BRITAIN AND EUROPE: THE ENDGAME

AN IRISH PERSPECTIVE

Edited by
**Dáithí O'Ceallaigh and
Paul Gillespie**

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HAMM: What's happening?
 CLOV: Something is taking its course.

- Samuel Beckett, *Endgame*

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List of Contributors

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Dáithí O'Ceallaigh is a former Irish diplomat who served as Irish Ambassador in London from 2001-2007. He also served as Ambassador to the UN in Geneva (2007-2009), Ambassador to Finland and Estonia (1993-1998) and Consul General in New York (1987-1993). He was Director General of the IIEA from 2010 to 2013 and continues to Chair its UK Group and sit on its Board of Directors. He is Chair of the Press Council of Ireland and a member of the European Council on Foreign Relations.

Preface

Dáithí O'Ceallaigh

This book on *Britain and Europe: The Endgame* builds on over 20 years of study in the Institute of International and European Affairs. It particularly draws on an extensive series of talks and discussions with a wide variety of knowledgeable speakers in the Institute since 2010,[1] as well as study visits by the Institute's UK Group to London and Edinburgh.

This research has given the Group many valuable insights into the changing landscape of Britain's relationship with the European Union. In two earlier works written in the Institute, *Blair's Britain, England's Europe*[2] and *Britain's European Question*,[3] a number of scenarios were developed to explain the possibilities open to Britain and to suggest possible Irish responses. That approach is followed in this book, with Chapter 2 positing four possible scenarios that the UK might now follow as a basis for our analysis. Though written by various authors, there is a consistency of approach underpinned by the four scenarios.

The title of this book was chosen after great deliberation and reflects the collective view of the authors that the long saga of Britain's troubled engagement with the European Union is reaching one of those critical moments in history when an issue is resolved one way or the other. What's happening now is not just another episode in the saga but its closing scene. That insight animates the book and explains why great attention is paid not only to the evolution of Britain's relationship with Europe but also the profound political change that is taking place within Britain itself. These two processes, the dual sovereignty problem as we described it in previous publications, are of course intertwined and add to the complexity of the subject matter under review.

It will become evident that the Group believes this is a moment of great danger for Ireland and for Europe. For that reason, the report ends with a series of agenda points, on which there is consensus amongst all of the authors, recommending action to be taken by the various authorities in Ireland and the other Member States, a unique departure

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[1] See complete list in the appendix.
[2] Paul Gillespie (ed.), *Blair's Britain, England's Europe: A View from Ireland*, Dublin: Institute of International and European Affairs, 2000.
[3] Paul Gillespie (ed.), *Britain's European Question – The Issues for Ireland*, Dublin: Institute of European Affairs, 1996.

from the Institute's practice of refraining from policy advice, but one justified by the consequences of a British withdrawal from Europe.

Europe has entered this new critical phase because of developments within the ever-expanding Eurozone and within the United Kingdom. The deepening of interdependence within the Eurozone, which in time will include all but two or three Member States, is moving steadily in one direction. It is a process in which elements of sovereignty are being shared in order to preserve the financial and economic health of the Member States. This has major political implications for the future, such as the emergence of a Fiscal Union.

This is not a direction in which Britain wishes to travel. Some, perhaps a majority of its voters, wish to withdraw altogether from the European Union. We have therefore reached a watershed or endgame. Either Britain will withdraw from the EU or a way needs to be found which enables it to remain outside the Eurozone but inside the EU as a valued Member State. That would correspond with being Half-in under the scenarios described in Chapter 2, rather than Half-out, which is the situation in which Britain currently finds itself.

It will be seen from the following analysis that, were the UK to withdraw, it is doubtful if the bilateral relations currently in force between the EU and Norway, Switzerland or Turkey would find favour in London as a template for the future. On the other hand, if the UK stays in the Union, the gap between British preferences and Eurozone realities will widen. A bespoke solution for Britain's continuing membership of the EU is therefore required, one which allays British concerns and permits the Eurozone to develop. But it should be such that it provides reasonable comfort to all parties that the problem has been amicably resolved.

This will be difficult, but is not impossible. Solutions have been found in the past where one or more Member States had seemingly insuperable difficulties which were overcome by a combination of goodwill and ingenuity. There is no reason why a durable solution cannot be found on this occasion, provided of course that the UK wants to remain in the Union and provided also that the other Member States exercise the patience necessary to reach the required compromise. All Member States need to be able to buy into the agreement, as the closing chapters argue.

The future relationship between the United Kingdom and the European Union is as unpredictable as it is uncertain. Two questions dominate discussion in Ireland about the European future of the United Kingdom. First, will the UK hold an in/out referendum on its EU membership; second, what will be the outcome?

The answer to the first is easy; there will almost certainly be a referendum that will determine Britain's future in the Union. The Conservative Party of Prime Minister David Cameron is committed to holding one by 2017, a decision supported by most of the national print media in Britain and by various politicians in other parties. Public opinion and electoral considerations could force the Labour Party leadership, currently opposed to an in/out referendum, to change its mind. It is widely believed that continuing efforts to ensure better governance in the Eurozone will inevitably lead to treaty change, which itself would necessitate a referendum in the UK. A referendum, which, whatever its wording, would be fought as an in/out contest is therefore likely in the foreseeable future. Some might argue that the sooner it is held the better in the interests of reducing uncertainty.

If the fact of a referendum is almost certain, the outcome is less so. An ever-increasing number of people in the UK doubt the relevance of the EU Institutions in resolving the problems of the day. Not only are they sceptical of the EU's capacity but outright objection to the whole European project, to the promotion of "ever-closer union among the peoples of Europe", is increasing. This trend will contribute to an 'Out' vote in a referendum. However, there are those who argue that British pragmatism allied to the capacity to cast a cold look at where their best interests lie will eventually ensure an 'In' vote, resulting in the UK remaining in the Union.

Whatever the eventual outcome, it is clear that Ireland, which has a greater interdependence with the UK than any other Member State, must, in its own interests, carefully evaluate the possibility of a British exit and the effect it might have on those interests. If the British were to vote to remain in the EU, well and good. If they vote to leave the EU, what *can* Ireland do and what *should* it do? More to the point, what should Ireland do to try to ensure that Britain remains in the Union?

The Irish Government has stated unequivocally that it is in Ireland's interest to remain in the Union. The UK has not been very forthcoming so far about the reforms it wishes to see effected in the EU but there are some areas where the Irish and British Governments share common concerns, e.g. the EU-US trade negotiations, the development of the Digital Single Market and the reduction of some aspects of regulation. There are other areas of concern to the British where the Irish could be helpful, e.g. reform of 'welfare tourism' and language around "ever-closer union". It is in the interest of Ireland to be as helpful as possible to the British, consistent with its own interests in the wider EU to which Ireland remains committed. But Ireland also needs to prepare for the worst outcome from its point of view, which would be a British withdrawal.

The British have always made a case for British exceptionalism, emphasising their differences from the other EU Member States. However, a notable difference between this book and its predecessors is that it is written in a time of great uncertainty absent when the previous volumes were published. There is no certainty about the future constitutional relationships between the different elements in the United Kingdom: England, Scotland, Wales and Northern Ireland. Even following the 'No' vote in the Scottish independence referendum, the sovereignty of Westminster internally within the UK is now in question. The very prospect of an in/out referendum on EU membership underscores the uncertainty of the UK's relationship with the EU. Stated simply, Britain has two sovereignty problems, one relating to the internal sovereignty of Westminster over the regions of the United Kingdom and the other, external, being the relationship between Westminster and the European Institutions.

The current situation in the UK, as in much of the rest of the EU, is one of increasing localism, increasing questioning of central government, whether from Brussels or from national capitals, real loss and deprivation because of the financial collapse, with consequent popular anger. We are in a time of crisis, a time of change, which this book aims to elucidate.

Nor is there certainty about the Irish response to a British withdrawal. Many will argue that Ireland should seek to remain at the heart of the EU but others, especially those reliant on the British market, may argue that our best interests lie with the UK. There may also be generational issues at play in Ireland in relation to EU membership.

A word on terminology – the United Kingdom is referred to as Britain in the title of this book and on occasion throughout the text. Similarly, the European Union is, from time to time, referred to as Europe. Ireland generally refers to the state of Ireland, though, from time to time, the term covers the whole island. It will, I think, be clear contextually what is meant when those different terms are used.

I would like to thank all of the members of the UK Group in the Institute for their efforts and contributions since I took over the Chairmanship from the late Dr. Garret FitzGerald, in particular the Project Leader and co-editor of this book, Paul Gillespie. All of those who have authored the chapters in this volume deserve special acknowledgement but it is true to say that each Group member has contributed to the discussions and debates that have taken place over many years and finally resulted in this book.

The Group has benefited from remarkable engagement, generosity and assistance from the British Embassy in Ireland under Ambassadors Julian King and Dominick Chilcott and the Irish Embassy in London under Ambassadors Bobby McDonagh and Dan Mulhall.

In addition, a number of organisations active in the field of Irish-British relations have provided forums for members of the Group to share and discuss ideas with other interested parties, greatly enhancing our understanding of the issues. These include the Institute for British-Irish Studies (IBIS) at University College Dublin, Queens University Belfast and the British Irish Chamber of Commerce. To all those who shared their thoughts with us on the issues addressed in this book over the past few years, we are grateful for their time and the openness with which they invariably engaged with us. A full list of those who spoke at the Institute on topics relating to the themes of this book is set out in the appendix.

Finally, I would like to acknowledge all of the staff at the Institute who have helped to bring this work to fruition. Brendan Halligan and Tom Arnold, both as Chairman and Director General respectively and as contributing authors, have given unwavering support to this project since its inception. Jill Donoghue, as Director of Research, made hugely valuable inputs from the early stages. In the IIEA research team, James Kilcourse was the original driving force keeping the project moving forward, before handing over to the equally dedicated Linda Barry in the final months. The quality of the design is thanks to the talents and efforts of the Creative Officer, Alba Comenge.

