

Nederland en de Europese Unies
Synopsis seminar 2

'I want my sovereignty back'

Wat is de waarde van het EU-lidmaatschap van het Verenigd Koninkrijk voor Nederland?

In zijn lang verwachte toespraak over de toekomst van het Verenigd Koninkrijk en de EU maakte David Cameron bekend dat de Britse regering inzet op een stevige heronderhandeling van de Europese verdragen waarvan de resultaten in een referendum aan het Britse volk worden voorgelegd. De vraag of het Verenigd Koninkrijk daarmee geheel of gedeeltelijk uit de EU zou stappen – een Brexit – is daarmee ook op de Europese en Nederlandse tafel komen te liggen. Welke varianten zijn plausibel, welke politieke mogelijkheden heeft Nederland om deze ontwikkelingen bij te sturen en welke economische en politieke gevolgen zou een Brexit voor Nederland hebben?

Prof. dr. Mark Bovens, member of the Scientific Council for Government Policy and chair of its EU-project, opened the seminar with a warm welcome to the participants. What would be the future of the recently established EU-28? Will we have a EU-27 again after 2017 or not? What would be the likelihood and character of a British withdrawal out of the EU? An invited audience discussed this issue from a Dutch perspective: What would be the consequences of a Brexit for the Netherlands and how should the Netherlands act to avoid negative consequences? Invited experts were Vivien Pertusot (head of the Brussels office of the Ifri - Institut française des relations internationales), Tom de Bruijn (Council of State of the Netherlands) and Arjen van Witteloostuijn (Professor of Economics & Vice-Dean at CentER of Tilburg University) Frank Kalshoven, founder of the argumentation factory, moderated the debate.

Vivien Pertusot: 'In Europe, not ruled by Europe. Tough love between Britain and the EU'.

Pertusot emphasized that he was only able to give a partial insight in the fascinating issue of a possible exit of the United Kingdom, also known as Brexit. The UK has one of the most vibrant debates on the state of the EU today and because the UK is of such importance for the EU, the British debate spreads over the continent.

The political landscape of the UK is not very polarised as there is no major party that endorses a pro-European integration platform. The EU-debate is between EU-realists, Eurosceptics and anti-EU supporters. The EU-realists are proponents of reform of the EU, more flexibility for the member states and more competences for the national parliaments. However, they do not necessarily disagree with the possibility of a transfer of more competences to the European level. The Eurosceptics do not want to leave the EU, but they do not like the status quo: the EU needs to be deeply reformed in the political and the economic domain. They are in favour of a repatriation of (some) of the EU-competences and of more influence of national parliaments on EU-policy making. The biggest difference with the first group is that they oppose the transfer of more competences to the European level. The group composed of anti-EU supporters wants to leave the EU all together. When looking at the political situation in the beginning of 2013, after the speech of David Cameron, the conservative party stood quite united behind his European strategy. However, this unanimity might be circumstantial. In the House of Commons and the House of Lords, the legal basis of the EU-referendum in 2017 and the possibility of a referendum lock was discussed, which meant that the decision on the EU-referendum was binding for any future parliament that has to implement the referendum.

Economically, the UK is especially in favour of the European Single Market. The Single Market roughly represents 49% of British export. Besides, with its financial city of London, the UK has a great economic interest in the maintenance of the access to the Single Market. The UK-government suggests reforms aiming at (1) the

completion of the European Single Market; (2) the conclusion of more trade agreements; (3) the reduction of the costs of doing international business; and (4) an increasing focus on innovation in the Single Market. But when considering the consequences of the relationship between the EU and the UK, people should not forget that (1) the trade of the UK is only to some extent dependent on the success of the Single Market; (2) the services sector of the UK is increasingly in competition with the global market, as it is quite easy to export services to other countries like Hong Kong; and (3) the EU might even become an impediment to the global success of the UK. Overall, one could state that in the UK, the bigger companies are more pro-European and the smaller companies tend to be more Eurosceptic.

Public opinion in the UK is also a matter that cannot be ignored. In general, the UK public rejects further European integration, and due to the fact that – contrary to France and the Netherlands – there was no referendum on the EU-constitution or the Treaty of Lisbon, this sentiment has grown. Three factors are of importance when considering the opinion of the UK public: (1) the fear the public has for further European integration; (2) the formulation of the referendum question and what the public will be offered to vote for; and (3) in general, the EU is not such a big issue in the UK compared with the issues of the economy, social affairs, health and migration. Remarkably, except for migration, the European dimension of these policy areas is not (often) recognised.

