the European and national parliaments to economic governance</li> <li>– "The creation of a new fiscal capacity for the EMU should also lead to adequate arrangements ensuring its full democratic legitimacy and accountability"</li> </ul>	<ul style="list-style-type: none"> <li>– Close association of the European and national parliaments to economic governance debates</li> <li>– "The European Parliament should organise itself to assume its role in matters pertaining especially to the euro area."</li> </ul>

Sources: European council, European commission