It has been a privilege to chair this project and I trust the book will make a contribution to informed debate about Britain and Europe, not only in Ireland but also in the other Member States, and most particularly in Britain, our nearest neighbour.

1. Introduction

Brendan Halligan

Introduction

Britain has had a fraught relationship with Europe going back to the start of the Coal and Steel Community in 1951. The attitude has varied from the outright rejection of sharing sovereignty, as at the Messina conference inaugurating the EEC, to a qualified acceptance of its benefits, as at the Maastricht conference establishing the European Union in 1991, and abstention from a core policy, as with the Fiscal Compact in 2012.

Over the seven decades since the Second World War, each of the two main British parties has oscillated between the extremes of enthusiastic proponents of Europe or outright opponents of membership. Neither has adopted a settled position, indeed the period has been a history of shifting stances and, given the historically binary nature of British politics, it was inevitable that as one party shifted its stance on Europe the other veered in the opposite direction. This constant state of flux oscillating between belligerence and indifference led to Britain being described by the academic Stephen George as an "awkward partner" in Europe. Indeed, it is an exception to the heretofore general rule that, in national politics, membership of the EU is an accepted fact of life and seldom figures as the subject of daily controversy, other than among fringe parties.

Over the past decade, however, Britain's exceptionalism has become more pronounced due to the emergence of English nationalism as a political force, a hitherto unknown phenomenon. Expressed in terms that are insular, contrarian, populist, deeply critical of the establishment and resentful of social change, its growth has been fuelled by the belief that Europe is the cause of the malaise from which Britain is suffering and that immigration is at its root, which, in turn, is attributed to membership of the EU. Crucially, in public debate, the EU and immigration have become synonymous, one being the cause of the other. Europe has become shorthand for all that is wrong with the country.

Starting as a derided fringe movement, English nationalism has grown into a nationwide party, the United Kingdom Independence Party, known popularly as UKIP. True to its title, it seeks the withdrawal of the UK from the EU (ironically, while calling itself a party of the United Kingdom, it is predominantly an English phenomenon). Restoring

Britain's independence, it is said, will end the national malaise, restore its self-respect and regain its status as a great power.

Emergence of a new political order

With the emergence of UKIP, it is no longer possible to describe the UK as a two-party system, or as a 'two-and-a-half' party system, which some political scientists have used to take account of the Liberal Democrats. The arrival of UKIP is contributing to a multiparty system with the Conservatives and Labour now accounting for only 60% of the vote, their lowest combined vote ever recorded in opinion polls, with the remainder splintered between UKIP, the Liberal Democrats, the Greens and the Scottish and Welsh national parties, as well as the various parties in Northern Ireland.

To be more precise, it is England that can no longer be regarded as a two-and-a-half party system. This distinction between the UK on the one hand and England on the other is necessary because of simultaneous developments in Scotland. Whereas political allegiances there were once broadly similar to the rest of Britain, Scotland has evolved over the past two decades into a self-contained polity with quite distinct preoccupations and party affiliations. As the 2014 independence referendum demonstrated, support for independence is substantial and it has become the predominant issue in political discourse. Moreover, those supporting independence are generally in favour of Scotland remaining in the European Union, so that national independence and EU membership are seen to be mutually reinforcing, whereas in England it is precisely the opposite.

Such complexity is a far cry from the simple political system that obtained for most of the post-war period when the three great parties accounted for nearly the entire vote.

This sketch of developments demonstrates that since 2000, when the Institute published its last analysis of the relationship between Britain and Europe,[1] scenario-building has become a far more complex exercise. The conventional difficulty in analysing possible futures is compounded by an electoral system that eschews direct proportionality between popular support and seats won in parliament given that the outcome of a general election is heavily dependent on the regional concentration and relative strengths of party support. Within the English regions, party support had been settled for over half a century with, for example, the north of England being predominantly Labour and the south, with the exception of London, predominantly Conservative. But the electoral

map of England is being redrawn by UKIP, as the 2014 European elections indicate. This makes it even more difficult to rank the scenarios discussed in Chapters 2 and 7 in a credible order of probability.

Within England, which accounts for over four-fifths of the seats at Westminster, the future depends on the staying power of UKIP and on the strength of its appeal across the regions. Up to the European elections it was not clear whether it was a temporary party of protest or the permanent outcome of a seismic shift in political allegiances, such as occurred at the beginning of the 20th century when Labour overtook the Liberals as a national party. Neither was it clear if its appeal transcends the boundaries of age, class, gender and regional identity. The signs are, however, that a new politics is being born, as appears to be case in other European countries, and that UKIP is likely to be around for quite a while and will pull support from most regions, even those once thought to be Labour and Conservative heartlands. The one thing that can be said with certainty is that the political future of England has rarely been so uncertain. Stability has been replaced by instability, as evidenced by the fact that UKIP headed the poll in the European elections of mid-2014, did well in the subsequent local elections and afterwards remained high in opinion polls, in addition to winning two Westminster by-elections late in the year by defeating the Conservatives.

Scotland adds to the uncertainty for quite different reasons. In the context of the Westminster elections, the Scottish political system has been transformed due to the decline of the Conservative Party and the rise of the Scottish National Party (SNP). Scotland remains a three-party system but with the SNP replacing the Conservatives as a major player, with the Labour Party and the Liberal Democrats being the others. The reason for the change is that the Conservatives have been the biggest casualty of the way the majoritarian voting system works in practice. Although they polled a respectable 17% of the vote in the 2010 general election, the Conservatives nevertheless won only one Scottish seat in Westminster because their support was spread too evenly across the country and they failed to reach an overall majority in all but one constituency.

In contrast, the Liberal Democrats with a slightly higher level of support returned 11 seats while, to compound matters, the SNP got more votes than the Liberal Democrats but only won six seats. Since then, support for the SNP has risen to the point where it threatens the hegemony of Labour (which won 42 of the 59 Westminster seats in 2010). If its support holds then it is conceivable that the SNP could win most of the Scottish seats and were that to happen it would seriously endanger Labour's ability to form a government at Westminster, perhaps fatally.

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[1] Paul Gillespie (ed.), *Blair's Britain, England's Europe: A View from Ireland*, Dublin: Institute of International and European Affairs, 2000.

In sum, the rise of UKIP in England and the SNP in Scotland could prove to be game changers by weakening the two main parties to the point where neither could form a single party government. With UKIP drawing votes from the Conservatives in England and the SNP taking votes from Labour in Scotland anything is possible. Another unknown is the impact of the Liberal Democrat melt-down, most of whose 59 seats could well be shared between the Conservatives and the Labour Party, thereby compensating for their losses to UKIP and the SNP respectively. Alternatively, the rise of the Green Party indicates that former Liberal democrat voters are finding a new political home and in sufficient numbers to win some seats.

There is, of course, the added complication of Wales and Northern Ireland. Whereas Wales was also affected by the rise of UKIP, which emerged as the largest party in the 2014 European elections, there was no surge in nationalist support as in Scotland. Were there to be a major shift in local party support then the Labour Party, which generally wins about three-quarters of the Welsh Westminster seats, would be disproportionately affected. In Northern Ireland, the Conservatives would benefit were the Democratic Unionist Party (DUP) to opt to become its parliamentary allies since that would add as many as nine seats to the Conservative's parliamentary strength (which used to be the case under the old Unionist Party). A further complicating factor is that the SNP began to raise the possibility of a post-electoral alliance with its Welsh counterpart, Plaid Cymru the Welsh nationalist party, and with the Greens, an alliance to which the Social Democratic and Labour Party (SDLP) of Northern Ireland might be attracted.

All in all, there are too many moving parts to predict the composition of the next UK government. This has significant implications for the subsequent analysis.

Nevertheless, in the midst of all this uncertainty, two conclusions emerge. The first is that the UK is under great stress as a unitary state based on different nationalities. The second is that the EU's relationship with Britain is now being recast. Both are of historic significance and are the subject matter of the following chapters. In order to secure a benign outcome, the final two chapters outline a programme of collective action by the Member States of the EU and an individual programme by Ireland in defence of its own national interests.

2. Executive Summary and Four Scenarios

Paul Gillespie

Introduction

Uncertainty and complexity have become the hallmarks of the United Kingdom's future role in and strategy towards the European Union. Those affected by its policies are growing more aware of this uncertainty but increasingly perplexed about how it will be resolved. Much is at stake for the UK itself, for its nearest neighbour, Ireland, for its fellow EU members and for states around the world which would prefer to deal with a much more predictable partner. EU membership matters politically, economically and in foreign policy terms for governments, societies and companies dealing with the UK. Were it to withdraw from the EU, all concerned would have to adjust their policies accordingly, renegotiate their relationships multilaterally and bilaterally and draw conclusions about the balance of their interests for the future.

No state would be more affected than Ireland by such changes. This book aims to clarify the issues by using scenarios to explore alternative possibilities and to analyse how these would play out from Ireland's point of view. It calls on Ireland to take a lead in helping to shape an EU strategy to keep the UK in. Since all three dimensions concerned are equally subject to change – Ireland's own interests and preferences, those of the UK and the EU's dynamics based on a deepening Eurozone – its complexity is readily visible. This executive summary draws the three dimensions together; explains the four scenarios about Britain and Europe used in this book ranging from Fully-in through Half-in, Half-out and Fully-out; and assigns probabilities and preferences to each of them.

Issues in the UK and its relations with the EU

The forthcoming political calendar repeatedly underlines how difficult it is to make firm predictions about UK policies over the next five to ten years. The issues dealt with in this book concerning British politics, Scotland's independence debate and the UK's fraught relations with the EU crowd out the calendar with interlocking decision points.