Looking to the near future, the referendum will probably take place in 2017. This means that Cameron has to be re-elected in the national parliamentary elections of 2015 and that the UK might hold the Presidency of the Council the moment the referendum is held. In the same year, France will have its presidential elections. Following the EU Act of 2011, the UK is required to hold a referendum on amendments of the Treaty on European Union or the Treaty on the Functioning of the European Union. Still, many conservatives are not convinced about Cameron's promise for a referendum and opt for a referendum lock to have some form of assurance for the future. On the other side of the political spectrum, the Labour party might be convinced to hold a referendum if they are in a coalition with the Liberal Democrats. The position of the latter is therefore interesting to follow.

The position of the Labour party is changing. The Labour party, afraid they will be punished in the next elections, is no longer supporting Tony Blair's European integration agenda. Already under the Gordon Brown premiership the position of Labour has started to shift. For many people within the Labour party, a referendum is inevitable for two reasons: (1) Why not? Labour believes they could fix the EU-situation properly enough to convince the people to stay in. (2) Labour is hoping to gain some votes for the 2015-elections.

Another relevant factor is the European context in Brussels. How do other countries view the UK and its EU-debate? In general, you might define two categories of countries defined by their position on this issue. The first group contains countries that are sympathetic: they consider it essential to keep the UK in the EU, or even better, to keep the UK engaged in the EU. According to the Netherlands, Sweden and the Czech Republic, Cameron will be the victim of its own political choice if it results in a UK withdrawal. The second group of countries prefer the UK to be engaged in the EU, but not at any price. France, Italy and Germany do not see why they have to help Cameron with his requests. They would be disappointed if the UK leaves the EU, but they are willing to accept it.

To conclude, Pertusot defined three policy scenarios for the UK-EU relationship after the expected date of 2017. All three options assume that both the Conservatives and Labour hold an in/out-referendum; some form of treaty change in the next 5-10 years; and limited EU-growth the next 5 years:

1. *The UK leaves the EU.*

This option would be the result of a straight in/out-referendum in which a majority votes in favour of leaving the EU. Following article 50 of the Treaty on the EU there will have to be negotiations on the new (trade) relationship between the UK and the EU. The Council decides by Qualitative Majority Voting on the new relationship. The UK will not be represented in the Council anymore and therefore participates in these negotiations as if it is a third party. The UK would be the first country to leave the EU and because it has never been tried before, the process is very uncertain.

2. *The UK becomes an associated member of the EU.*

This option requires both treaty change and a change of EU philosophy. It will result in a more differentiated and flexible system in which not every country joins each European policy. It is in fact the reverse of the current full opt-outs of the UK. This option would be realised after an in/in-referendum, in which leaving the EU is no longer an option. For this reason, some people will oppose this referendum.

3. *The UK remains a full member of the EU on renegotiated terms.*

This option is a risky gamble of the Cameron's premiership, highly depending on if, and in what way, the renegotiations are successful. It is unlikely that most member states will accept the demands of the UK, because it would open a Pandora's Box of precedent for other countries to come up with their request for the renegotiations. However unlikely, the outcome of the referendum might give enough political capital to the UK's government so that a referendum is not really required anymore in this option.

Some clarifying questions and statements...

- The likelihood of a referendum is highly depending on a coalition agreement, if neither Labour nor the Conservatives have an absolute majority.
- Whether a referendum is legally binding is debatable, because the doctrine of the sovereignty of parliament implies that no parliament can bind any future parliament. However, as Pertusot observes, the EU Act of 2011 already went a long way in this direction, and if the current parliament can agree on a lock mechanism, this certainly sends a strong political signal.
- What is the likelihood of a grand coalition between Labour and the Conservatives, or even including the Liberal Democrats of Nick Clegg? According to Pertusot, given the fact that (1) the economy shows some sign of recovery and (2) although Ed Milliband is not a popular Labour leader (Cameron was neither that popular before the elections in 2009), Labour is likely to win the elections.
- Some people from the audience questioned the policy scenario with an associated membership for the UK. The difference between an association treaty and an associated membership is that in the last case UK still has the possibility of participating in the EU-institutions. It is emphasized that many of the characteristics of an associated membership have to be negotiated. It should not be compared to the treaty between Turkey and the EU.

Scenario I: The UK leaves the EU.