The general election in May 2015 will determine whether the Conservative or Labour Party leads the next government, a significant factor in assessing the likelihood that a referendum will be held on EU membership by the end of 2017, as the Conservatives have promised. Having conceded so much ground to his Eurosceptic critics within the party and outside it, David Cameron faces a fateful choice on whether to value party unity over EU membership if he emerges the victor. Informed observers believe the party is likely to split on the question of EU membership whichever way he decides. This dilemma is increasingly visible to his negotiating partners in Brussels and around the EU Member States' capitals. They fear that in bargaining with a Conservative-led British Government so preoccupied with intransigent domestic critics they are making concessions that cannot be reciprocated. They are increasingly irritated that the British agenda keeps changing in response to those critics.

Efforts by the Cameron Government to clarify what reforms would satisfy them and allow them to recommend an 'In' vote in an in/out referendum campaign came repeatedly up against this obstacle, despite its efforts to canvass all EU Member States on an EU-wide approach before the general election. It led many continental governments to conclude that it will be impossible to satisfy the British demands and maintain the EU's four freedoms of movement involving goods, services, capital and labour. The role of immigration as a key issue in the UK debate is mirrored elsewhere among continental right-wing populist challenger parties, making governing parties loath to create precedents that would undermine established policies of openness.

Such sceptical attitudes towards the UK's negotiating stance would be less pronounced if Labour forms the next government, since so far its leadership has refused to commit itself to an in/out referendum; rather it associates a referendum with treaty reform involving a further transfer of sovereign competences. Many say such a treaty change will be a necessary final step in consolidating the Eurozone with new institutions and capacities; but there is strong resistance to that among governments which believe they could not win referendums on the subject in their own countries. So, for now, a treaty is politically unrealistic. Labour's policy of delaying the question is therefore more in the EU mainstream. And as this book argues, its centre of gravity, political orientation and behaviour in the EU policy debates is better described as Half-in compared to the Conservatives' Half-out position. Whether Labour's leadership can maintain its stance on the nature and timing of an EU referendum through the pressures of an election campaign and subsequent coalition bargaining remains to be seen.

The connection between British politics, the in/out decision on the EU and Scotland's independence debate became more clear in public discussion as the general election campaign opened in early 2015. Labour faced a huge task retrieving its electoral position from a Scottish National Party animated and quadrupled in membership after the independence campaign and set to take most of Labour's Westminster seats in Scotland. That prospect put a Labour-SNP government, or a minority Labour government with SNP support, on the political agenda. Since this would almost certainly be a government backed by only a minority of English MPs, it was calculated to anger Conservatives who favoured 'English votes for English laws' or an English parliament. Such a response would reinforce the English identity politics and nationalism thrown up by Scotland's devolution experience.

In a further twist, the new SNP leader, Nicola Sturgeon, insisted that the UK should not leave the EU if the referendum was not carried in Scotland as well as England. This introduced a federal component into the emerging constitutional debate going well ahead of the political system's capacity for and intended pace of change. But its purpose was to legitimise a separate Scottish vote on a major constitutional issue – thereby reopening the independence question – and not to contribute to a model of UK federalism capable of preventing its breakup.

A notable feature of the developing constitutional debate in the UK is the emergence of a new federal discourse, which can be stronger and more imaginative on the Conservative right than on the Labour left, but which now also embraces growing segments of its civil society. As Chapter 5 by Paul Gillespie argues, this discourse:

- Puts in question the existing centralised state apparatus;
- Tackles England's scale by proposing an English parliament or decentralised city-regions;
- Calls for a written constitution to define (possibly asymmetric) levels and competences of federal government;
- Institutionalises a supreme court to adjudicate the above;
- Transforms the House of Lords into a territorially-based second chamber; and
- Probably demands change in the first-past-the-post electoral system for Westminster elections now that politics is no longer dominated by two large blocs but has become a more fragmented five or six-party system requiring coalition governments.

Such federalists argue convincingly that without changes along these lines the UK cannot survive the challenge of Scottish and English nationalism and will probably break up. The traditional political culture of muddling through needs to be transformed into a constitutional engineering mode if the UK is to survive intact.

Thus the conditions are set for a perfect storm of internal and external political and constitutional uncertainty, linking these major issues together in an intensive calendar of political change. Their implications will fan out over the next five to ten years. The next section summarises the options and scenarios identified in the following chapters and brings them together in a portrait of potential change in the UK, the EU and Ireland over this period.

Options, scenarios and drivers of change

Concluding Chapter 7, Brendan Halligan argues that the greatest danger for any society is not to prepare for what was once unthinkable. Confronted with such uncertainty and complexity in the two most salient arenas of Ireland's international relations, the UK and the EU, these forthcoming changes demand a comprehensive analysis and response. Policy analysis is an uncertain science based on incomplete information. The move from analysis to prediction exposes forecasters to the judgment of subsequent events, often cruelly exposing the flimsiness of the initial analysis. This is all the more so in the political arena, which is more subject to contingency and chance as well as to the intelligent anticipation of change and consequent counter-moves by political actors. A certain outcome may be undesired or unacceptable, but that should not be an excuse for not thinking it through.

In that spirit, this book analyses the choices facing the UK in the EU and the factors driving them. Based on these, scenarios of change are developed reflecting potential outcomes. They range from an option of Fully-in, through Half-in and Half-out engagements constrained by Labour or Conservative politics, to a full withdrawal – Fully-out – colloquially known as 'Brexit'. These potential outcomes are set out later in this chapter, reprised in Chapter 4 and further analysed in Chapter 7.

The Fully-in scenario defined as one in which the UK joins the euro, Schengen, the Fiscal Compact and other policies from which it currently opts out or abstains. It is more hypothetical than real, and in fact is ruled out for the time horizon covered in the book.

The Half-in option is a more realistic expectation for an actively engaged UK. It would seek to limit further widening of the gap between UK and EU policies and could see the following scenario for the UK:

> The UK does not join the euro but signs up to as many EU initiatives
> as possible in all other policy fields, similar to Sweden or Denmark.
> It engages actively and positively in the EU and thereby maintains

its place at the Union's top table in spite of the fact that it is not a Eurozone member. The UK could even take the initiative to become a leader in certain policy areas, e.g. security, foreign policy, energy policy or digital policy. This stance currently informs the policy of the Liberal Democrats, a majority in the Labour Party and a small minority of Conservatives.

But if, as is argued throughout this book, the key dynamic will be the relationship between the Eurozone, as the core, and the rest, the question becomes one of how politically, economically and legally sustainable such an effectively two-tier EU can be. There is even the possibility that such in/out dynamics would push even the actively Half-in partners towards a Half-out position. For that reason the policy agenda for Ireland and the EU set out in the concluding two chapters of this book proposes developing complementary cores, including those based on security, energy and capital markets as an effective way to persuade the UK it should stay in.

That Half-out position is defined as:

> The UK steps back from European integration and puts distance
> between itself and the Eurozone, while seeking to ensure the integrity
> of the Single Market. It only joins the initiatives that matter most
> to it, acknowledging that some interests would take a hit. The block
> opt-out from Justice and Home Affairs legislation provides a possible
> template for this position. This approach would appeal to a majority
> of the Conservative Party.

The final position is Fully-out, defined as:

> The UK withdraws from the EU and seeks a bilateral free trade
> agreement or other special arrangement with the Union to secure
> trade relations. This would be the first time that a Member State has
> left the Union and the nature of the agreement between the UK and
> the EU is not clear. UKIP and some Conservative Party members
> have been campaigning for this outcome.

These options and scenarios are drawn from an historical and contemporary analysis of UK politics in relation to Europe. They take account of the retreat from empire, the post-war special relationship with the United States and the belated acceptance by its governing class from the 1970s to the 2000s that European integration was here to stay and offered indispensable advantages for Britain's well-being, as set out by Tony Brown in Chapter 3.

The reconfiguration and collapse of that consensus over the last 15 years is documented and analysed by Dáithí O'Ceallaigh and James Kilcourse in Chapter 4. It highlights factors such as:

- The strongly emerging issue of immigration which has been linked to English nationalism and hostility to the EU by UKIP;
- The influential role of the Eurosceptic media on the right of the political spectrum;
- The changing generational and political makeup of the Conservative Party; and
- Structural change in the EU represented by the Eurozone's deepening and its impact on the UK economy.

Chapter 5 illustrates the UK's dual sovereignty question over the next decade as its governments and peoples decide how to deliver on the promise of deeper devolution to Scotland and whether to withdraw from the EU. In this framework, it analyses Scotland's referendum campaign and its political aftermath, going on to examine the proposals for deeper devolution agreed between its main parties. Despite the 'No' vote against independence, the question is not resolved. This is because that deeper devolution cannot be delivered satisfactorily without a federalising process the Scottish nationalists do not want and the rest of the UK political class may be incapable of delivering – notwithstanding strong arguments from Wales that this is necessary if the UK itself is to survive. Should the UK decide to withdraw from the EU based on an English majority, the political conditions for a shift to independence would be realised. The chapter goes on to analyse the dual sovereignty question concerning Scotland in or out of the UK and the UK in or out of the EU in a matrix of four possible outcomes and their implications for Ireland.

The four major scenarios of possible change in the UK's relationship with the EU are developed from an analysis of the UK's contemporary politics and diplomacy. But just as the UK itself is subject to major current and forthcoming change, so too is the EU. The four scenarios take account of how the EU itself is changing by acknowledging the UK's difficulties in handling the deepening Eurozone, from which it has an agreed opt-out. Despite the clear resolve of the Conservative Government not to join the euro – a position it shares with Labour – its ministers fully acknowledged their country has a deep interest in the single currency's survival because they too would suffer if it disintegrates. They fought to defend their interest in the developing Banking Union, knowing its operation will deeply affect London's status as the principal European financial centre.

And taking due account of the two main parties' differing policies on the terms of UK membership, it is clear that both formally want to retain it and the influence it confers. Their challenge is to find a way of living harmoniously with an EU whose main dynamic of change is the deepening Eurozone. The rational basis of Britain's case for a reformed relationship with Europe is to define the rights and obligations obtaining for a Member State not committed to join the euro and yet subscribing to the Single Market, including its labour mobility. It remains to be seen whether, if that transpires, the UK will be joined there by other Member States like Denmark and Sweden. They also have formal or informal opt-outs from the euro, but have carefully distinguished themselves from the UK's agonised debate on EU membership and its quest for bilateral or multilateral renegotiation of its terms of membership. Instead they have opted to stay as close as possible to the developing core.

The UK, therefore, notably lacked allies as it sought reformed terms of membership in 2014 and 2015. This was despite the expressed desire of states ranging from Ireland to Germany to see it retain membership. Chapter 9 by Tom Arnold and James Kilcourse refers to some of the main reasons why official Ireland would wish the UK to remain a member, which are shared elsewhere:

> Without the UK, the EU would lose a strong advocate of an open and liberal Europe. The UK's strong support for free trade, including initiatives that are important to Ireland like the Transatlantic Trade and Investment Partnership (TTIP), would be muted. Ireland would lose an ally in the field of financial services and taxation, and would probably face greater pressure from continental partners on the question of its corporate tax rate. Other priority policy issues such as services liberalisation and the Digital Single Market would suffer a blow. The EU's Common Foreign and Security Policy (CFSP), which Ireland sees as furthering its foreign policy traditions and interests, would be diminished. Moreover, the balance of power within the EU would shift to the south and east, where Ireland has few natural allies on strategically important issues.

This passage illuminates an important reality in the overall and rapidly evolving story. The UK's negotiation and decision on membership will change the EU and its departure would be a radical step for both. Chapters 14 and 15 by Brendan Halligan model several scenarios for the future relations of Britain and Europe and the development of the EU itself in the event of the UK leaving. The analysis can be regarded as a continuation of the fourfold scenario about the UK, but this time looking at developments in the EU as a whole.

Implications for Ireland and the European Union

The implications for Ireland of these developments are outlined in Section C of the book. The scenarios of change for the UK and for the EU are brought together and assigned probabilities and preferences from an Irish perspective. Section C analyses the political, economic and business and labour implications and consequences of the UK's changing European relationships for Ireland and Northern Ireland. The main purpose is to encourage political leaders, policy-makers, attentive publics and citizens in Ireland, the UK and the EU to be prepared for rapid, unanticipated or even once unthinkable change.

Chapter 9 analyses the political implications for Ireland of the changes in the UK and the EU and how Ireland might maintain close relations with the first while simultaneously remaining a committed member of the second union. There are three key priorities for Ireland:

- Establishing economic recovery, growth and stability;
- Maintaining peace and stability on the island; and
- Keeping Ireland at the heart of the EU and a constructive player in its development.

Each objective is deeply exposed to changes in the UK's relations with the EU and the chapter assesses how the three main realistic scenarios would play out through them. There is a clear preference in terms of interest and policy for the UK to be Half-in as an active member. This has been articulated more clearly by Irish ministers and officials who can now speak more confidently into the British domestic debate without fear of admonishment for interfering. Active UK participation retains the shared liberal values between official Ireland and the UK within the EU. As the Taoiseach Enda Kenny said at a public event in London on April 2014: "It's fundamentally critical for the future of the European Union that Britain be a strong member".

That official preference could hardly be more strongly expressed. But the deepening Eurozone increasingly exposes the existing and developing gap with the UK. And the more the UK is pulled from a Half-in to a Half-out position by that dynamic, or by the political choice of Conservative-led government over Labour-led ones, the more the commonality of the Single Market linking Ireland, the UK and the rest of the EU would be jeopardised. That exposes Ireland to complex pressures from a UK disentangling itself from the EU mainstream, as well as to regulatory, legal and political pressures. The most radical transition, to a UK exit, would dramatically change many of these relationships for the worse from Ireland's point of view. But the chapter makes clear that Ireland would not be alone in this scenario. It would be as reluctant as other partners to reward the

UK for leaving in negotiations on a withdrawal. It would also expect EU sympathy for a bilateral deal with its neighbour.

Ireland can influence the negotiations with the UK, whether in an accommodating way by advocating concessions to keep it in; by supporting repatriation of competences; or by reaching terms for withdrawal. Ireland could choose a *reactive* response by avoiding any steps that would damage the close relationship with the UK, including stepping back from further EU integration. A *proactive* response would combine Ireland's commitment to the developing core of the EU with keeping good relations with the UK as a priority. A third *interpretive* option would see Ireland use its privileged knowledge and engagement with the UK as an interpreter and mediator of British views for other EU partners, acting as a bridge between them but being careful to avoid being perceived as speaking for the UK. These alternatives were developed to understand Ireland's stance in these talks, as is explained in Chapter 5. Ireland's official stance is geared to a proactive and interpretive effort to keep the UK as an active EU member; but realistically it may have to adapt to other possible outcomes.

Chapter 9 goes on to examine the use of the British-Irish Council, possibly influenced by the Nordic Council experience, as a foundation for Irish-British relations if the UK exits the EU. A UK withdrawal from the EU would reconstitute geopolitical and institutional relations in Europe, as is further analysed in Chapters 8 and 15 by Brendan Halligan on the UK outside the EU. These analyses see little prospect that a UK outside the EU would be accommodated by existing Norwegian, Swiss or Turkish models of association. Rather would a distinctive arrangement between the UK and the EU be sought and probably secured. But the difficulties and necessity of doing so only serve to emphasise how important it is to find a multilateral solution involving Ireland and its partners to keep the UK in.

Chapter 10 by Edgar Morgenroth examines the economic implications for Ireland of a British withdrawal from the EU, while the Irish business perspective is analysed in Chapter 11 and a trade union perspective is provided in Chapter 12. Chapter 10 analyses the economic impact of a Brexit on trade in goods and services, foreign direct investment and energy. It shows potentially radical effects on trade especially, involving a potential reduction of 21.6% of trade between the UK and the EU including Ireland. It is a large impact, even allowing for statistical distortion, with a greater impact on the UK than on Ireland. While some diversion of FDI and trade would be expected, the disruptive effect cannot be denied. The same disruption applies to services trade, to agriculture and to financial markets. This is a pioneering exercise in empirical analysis, which illustrates the risks – and opportunities – involved in these decisions.

Chapter 11 by John McGrane emphasise how much more reliant Irish small and medium sized industry is on the UK market than the multinational sector, with a potentially larger impact of disruption on employment and investment patterns arising from political decisions. Knowing this, some Irish business leaders and stakeholders are sympathetic to the UK's calls for EU reform, even as they make plans to mitigate the risks and optimise the opportunities arising if the UK withdraws from the EU. There is a widespread belief that liberal market values in the EU would probably be diminished if the UK exits. The chapter tracks the likely sectoral impact of the scenarios used in this book and makes clear that Irish business very much prefers the active Half-in scenario to the wary Half-out or Fully-out ones. As in Chapter 10, close attention is paid to whatever trading, economic and political deal would be done between London and Brussels, knowing that were the UK not to incur significant costs of exit, the value of EU membership itself would be undermined. The chapter also focuses on the competitive consequences of deeper internal UK devolution for Ireland. Bilateral relations between Ireland and a UK out of the EU as well as Ireland's participation in multilateral negotiations on British withdrawal could modify that new harsher competitive environment – and there would also be significant potential opportunities for investment and growth arising for Ireland from the UK's greater isolation.

In Chapter 12, Blair Horan looks at the UK's relationship with the European Union from the viewpoint of the Irish and British trade unions and the wider British labour movement. From the Labour Party's rejection of the Schuman Declaration in 1950, through the Trades Union Congress's (TUC) standing ovation for Jacques Delors in 1988 to Tony Blair's decade-long hesitation over the euro, the Left in Britain has found it difficult to reach a definitive position on the EU project. Blair took a positive approach to Europe but never succeeded in changing attitudes set during the Thatcher years because the focus was exclusively on the UK's interests and the original values of European integration did not feature.

A continuing aspect of the European debate in labour and trade union circles has related to the social dimension of integration. The TUC submission to the UK Government Review of the Balances of Competences emphasised that the social and economic dimensions must go hand in hand and in order to maintain citizen support for the EU, the social aspect must be strengthened and maintained. Significantly, a TUC Statement on the European Union in 2013 argued for continued UK membership and saw uncertainty around the UK's relationship with Europe jeopardising investment and jobs. It further insisted that the real agenda of the Conservative Party in its arguments on the regulatory burden of EU membership is an ideological one, to roll back the progress the EU has delivered in the social and employment area.

In the event of a British withdrawal, the primary concern of the Irish trade union movement would be to prevent social dumping. That is a concern it will share with the European movement as a whole, not only to prevent unfair competition but also to forestall an unwelcome precedent and prevent a race to the bottom.

These economic perspectives look east-west from the Republic's perspective. Chapter 13 by John Bradley examines the political economy of Northern Ireland in this changing context. It suggests several ways in which Northern Ireland's exposure to a changing UK relationship to the EU should be addressed. The North's dependency on UK transfers was reinforced by the troubled decades of violence from the 1970s and not alleviated after the Belfast Agreement, despite expectations of normality, because inter-community relations remained strained. Northern Ireland's small 2% scale in the overall UK economy hid the transfers; but they are now more in the open because of developments in Scotland and Wales and more discussion of transfers there, from which the North benefits most per head (although poor statistics make comparisons difficult).

The December 2014 Stormont House Agreement trades greater corporation tax autonomy for agreement to implement UK-wide welfare cuts. It also must be self-financing. That makes development planning all the more necessary, but difficult. It should address the triple challenge of internal policy reform in light of:

- Devolution elsewhere in the UK;
- The dominance of its UK links when the UK is disengaging from the EU; and
- The need to strengthen economic and business links as Ireland and Britain move in opposite directions in the EU.

The chapter argues that Northern Irish policy-makers need to plan to withdraw from the UK subvention over the medium term, identify strong parts of its economy and plan an enterprise strategy on an all-Ireland basis. Otherwise a Brexit would cruelly expose the North's dependence on the rest of the UK.