Tom de Bruijn: Opening statement I

The UK leaving the EU would be a disaster for the Netherlands. The Netherlands has warmly encouraged the entry of the UK to the EU at the time. We would like to have the UK in, because a withdrawal would lead to a tremendous upset of the balance of powers within the EU and to a diminishing total power of the EU in the world. We will have to face a bigger German hegemony and a different French-German relationship. France cannot use its joint role with the UK anymore as international policy guide to diminish the power of Germany. Besides, the Netherlands will lose an important ally with regard to a number of policy preferences and the taboo on the issue of exiting the EU will be lifted. Other countries like Sweden and Denmark could be tempted to follow the UK, unravelling the Union itself. Consequently, the Netherlands would be locked in a EU in which it will feel extremely uncomfortable. The leaving of some northern member states (UK, Denmark and Sweden) has a tremendous (for the Netherlands negative) influence on the culture of negotiating within the EU-institutions and especially in the EU-Commission with its commissioners from each member state.

What should the Netherlands do in response to this scenario? De Bruijn is convinced that we should try to prevent this scenario by avoiding any form of treaty change. If it is not successful to avoid treaty change: we should only change the treaty for the Eurozone-countries. And if treaty change is really necessary for the whole EU, we should try to change the situation for everyone, as long as we stick to the same framework of rules. In that case, the flexibility that the UK wants should be given to all of the EU-member states. If not even this is possible; the Netherlands should control the damage where possible.

Arjen van Witteloostuijn: Opening statement I

Van Witteloostuijn started by emphasizing that the economic future is very uncertain and therefore hard to predict. His remarks should therefore be interpreted as 'educated speculations'. In the three policy scenarios, it will be experimental to predict what is going to happen. In essence, the devil is in the detail of the scenarios, and therefore these broad scenarios make the educated speculations even more speculative.

Considering the long run consequences of the UK leaving the EU, there will be a shift to an economic continental model in the EU and there will be more need (but also opportunity) for further political integration of the Eurozone. Besides, a shift in the comparative (not competitive) advantages is to be expected, with implications for the level of Foreign Direct Investments (FDI) in the UK and the EU. Much FDI will move from the UK to the continent. This will not be an advantage for the UK, and importantly, the Netherlands are well positioned as an alternative for UK's FDI's in the sectors of for instance beverages and pharmaceuticals and might therefore benefit from the UK leaving the EU.

Discussion I

The discussion started with questioning the comparative advantage of the continental economy. Is it likely that the continent loses all of its comparative advantage when they are not in a Union with the UK anymore? Besides, the UK might find some EU-countries outside the EU and go for new bilateral and multilateral trade agreements that could benefit (parts of) the continental economy. This scenario will change the power of the UK in the world and it will change the world power balances. Also, the relationship between the US and the EU/UK will change because Obama wants the UK to be in the EU. The relationship between the US and the EU will consequently be more complicated, for instance in regard to the US-EU trade agreement that is currently under negotiation. And not having the UK within the EU will weaken the EU as a global player.

Concerning the inter-EU-relations, the Netherlands need to be prepared to make more telephone calls with Berlin. But how bad and how likely is a stronger German role? We should not underestimate the influence of the French in Berlin and without the UK it will become easier to formulate Common Foreign and Security Policies. The EU might benefit from this scenario because decision-making will become easier in some policy areas.

Economically speaking, the biggest global role for the UK derives from its position in the world of financial services. It is questionable what will happen with this sector the moment this scenario becomes a reality. It might move to Frankfurt or Luxemburg, but everyone seems to agree that there are no other European cities with the same infrastructural level as London, in addition to the pleasant living environment in a global city and the English language. If the financial sector moves, it would be more likely to move out of Europe altogether to a city like Hong Kong.

Scenario 2: The UK becomes an associated member of the EU.

Tom de Bruijn: Opening statement II

De Bruijn sees this second scenario as a possibility for the future of the UK-EU relationship, but such an associated membership can take many shapes. We do not know the form of an associate membership, but that also means we can give it any form we like. The consequences for the Netherlands depend on the chosen form, but overall this is a negative scenario, based on the same type of arguments used for scenario 1. Inevitably, the influence of the UK on the EU will diminish and that in itself would be undesirable for the Netherlands. The danger of the unravelling of the EU is even bigger in this scenario and that is undesirable for the Netherlands. That brings us to the paradoxical conclusion that from a Dutch perspective this second option is even worse than the first scenario.

This conclusion would however be completely different for other European member states that would like to leave. The UK is in many circumstances a special ally of the Netherlands. On the other hand, a European member state that is also a member of the Eurozone is in these times of more importance for the stability of the euro than the UK is. In all cases, an associated membership means a new treaty that has to be signed and ratified by all EU-member states. It is very doubtful that this is going to happen.