This critique of policy shortcomings in the North is pitched in a constructive fashion around common tasks for its policy-makers. They need to respond more imaginatively to the UK and EU pressures discussed in this book. The required North-South agenda, including for the cross-border region, should be taken much more seriously in the Republic too. This is because these pressures of change in the UK's internal and external policies arising from its dual sovereignty crisis of political identity will spill over in unanticipated and probably undesired ways on Ireland.

The final section of Chapter 5 sketches some of these possible developments as Scotland debates whether to remain in or out of the UK and the UK debates whether to remain in or out of the EU. There is a remarkable similarity between the two debates, which is only slowly emerging in the UK's public discussion about its future. Just as the UK political and policy establishment rapidly panicked about the end of the union towards the end of the Scottish referendum campaign when a poll revealed Scots could vote 'Yes' to independence, it is becoming apparent now that the UK might not survive a referendum vote to withdraw from the EU if Scotland was outvoted by England and resolved to make its own decision. This would reopen the independence question and probably lead to a breakup of the UK.

The four possible outcomes of these interlocking decisions are taken up strongly in Chapters 14 and 15 on the implications of a UK exit for the UK itself and for the EU. Outcome 1 keeps the UK in the EU and Scotland in the UK and is still the most probable one. This would need a federalising process in the UK, echoing a similar development in the EU. It would need to transform both discourses into win-win mode. That would escape from the zero-sum politics of resentment set out in the book's Introduction and Chapter 7, arising from a close result either way in a UK referendum on EU membership. Such an outcome is doable in principle. It demands a major transformation in British political culture and political psychology over the next five to ten years, which may not be achievable in that timescale. But panic about breakup and fear of the consequent loss of European and global influence could engender it.

Scotland could, secondly, decide to stay in the UK (as it has) but the UK later decide to leave the EU, almost certainly with an English majority determining the referendum result. It would re-open the Scottish question and therefore the UK one, also further unsettling the UK. This is because EU membership is seen by Scottish elites, institutions and public opinion as a more existential question involving basic interests than is the case in England – making Scotland more like Ireland and Wales in this respect. Outcome 3 would see Scotland out of the UK and the UK remaining in the EU. This is less plausible following the September referendum, but it remains possible if Scottish public opinion remains deeply dissatisfied about the delivery of devolution.

Outcome 4, most radically, would see Scotland out of the UK and the UK out of the EU. A UK breakup is likely in this case, since a predominantly Eurosceptic England with fewer communitarian or solidaristic values would increasingly resent and be less willing to fund Wales and Northern Ireland; they too would want to rethink their futures despite their existing distinct but deep relations with the rest of the UK. This would require radical change in the Irish-British regime of complex interdependence. The Irish border would become the EU one and many of the disruptive impacts already discussed would

come into play. In this setting Irish unity would come onto the political agenda much quicker than Irish political elites or voters expect or desire as they addressed the following question: What would happen to Northern Ireland if the UK breaks up? Would the North not be better off in a federal deal with a Dublin in the EU than with a London out of it, even former unionists might argue. That would bring the debate stimulated by the New Ireland Forum 30 years ago back onto the political agenda in a veritable cascade of once unthinkables.

Ireland as a whole has a great deal to lose if the UK withdraws from the EU. Despite the transformed Dublin-London relations, the pressures driving Conservative politics on Europe take little account of Ireland's interests. They are a product of post-imperial English nationalism and reflect generational, regional, social, psychological and cultural conflict over Britain's future in Europe and the world. Although joint European membership provided an enabling setting for Irish-British and nationalist-unionist reconciliation over the last 40 years, it would be severely disrupted by a UK exit from the EU.

Chapters 14 and 15 examine the implications of a UK exit from the EU on both unions. It paints a bleak picture of what is at stake. The same author indicated in the Introduction his belief that the unstable nature of the Half-in or Half-out scenarios – given the rapid development of a two-tier EU dominated by the consolidating Eurozone – would tend towards the exit scenario. If true this increases the likelihood of exit coming to pass.

Exiting the EU would involve a two-year withdrawal negotiation outlined in Chapter 8. It is defined in Article 50 of the Treaty on European Union, during which all remaining Member States would want to protect their interests against a more competitive UK outside the EU yet still wanting to enjoy access to its markets and mobilities. That could make for a rancorous process even if all wished to find a workable solution. Looking at the possible outcomes in Chapter 8, one rapidly understands that existing models are unlikely to suit a large power such as the UK. The Norwegian or EEA model would require that the UK adhere to the EU Single Market's four freedoms and accept decisions made about them without being at the table. It is therefore more a fantasy than a realistic model because labour mobility would be part of it – precisely what British Eurosceptics reject about EU immigration. Much the same can be said about the Swiss model of bilateral relations. Turkey's associate status is more to do with joining than leaving the EU and involves a similar process of 'fax diplomacy' as Norway and Switzerland. Going further afield to Singapore yields another possible option – going it alone. But differing scale and centrality make it unrealistic too.

That leaves something unprecedented: a privileged partnership between the UK and the EU. However the only way to regulate EU-UK relations would be through a series

of sectoral agreements covering goods, services and capital but excluding the free movement of persons, agriculture and fisheries. And the problem with this approach is that such agreements would have to be underpinned by an elaborate institutional framework governing their homogenous interpretation and by establishing mechanisms for independent surveillance, judicial enforcement and dispute resolution – cutting right across Conservative and Eurosceptic notions of absolute parliamentary sovereignty. A distinctive solution may therefore be the only realistic answer. It could involve uniform movement on border controls and 'welfare tourism' and give UK special roles in defence and finance. But that very possibility strengthens the case for keeping the UK in through a multilateral EU effort, as is proposed in this book's final two chapters.

Chapter 15 surveys the possible effects of a UK exit on the remaining EU and finds it would be diminished in economic, financial and foreign policy terms, even if there would be a homogenising effect on political and institutional practices and laws. Germany would be strengthened; there would be a shift east in political influence reflecting Poland's greater relative strength; and a federal-type political union would become more likely – involving a referendum in Ireland. The idea of a core Europe would go, in that all states would be likely to sign up to the euro, making Swedish or Danish exceptionalism more difficult to sustain. It can readily be seen that such a scenario might not suit Ireland or other states valuing a more liberal, open and looser EU than might evolve in these circumstances. The UK would also lose external influence – on the UN Security Council, with the United States, in the Group of 7, and with the loss of sterling as a reserve currency. The move to a more multi-polar world dominated by the US, China and the EU would be accelerated.

Anglo-Irish relations would then ironically become a more accurate way than British-Irish or Irish-British relations to describe a more England-centric neighbour's relations with Ireland. Differing scales and power untempered by common EU membership would make for a much more power-defined encounter and for more zero-sum outcomes in agriculture, free movement of people, financial services, justice and energy, to name only some of the contentious issues requiring bilateral negotiation sharply itemised in Chapter 14.

In this setting of rapid change, how safe would it be to assume that Irish public opinion would want to stay in the mainstream of European integration? This cannot be assumed but must be argued for by those who support that path. They need to do that properly informed by possible developments in the EU without the UK. These include:

- The geopolitical shocks arising from the crises in Ukraine and the Middle East;

- The possible traumatic impact of the *Charlie Hebdo* murders in Paris and other terrorist acts on inter-community relations and immigration politics in Europe; and
- The likely future convulsions in the Eurozone pitting southern peripheries against German-led creditor states following the elections in Greece, which brought the radical left-wing Syriza party to power, a result expected to influence elections in Spain, Portugal and Ireland. A growing gulf between the more closely integrated Eurozone system, if it is associated only with austerity and deflation, and the socio-political bases of popular legitimacy, bedevils European politics. Such political turbulence could accelerate the deepening of the Eurozone, or conceivably lead to its disintegration into a smaller group of states.

During the period of negotiated withdrawal there would be powerful political, media and interest-based pulls attracting Ireland back towards the British orbit, including from small and medium sized businesses anxious to reserve their access to the British markets, as Chapter 12 indicates, and from Northern Ireland unionists nonplussed by these developments and anxious for reassurance about them. How would those traditionally hostile to the British presence in Ireland respond to a choice between a deepening Eurozone and withdrawal into relative European isolation with the UK which would reintroduce a zero-sum power nexus to Irish-British relations? Confronting such possibilities makes it clear how much is at stake in the four major scenarios discussed in this book.

An Irish perspective on scenarios of change for the UK and the EU

The four scenarios for the UK's future relationship with Europe developed here are associated with different models of the EU itself in a wider Europe. The EU and the UK have to decide which of these models they prefer, accepting that they are not unilateral or bilateral but multilateral decisions and outcomes. The following composite summary of the scenarios for the UK's development, which assigns probabilities and preferences to them, reflects a consensus of the authors of this book.

Scenario 1: Fully-in

The Fully-in scenario, in which the UK joins the euro, Schengen and other policies from which it currently opts out or abstains, while theoretically possible, is ruled out

for the decade-long time horizon covered by this book. It is nevertheless included here to complete the full range of possibilities. It would potentially result in a balanced Europe: geographically; geopolitically between the major powers and smaller states; and politically preserving a balance between liberal and social freedoms in a setting of diversity. Conceivably, if the Eurozone holds together and deepens and if global events produce a world of regional cores and poles centred on Europe, the United States, China and other Asian powers by 2030, there would be scope for a rethink by the UK – or its successor state – about becoming a full part of this regime to optimise its power and influence. The logic of a fully participating UK implies a fully functioning EU that has resolved its political and economic governance problems sufficiently to attract the UK – or its successor state – to join. It would approximate a United States of Europe, albeit one not as integrated as the United States of America is now. According to some demographic and economic projections, the UK could be Europe's most populous and prosperous state by 2050, so this would be in its interest.

There is very little probability of this scenario happening soon. Seen from early 2015, such a full federal vision is quite unrealistic on grounds of pooled interests, common budgets, transnational redistribution, shared values or political legitimacy. Official Ireland and most informed Irish opinion keeps it open as a potentially desirable if unrealistic scenario which would preserve and enhance the two states' newfound interdependence optimally in the wider European setting, where both of their political identities have found a more harmonious expression.

Scenario 2: Half-in

In the Half-in scenario the UK does not join the euro but signs up to as many EU initiatives as possible in all other policy fields, similar to Sweden or Denmark. It engages actively and positively in the EU and thereby maintains its place at the Union's top table in spite of the fact that it is not a Eurozone member. The UK could even take the initiative to become a leader in certain policy areas, e.g. security, foreign policy, energy policy, capital markets or digital policy, if complementary cores of integration are developed alongside the Eurozone. This is a more likely outcome if the Labour Party forms or leads the next majority government. The party opposes an in/out EU referendum unless there is treaty change. Its leadership sees little or nothing to attract it politically by agreeing to a referendum other than in those conditions, despite media pressures and immigration concerns, and seems unlikely to alter that despite facing pressure from UKIP in certain constituencies.

This book emphasises the strategic importance of the 2015 general election for the UK's future in Europe. It could produce a minority Labour government forced to go to the polls again soon in search of a majority. A Labour-led Government capable of commanding a parliamentary majority for five years would be expected to adopt most of this Half-in scenario. It would be matched by an EU in which the Eurozone deepens, yet which finds room for the UK and others outside that setting but still fully-in the Single Market and potential complementary cores in security, energy and capital markets. Such a process would eventually need to be codified in a treaty requiring referendums, including in Ireland and the UK. Alternatively, a minority Labour Government with SNP support on confidence and supply questions would be less stable and might opt for another election within 18 months.

Irish policy would support the Half-in approach, partly in the hope that over time it would overcome the Euroscepticism so engrained in British attitudes. Such an outcome would depend on successful resolution of the internal sovereignty question facing the UK over Scotland, devolution and federalisation. The political and constitutional debates on internal and external sovereignty might constructively affect each other. Because of the clear-cut policy difference on the European issue between Labour and the Conservatives, the probability of this happening depends largely on the election outcome. In light of the analysis of this book and at the time of writing, it is a 50-50 possibility.

Scenario 3: Half-out

The Half-out scenario sees the UK step back from European integration and put distance between itself and the Eurozone, while seeking to ensure the integrity of the Single Market. It only joins the initiatives that matter most to it, acknowledging that some interests would take a hit. The block opt-out from Justice and Home Affairs legislation, along with opting in to the European Arrest Warrant, provides a possible template for this position. The political psychology and dynamics of this position most clearly fit a Conservative-led majority Government. It would be dogged by the European issue until a referendum was held and, assuming that resulted in a decision to stay in, there is a danger the issue would not be fully resolved.

There would be a similar imperative to resolve the internal sovereignty question as in the previous scenario and the continuing possibility of both unravelling to reproduce constitutional crises over the EU and Scotland. Such a dynamic would lead inexorably towards the final Fully-out scenario, increasingly with the same political logic towards a more German-dominated core Europe. Alternatively, but less probably than in the Half-

in scenario, the mobilisation of interests, cross-party support and public debate in favour of staying in the EU required to win a referendum by 2017, together with the powerful argument that staying in the EU would be necessary to prevent Scotland seceding, would galvanise political elites to tackle the internal sovereignty question with a federalising programme matching that in the EU itself. Without that, the UK would suffer steady loss of influence in a Europe increasingly dominated by the Eurozone core.

The probability of this Half-out outcome happening is also 50-50. From Ireland's point of view it is much less preferable to the previous scenario, because the commitment to work together in the EU is less and there is a greater likelihood of more competitive outcomes. But if the political energy put into winning a referendum could be turned in a more constructive direction, Ireland would certainly welcome that.

Scenario 4: Fully-out

The Fully-out scenario sees the UK withdraw from the EU and seek a bilateral free trade agreement or other special arrangement with the Union to secure trade and political relations. This would be along the lines outlined in Chapters 8 and 15. Negotiating the likely two-year withdrawal and the resulting outcome would require the greatest care to preserve respective interests and values. It would alter the shape of Europe and the EU by bolstering German power, pushing its centre of gravity eastward towards Poland and potentially diminishing liberal influence. That could set up dangerous disintegrating trends elsewhere too. It would be a multi-level Europe, putting the UK in a special position for which there is little precedent. It would be a dangerously unstable settlement for Irish-British relations, putting power-dominated relations back in the saddle.

Its probability is less than the Half-in and Half-out scenarios, but it is much more possible than the first Fully-in one. For Ireland, this would be the most unstable of all and the most vehemently resisted.

The final Section E of this book is entitled 'An Agenda for Action'. It goes beyond analysis to advocate a forceful, smart and coordinated strategy by Ireland and its fellow Member States designed to convince the UK Government and citizens they should remain in the EU. The object is to find multilateral solutions from which all can benefit. These would include the development of complementary cores of integration like security, energy and capital markets alongside the deepening Eurozone, which would allow the UK play a leading role. Chapter 16 is a succinct overview of Britain's external sovereignty problem with Europe, how that relates to its internal problem with Scotland and how its EU

partners should respond. Chapter 17 sets out a negotiating agenda for Europe based on the EU's own strategic agenda over the next five years. It links that agenda to the issues raised by the British Government on EU reform and suggests how they can be addressed constructively at high political and technical levels.

The book concludes in Chapter 18 with an agenda for Ireland proposing that this State can be a leader of the strategy if it chooses, based on its knowledge and experience of the UK and ability to interpret that state's problems for other EU Member States. It is in Ireland's fundamental interest that the UK remains a member of the European Union. It would be enormously damaging to Ireland if the UK leaves. Joint membership of the European Communities underpins the greatly improved relations between the two states over the last 40 years. That could unravel in a dangerous and damaging bilateralism if the UK leaves the EU.

SECTION A

ISSUES FACING BRITAIN AND EUROPE

3. An Historical View

Tony Brown

The founding Treaties

On 19 September 1946, Winston Churchill addressed the University of Zurich. He set out a vision for what he described as "The United States of Europe" by which the European family was to be recreated in some form of regional structure. But he insisted that if at first all the states of Europe were not willing or able to join a union "we must nevertheless proceed to assemble and combine those who will and who can. Therefore, I say to you, Let Europe Arise!"[1]

That call, however, was directed to European nations other than Great Britain. Churchill had written years before in response to Aristide Briand's 1930 plan for European economic and political union: "…we have our own dream and our own task. We are with Europe, but not of it. We are linked, but not comprised. We are interested and associated, but not absorbed."[2] It was a view from which he had never departed and which summed up the view of a whole generation of Britain's politicians.

When the Schuman Plan was launched in May 1950, with its prospect of shared sovereignty in key economic sectors and the creation of supranational institutions, the immediate reaction in London was both negative and sceptical. The Labour cabinet minister, Herbert Morrison, thought for a while, shook his head and famously said: "It's no good, we cannot do it, the Durham miners won't wear it", the Durham miners being used as a synonym for the British working class. James Callaghan, then a junior Minister at the Admiralty and later Prime Minister, suggested that Britain should participate in the negotiations, which he saw as a functionalist approach to co-operation in specialised areas. He was summoned by Ernest Bevin to be told: "They don't want us, Callaghan."[3]

Britain did, however, agree to be represented at the 1955 Messina Conference convened to consider the creation of a European Economic Community but did so with little enthusiasm, and no commitment. Britain was represented by Russell Bretherton, Under Secretary at the Board of Trade, and when the negations got to the point where agreement seemed imminent he asked for the floor and intoned:

> The future treaty which you are discussing has no chance of being agreed; if it was agreed it would have no chance of being ratified; and if it were ratified it would have no chance of being applied. And if it was applied it would be totally unacceptable to Britain. You speak of agriculture which we don't like, of power over customs, which we take exception to, and institutions, which frighten us. *Monsieur le President, au revoir and bonne chance.*[4]

He then walked out, never to return, with the result that Britain did not join the European Economic Community as a founder member. Years later he commented that had Britain opted to join the new Community "we could have made that body more or less whatever we liked."[5] Instead, the UK was to wait on the sidelines for 18 years while others laid the foundations for what was to become the European Union.

Change of mind but not of heart

Drafted and ratified by six founding nations, the Treaty of Rome came into force in 1958 and by 1961 progress in creating the EEC was so impressive that Britain applied to join. Doubts about the trustworthiness of the French and Germans and the capacity of continentals to organise durable ventures, which had been so widespread a decade earlier in British government and establishment circles, had, according to Christopher Tugendhat, been largely cast aside and, in his words, "the Community was perceived as something that worked and membership of it as being essential if Britain was to maintain her international economic and political interests."[6]

The *Official History of Britain and the European Community* is illuminating on this point, stating that the eventual decision in summer 1961 to apply for membership of the Communities was not "in any way…'a decision for Europe' in the sense in which that

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[1] Winston Churchill, speech at the University of Zurich, 19 September 1946, www.coe.int, accessed 10 February 2015

[2] Helene von Bismarck, '"With Europe But Not Of It" – An Exclusively British Attitude?', *The British Scholar Society*, 15 June 2012, www.britishscholar.org, accessed 10 February 2015.

[3] Edmund Dell, *The Schuman Plan and the British Abdication of Leadership in Europe*, Oxford: Oxford University Press, 1995, p.290.

[4] Roy Denman, *Missed Chances: Britain and Europe in the Twentieth Century*, London: Cassell, 1996, p.198.

[5] *Ibid*, p.198.