Arjen van Witteloostuijn: Opening statement II

In this scenario, the Netherlands will lose some of its export to the UK, but this loss will not be massive. The UK's economy becomes smaller in terms of its contribution to trade with and investments in the EU, and from both a European and a Dutch perspective this loss will be limited. The same applies to the UK's services. Germany is at the moment the number 1 in provision of services. The Netherlands is the number 2 and is still gaining ground. The UK is a declining number 5. The special cases of of the Dutch-British multinationals Shell and Unilever, are

economically speaking in majority Dutch, even though the stock locations of these companies are based in the UK. From these facts we have to conclude that over time, the UK becomes less important for the EU-economy and consequently for the Dutch economy.

What happens if we pose the question the other way round?: what could the Dutch economy gain if the UK (partially) leaves the EU? At the moment the UK and the Netherlands are competing with each other in two important sectors: (1) beverages, spices and vinegar; and (2) pharmaceuticals. Inevitably, after a withdrawal of the UK out of the EU, the Netherlands could take the place of the UK. Remaining strong UK sectors to be taken over by other European countries are (1) aircrafts and (2) arts. Most remaining sectors will not be affected greatly by scenario 1 or 2.

Discussion II

The discussion started with the question 'how to define the conditions on associated membership?'. This proves to be a difficult task. Not everyone believes it can be done from a legal perspective because we first need some form of treaty change. Treaty change on associated membership requires agreement among the 28 EU-member states. An alternative solution could be a treaty on the new (associated) relationship between the UK and the EU after the UK leaving the EU. The treaty on this new (associated) relationship is to be signed by the European Commission, so from this perspective scenario 2 is less necessary. The remaining questions that have to be answered are whether or not the UK keeps its access to the Single Market and whether or not the UK stays within the European institutions to influence that which they deem to be relevant EU-policies.

In general, a form of associated membership could be an attractive model to structure the fuzzy situation we are facing in today's Europe. Some countries already have full or partial opt-outs in different policy areas. Besides, if an associated membership is created this could also solve the question of enlargement. This option could be beneficial for both the UK and the EU, because (1) we leave many European policies intact; (2) we found a position that matches the requirements of the UK; (3) it could be applied in more cases, thinking of the EFTA-countries and Turkey. The discussion ended with the issue whether or not a multi-speed Europe is an option when we would like to maintain the Single Market.

Scenario 3: The UK remains a full member of the EU on renegotiated terms.

Tom de Bruijn: Opening statement III

Scenario 3 would be the most preferred scenario for De Bruijn, however we should not have any illusion that this scenario would be a definitive solution for the problems of the UK. It is likely that after a 'yes' of the population on the question whether to stay member of the EU under the newly negotiated terms, the complicated problems will come back sooner or later. The UK will always remain a difficult partner.

What could and should the Netherlands do to make this scenario happen? This question proves difficult to answer, but according to De Bruijn we have to avoid treaty change or at least avoid negotiations with the UK. And if this is not possible and the EU starts negotiating with the UK, the Netherlands have to make sure the only things on the agenda for the EU-UK negotiations could also favour the Netherlands or the EU as a whole. The UK's agenda should become a Dutch or even a EU-agenda. However, it might be the case that the UK public will better accept the new terms if these contain a special status for the UK. This would not be an attractive situation for the Netherlands or the EU, but it might be better for the referendum question if we definitely would like to keep the UK in the EU. In conclusion: it would be better for us to change the EU without a treaty change, coming as close as possible to the UK's wishes.

Arjen van Witteloostuijn: Opening statement (III)

When looking at the export of the Netherlands to other European countries, we see that (1) 40% goes to Germany and (2) a declining 11% goes to the UK. On third place, the French share of our export is increasing and might take over the place of the UK. Contrary to our intuition, the UK is not the powerhouse we often think it is. When considering the export of services from the UK, we see that 40% of the services are going to the Netherlands and this will remain the case after the UK will leave the EU. So, the EU has much more to lose than the Netherlands

from a Brexit. On the contrary, the Dutch services sector will benefit most from the UK leaving the EU. There is only one more thing to keep in mind when using the UK's contemporary economic situation as an argument in the debate on the possible consequences of a Brexit: without the European policy frameworks, the UK could drastically reform its own policies after an exit in order to increase its comparative advantage.