[6] Christopher Tugendhat, *Making Sense of Europe*. London: Penguin Books, 1987, p.76.

phrase has since been used."[7] This clarification needs to be borne in mind if Britain's role in Europe is to be put in its proper historical context. As the *History* explains, the purpose behind joining the Communities was:

> …to retain the level of influence in Washington which exclusion from the common market threatened to reduce. It followed from that goal that membership of the Communities must not weaken Britain's ability to lead the Commonwealth. Indeed, it became one government argument in favour of entry that it would strengthen the British economy so that Commonwealth leadership would remain possible, whereas exclusion from the common market would weaken the economy to the point where leadership would be impossible.[8]

Ultimately, President de Gaulle vetoed the British application two years later, on the grounds that:

> England in effect is insular, she is maritime, she is linked through her exchanges, her markets, her supply lines to the most diverse and often the most distant countries… It must be agreed that first the entry of Great Britain, and then these States, will completely change the whole of the actions, the agreements, the compensation, the rules which have already been established between the Six…[9]

Writing shortly afterwards, Nora Beloff reacted by noting that for almost two years the British people had been re-examining their national identity and asking: "Are we still a great power? Is there any reality left in the old notions of national sovereignty, patriotism, Commonwealth leadership, and military independence? If not, should the British surrender a large slab of public business to a Community in which they would be minority partners only?"[10] That question has remained largely unanswered till this day.

The second British application, in 1967, by Harold Wilson's Labour Government, was again vetoed by President de Gaulle but his abrupt departure from office in 1969 saw negotiations re-opened on the initiative of his successor, Georges Pompidou, and the

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[7] Alan Milward, *The Rise and Fall of a National Strategy 1945-1963. Official History of Britain and the European Community: Volume I*, London: Routledge, 2002, p.310.
[8] *Ibid*, p.310.
[9] Charles de Gaulle, press conference by President de Gaulle in Paris, 14 January 1963, www.isn.ethz.ch, accessed 10 February 2015.
[10] Nora Beloff, *The General Says No: Britain's Exclusion from Europe*, Harmondsworth: Penguin Books, 1963, p.7.

German Chancellor, Willy Brandt, and led to the entry of Britain, Ireland and Denmark into the EEC on 1 January 1973.

By then, the Labour Party was out of government and was experiencing serious internal divisions on Europe, so that when it returned to office in 1974 a commitment had already been made to renegotiate the terms on which EEC membership had been agreed and to put the outcome to the British people for approval or rejection. Following talks, concluded during the first Irish Presidency of the EEC in June 1975, a referendum was held in which the British electorate voted by 67% to 33% in favour of continuing membership.

One of Wilson's close associates, Marcia Williams, has argued that he had successfully carried Britain through a most dramatic and historically important period in which "All political Parties were divided on the Market issue, families throughout the nation were divided. Yet, the nation emerged from the referendum experience responsible and united in their respect for the final decision to stay in. This was a remarkable achievement indeed."[11] And so it was, but the Wilson and, later, Callaghan Labour Party Governments were to be succeeded in 1979 by a Conservative Government led by Margaret Thatcher, an event that was to change history again and set Britain on a path from which it has not deviated, except for a brief flirtation with 'Europe' during the first Blair Government.

The Single European Act

The Single European Act of 1987 was the first comprehensive amendment of the founding Treaties and was drafted on the basis of the Solemn Declaration of Stuttgart (19 June 1983) in which the leaders of the then ten Member States of the European Communities, including Margaret Thatcher, stated that they were "determined to achieve a comprehensive and coherent common political approach and reaffirming their will to transform the whole complex of relations between their States into a European Union."[12]

In his history, *The Tories and Europe*, John Turner reveals that Thatcher felt that the Solemn Declaration "was irrelevant and carried no legal status."[13] Her Foreign Secretary, Geoffrey Howe, warned that the UK wanted achievements rather than proclamations masquerading as achievements. These statements reflected a general misconception about the European project in which general and visionary statements were, in fact,

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[11] Marcia Williams, *Inside Number 10*, London: New English Library, 1972, p.296.
[12] Solemn Declaration of Stuttgart, 19 June 1983.
[13] John Turner, *The Tories and Europe*, Manchester: Manchester University Press, 2000 p.97.

followed by achievements such as the Rome Treaty and the Common Market, the Single European Act and the Single Market and, then, the Maastricht Treaty. In all such cases, "the Tories acted as if they could not see the developments coming. This myopia prevented the Tories from building any viable alternative strategies and always left them in a reactive position."[14]

More than a decade later, in 1996, after the adoption of the Maastricht Treaty with its blueprint for Economic and Monetary Union, Roy Denman wrote of "a sad tale, of a refusal to face change at home and abroad, of the continuation this century of a long period of national decline, and of fateful, missed chances in Europe. The last chance this century will soon arrive…for Britain this is likely to be yet one more missed chance. Can the record be changed? At bottom remains the answer, never given, to General de Gaulle's question of January 1963: would Britain, *insulaire, maritime*, be prepared to throw in its lot wholeheartedly with a uniting Europe?"[15]

The Bruges speech 1988

Some argue that the answer had been given definitively by Margaret Thatcher when addressing the College of Europe in Bruges a year after the adoption of the Single European Act establishing the Single Market. At the time of its creation she had stated that it was an "overriding positive goal" and she had proposed its ratification by parliament. In her Bruges Speech she claimed the Single Market meant "action to free markets, action to widen choice, action to reduce government intervention" and then laid down a marker that remains central the British debate:

> Our aim should not be more and more detailed regulation from the centre: it should be to deregulate and to remove the constraints on trade…we certainly do not need new regulations which raise the cost of employment and make Europe's labour market less flexible and less competitive…

Stating clearly that Britain's destiny was "in Europe, as part of the Community" she stated that the best way to build a successful Community was through "willing and active cooperation between independent sovereign states". She insisted that "to try to suppress nationhood and concentrate power at the centre of a European conglomerate would be highly damaging and would jeopardise the objectives we seek to achieve." She

highlighted the danger of being distracted by 'utopian goals' asserting "Utopia never comes, because we know we should not like it if it did."[16]

That speech was to shape the discourse on Europe down to the present day.

Within that debate, one view is well represented by the Bruges Group whose chairman, Martin Holmes, described the speech which gave its name to the Group as:

> …one of vision, clarity and foreboding… She attacked the Europe of Delors and in the process reinvented Euroscepticism as an intellectually powerful and popular movement across the political spectrum.
>
> With chilling accuracy she predicted the stark choice facing Britain with which we have wrestled since. Should Britain be part of a centralised, unaccountable federal Europe or should we use our influence to help create a Europe of independent, freely trading, cooperating nation states?
>
> Margaret Thatcher opted for the latter choice and her vision was supported by the British people.[17]

The contrast could not be clearer. The "stark choice" was between a "Europe" seen as a centralising and unaccountable federal organisation and an alternative vision of an "independent" free trading country which merely cooperates with other nation states whenever convenient. That perceived contrast lies at the heart of contemporary debate in Britain and informs much of the analysis that follows.

Treaty changes since the Single European Act

In 1992, the Treaty on European Union was signed at Maastricht and committed the Community/Union to the achievement of Economic and Monetary Union, but with an opt-out for the United Kingdom. It also provided for the development of common foreign and defence policies and for the strengthening of cooperation in the fields of justice and home affairs. It introduced the concept of Union citizenship. The Treaty's extensive Social Chapter was the subject of another UK opt-out. The Eurosceptic British

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[14] *Ibid*, p.96.
[15] Roy Denman, *op.cit.*, p.294.

[16] Margaret Thatcher, 'The Bruges Speech', speech to the College of Europe in Bruges, 20 September 1988, www.margaretthatcher.org, accessed 10 February 2015, p.9.
[17] Martin Holmes, 'Bruges Revisited', The Bruges Group (20 September 1988), www.brugesgroup.eu, accessed 10 February 2015.

economist, Roger Bootle comments: "This is when the EEC dropped one of the Es… and became simply the European Community. This clearly marked the transition from a largely economic association to one with a clear political dimension."[18]

In 1994, the UK and Spain objected to proposed arrangements for Qualified Majority Voting in the Council in the context of enlargement negotiations. The so-called Ioannina Compromise offered the two Member States an accommodation whereby a definitive vote on a matter initially opposed by them would not be taken until a satisfactory solution had been reached with the involvement of the Council Presidency and the Commission.

1997 saw the signing of the Treaty of Amsterdam dealing with issues such as free movement of persons and judicial cooperation in civil matters. It gave treaty recognition to the Schengen Agreement on opening of internal borders, but with opt-outs for the UK (and consequently for Ireland). The Social Chapter of Maastricht was accepted by the UK following the election of the New Labour Government. The Treaty also created the post of High Representative for the Common Foreign and Security Policy, described by Bootle as "a sort of foreign minister".[19]

In 2001, the Treaty of Nice was adopted, providing the institutional changes required by the expected expansion of the Union by up to 12 new Member States following the collapse of the Soviet Union and Warsaw Pact. It reduced the number of members of the Commission and extended Qualified Majority Voting in the Council to more than 30 treaty articles, in Bootle's words "again diluting the power of a nation state to block measures that it did not like."[20]

The European Convention in 2002-2003 produced the draft Treaty Establishing a Constitution for Europe, which emerged in amended form during the Irish Presidency of the Council in 2004. It was rejected in referendums in France and the Netherlands during 2005, leading to a period of reflection and redrafting.

In 2009, the Lisbon Treaty, based on the main elements of the rejected Constitution, was ratified. Its extensive provisions included major institutional changes such as the creation of the new permanent positions of President of the European Council and High Representative for Foreign Affairs and Security Policy/Vice President of the Commission. In the area of Social Policy the Treaty provided that in all its policies and actions the EU would take account of social objectives. And, for the first time, it included a clause enabling a Member State to exit from the Union. Protocol 36 of the Lisbon Treaty

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[18] Roger Bootle, *The Trouble With Europe*, London: Nicholas Brealey Publishing, 2014, p.11.
[19] *Ibid*., p.11.
[20] *Ibid*., p.11.

allowed the UK Government to decide, in 2014, whether the UK should continue to be bound by approximately 130 police and criminal justice (PCJ) measures, which would all become subject to the jurisdiction of the Court of Justice and the Commission's enforcement powers, or if it should exercise its right to opt out of them all.