Discussion III

In the discussion the importance of trade between the UK and the EU is questioned, the total amount of FDI seems to be of more importance. The EU (including the UK) is world leader in opening their service markets, way ahead of the rest of the world. The UK is strong in services and is therefore killing itself when it would leave the EU. If this happens, trade agreements need to be signed to maintain the strategic advantage the EU and the UK have together, but it has to be preferred that the UK stays in. However, the third policy option will not be for free. We will have to give the UK something (especially something we like), but the UK might ask something we are not willing to give. For instance, the Netherlands would also favour a bigger role for the national parliaments, but the Netherlands will not accept an emergency break for the UK in Eurozone decision-making. We have to consider as EU what the price is we are willing to pay. If the price is too low, the UK may return later with the same problem. If the price is too high, it might also be a temporary respite because a special status for the UK might hinder required additional steps in European integration or in the completion of the Eurozone. If the Eurozone becomes the next EU, what do we do with an unwilling UK? A multi-speed Europe has to be considered at that point.

The result of the voting at the end of the discussions:

	1 The UK leaves the EU.	2 The UK becomes an associate member of the EU.	3 The UK remains a full member of the EU on re-negotiated terms.
What is the most likely scenario?	4	6	21
What is the least likely scenario?	16	10	2

De Bruijn referred to the United Kingdom referendum of 5 June 1975 to gauge support for the country's continued membership of the European Economic Community (EEC): 'history seems to repeat itself'. Pertusot: 'We could even think of a fourth scenario, in which the UK remains a full member of the EU on the same terms as they have now.'

	1 The UK leaves the EU.	2 The UK becomes an associate member of the EU.	3 The UK remains a full member of the EU on re-negotiated terms.
What is the best scenario for the UK?	0	15	11
What is the best scenario for the EU?	8	4	15
What is the best scenario for the Netherlands?	0	0	Everybody

Van Witteloostuijn: 'from a purely economic perspective it is not logical that everybody voted for the scenario in which the UK remains a full member of the EU as the best scenario for the Netherlands. But of course, it is not only about economics. In the end, it all depends on the characteristics of the re-negotiated terms to determine whether it is – politically and economically speaking – the most favourable scenario for the Netherlands'. De Bruijn: 'What is best for the EU and what is best for the Netherlands used to be the same thing: apparently, something has changed.'

Interested in the presentations or the synopsis from the first seminar: *'The Euro in the balance. Is there a middle course between a break-up and one size fits none?'*. Please visit www.wrr.nl

Further reading:

- Pertusot, V. (2013).
In Europe, Not Ruled by Europe. Tough Love between Britain and the EU. (Brussels: Institut française des relations internationales)
- Oliver, T. (2013).
Europe without Britain. Assessing the Impact on the European Union of a British Withdrawal. (Berlin: Research Paper Stiftung Wissenschaft und Politik, German Institute for International and Security Affairs)

Next seminar

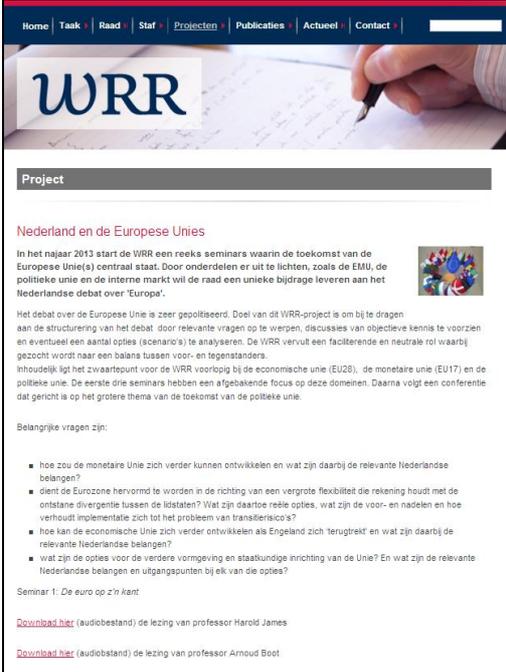
(working title)

'Competence creep revisited'

Op welke manier is de reikwijdte van het Europese optreden het beste te beheersen?

Time: February 2014, 17.00-20.00

Place: Academiezaal WRR, Buitenhof 34



The screenshot shows the WRR website with a navigation menu at the top: Home, Taak, Raad, Staf, Projecten, Publicaties, Actueel, Contact. The main header features the WRR logo and a photograph of a hand writing on a document. Below the header, a 'Project' section is visible, titled 'Nederland en de Europese Unies'. The text describes a series of seminars for the autumn of 2013, focusing on the future of the EU, EMU, and the internal market. It mentions that the seminars will explore various scenarios and their implications for the Netherlands. A list of key questions is provided, such as 'how can the monetary union be further developed?' and 'what are the relevant Dutch interests?'. The page also includes download links for audio recordings of seminars by Professor Harold James and Professor Arnoud Boot.