In 2011, the United Kingdom refused to support moves initiated by the Eurozone states to create a Fiscal Compact to underpin the process of fiscal consolidation seen to be crucial in ensuring that there would be no repeat of the failures and mismanagement which produced the euro crisis and threatened the entire integration project. Prime Minister Cameron vetoed the proposal and as a way out of the resulting impasse the other Member States (with the exception of the Czech Republic) adopted the intergovernmental Treaty on Stability, Coordination and Governance of the Economic and Monetary Union – the 'Stability' or 'Austerity' Treaty according to taste. The Treaty was ratified in Ireland by referendum in May 2012.

On assuming office in 2010, the Conservative/Liberal Democrat Government announced that legislation would be introduced to ensure that if in future a proposed change to the EU Treaties would move a power or an area of policy from the UK to the EU, then the Government would have to get the consent of the people in a national referendum before it could be agreed. The European Union Act 2011 received Royal Assent on 19 July 2011. The Act has been tested once. It was decided later in 2011 that the treaty change in respect of the establishment of the European Stability Mechanism (under Article 136) did not transfer competence or power from the UK to the EU and that no referendum was required. The Houses of Parliament accordingly approved UK agreement to the adoption of the treaty change.

European Union Act

The European Union Act 2011 states in part 1 section 2 that:

1. A treaty which amends or replaces TEU or TFEU is not to be ratified unless—
   a. a statement relating to the treaty was laid before Parliament in accordance with section 5,
   b. the treaty is approved by Act of Parliament, and

c. the referendum condition or the exemption condition is met.

2. The referendum condition is that—
   a. the Act providing for the approval of the treaty provides that the provision approving the treaty is not to come into force until a referendum about whether the treaty should be ratified has been held throughout the United Kingdom or, where the treaty also affects Gibraltar, throughout the United Kingdom and Gibraltar,
   b. the referendum has been held, and
   c. the majority of those voting in the referendum are in favour of the ratification of the treaty.

3. The exemption condition is that the Act providing for the approval of the treaty states that the treaty does not fall within section 4.

Section 4 lists the cases where a treaty attracts a referendum: e.g. the extension of the objectives of the EU as set out in Article 3 of TEU; the conferring on the EU of a new exclusive competence; the amendment of a provision that removes a requirement that anything should be done unanimously, by consensus or by common accord etc.

A separate section (section 3) makes provision for ratification of an Article 48(6) decision which may require a referendum but may be ratified by Parliament if the effect of the in relation to the United Kingdom is not significant.

Since then, Prime Minister Cameron has committed an incoming Conservative government to repatriate some of the competences transferred by agreement to the EU and to hold a referendum on the outcome of the negotiations. Were that to transpire it would turn the clock back 40 years to the referendum in 1975 by reopening the fundamental question of British membership of the EU.

Conclusion

Looking back on the 40-year story of British membership of the EEC/EC/EU, the former UK Permanent Representative in Brussels, Stephen Wall, said there had been many times when the tactics of British Governments could have been different and when they could have tried harder to empathise with the ambitions and convictions of their European partners.

He commented wryly that some of the issues which preoccupied British governments, such as majority voting for the Single Market or the evolution of European defence or the powers of the European Parliament, had "turned out to be what Thomas More called famously in his trial "terrors for children", not for a country as influential and independent as Britain."[21]

It is difficult, and sometimes impossible, for other Member States to understand why credence should be given to "terrors for children". But it is a task that must be attempted if future scenarios of Britain in Europe are to be evaluated on an objective basis.

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[21] Stephen Wall, *A Stranger in Europe: Britain and the EU from Thatcher to Blair*, Oxford: Oxford University Press, 2008, p.219.

4. The European Issue in British Politics

Dáithí O'Ceallaigh and
James Kilcourse

Introduction

This chapter explores how Europe has come to be dealt with in British politics. It explains how the political debate on EU membership has become dominated by Eurosceptic voices and the impact of this on public opinion. It addresses the structural changes in the UK's position within the EU as it becomes increasingly isolated as a result of deeper integration within the Eurozone. The possible outcomes of the combination of these political and structural forces are then outlined, namely the UK as Fully-in, Half-in, Half-out or Fully-out of the EU.

In order to understand where the UK debate on Europe is heading it is necessary to understand the forces that have shaped the debate up to now and brought the UK-EU relationship to its current low point.

Plus ça change

The UK's changing relationship with the EU has become a topic of growing concern and debate across Europe. At a fundamental level, however, little has changed in the UK's approach to the EU. The underlying attitude of the UK to the European project remains the same, but the fact that it is so different from the approach of other European countries has been brought to the fore. The term 'awkward partner' is not a new one. The UK entered the Community after its establishment and has over the last four decades displayed an unrivalled reluctance and suspicion of the European project. Eurostat polling since the 1970s has consistently shown that Britons have among the most negative attitudes in Europe towards European integration. Successive UK governments have viewed European integration primarily in economic terms, whereas most other European governments view it above all as a political project. The tendency in the

UK debate on Europe to assess EU membership on a balance sheet of money paid in and benefits extracted is more than just British pragmatism. It highlights the lack of an emotional or psychological commitment to the European project among Britain's political elite and general public.

Other Member States have regarded European integration as a political project since its earliest days and have constantly worked to deepen their mutual relationships. The political dynamic behind the EU and the Eurozone was demonstrated by the determination to do "whatever it takes" to save the single currency.[1] Although the decision was made in order to avoid catastrophic social and economic consequences, this level of political commitment to Europe is alien to the UK, where many in Westminster and the City expected the euro to collapse. By accepting the need for a 'genuine Economic and Monetary Union', Member States crossed a Rubicon: they acknowledged that integration is necessary in areas very close to the heart of national sovereignty.[2] This has left the UK far behind in its narrower view of the EU as an embellished free trade area.

The open divergence between the UK and the other Member States in their fundamental attitudes to the European project is something that must be better understood and accepted in the rest of the Union. On Europe, Churchill's view in 1951 that Britain is "with Europe, but not of it" has persisted, and is unlikely to change in the near future.[3] At the heart of this divergence is British exceptionalism as an island nation with a long tradition of independent statehood, parliamentary democracy and a substantial imperial global reach. The fact that the UK was on the winning side in two world wars that began on the European continent adds further distance between the UK and its continental partners, at least from the British perspective. While every country sees itself as different, British exceptionalism runs very deep and has placed the UK in a different space than other EU Member States, including Ireland. There is a deep-seated belief in Britain, and more specifically in England, that culturally they are different to the rest of Europe.

A peculiar characteristic of the British strain of exceptionalism is that it is strongly supported and propagated by the media, particularly the right-wing press. British newspapers articulate the separation between the UK and the EU in zero-sum and frequently xenophobic language. The EU is presented as a foreign power and all

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[1] Mario Draghi, speech at the Global Investment Conference in London, 26 July 2012, www.ecb.europa.eu, accessed 26 August 2014.
[2] Herman Van Rompuy, *Towards a Genuine Economic and Monetary Union*, 5 December 2012, www.consilium.europa.eu, accessed 26 August 2014.
[3] United Kingdom, *Parliamentary Debates*, House of Commons, 11 May 1953, vol. 515, hansard.millbanksystems.com, accessed 26 August 2014.

negotiations and developments at EU level are presented as 'us vs. them'. The enormous success of the UK in shaping the EU as we know it is entirely absent from the British debate on Europe. The problem is further exacerbated by the misreporting of EU regulations and decisions, no doubt due in part to the fact that the tabloid press has virtually no representation in most European capitals or in Brussels.

New political context

The UK's arms-length attitude to political relations with the rest of Europe has not changed since it joined the EC in 1973. The political debate in the UK about the benefits of EU membership has shifted substantially, however, creating a new context within which this traditionally 'awkward' partnership must now operate. The political debate has swung so far in favour of the 'Better Off Out' side that a UK exit from the EU is a distinct possibility for the first time since 1975. This has been sparked by two factors: an internal economic crisis and the external crisis in the Eurozone.

Internal dimension

The economic travails of the UK since the global financial crisis began in 2007 have inevitably generated significant political and social change. A British bank – Northern Rock – was the world's first large commercial bank to require emergency government funding as a result of the financial crisis. The years that followed saw further bank bail-outs, falling housing prices, rising unemployment (to a peak of 2.6 million in 2011), drastic cuts to public spending, the collapse of several well-known high street chains and the loss of the UK's AAA credit rating in 2013. The Labour Party was voted out of government in May 2010 after receiving much of the public blame for lax regulation of the financial sector and excessive public borrowing. There was a strong appetite for change and the UK's relationship with the EU would become a victim.

Changing Conservative Party

The election of a Conservative-led Government in 2010 coincided with a shift to a harder Eurosceptic position within the Conservative parliamentary party. 148 Conservative MPs were elected to parliament for the first time in 2010, many of them sharing an ideological aversion to the EU. A large number of this intake joined forces with the party's veteran Eurosceptics and have caused a significant headache for the Prime Minister. Mr. Cameron has struggled to prevent his backbenchers "banging on about Europe",

despite a number of substantial concessions that began in 2009 with his withdrawal of the Conservatives from the European People's Party (EPP). The introduction of the European Union Act in the first year of the new government, Mr. Cameron's veto of the Fiscal Compact in December 2011, the decision to exercise the UK's block opt-out of EU Justice and Home Affairs legislation, his promise of an in/out referendum on EU membership by 2017 and his support for a parliamentary bill binding the next government to that promise each won the Prime Minister only temporary relief from the pressure of his backbenchers.

The Eurosceptic shift within the Conservative Party has been intensified by the rise of UKIP, which poses a high threat to the Tories' objective of an overall majority in the 2015 general election. The watering down of Conservative policies within the coalition government is also seen as a cause for concern. The backbench response to the UKIP threat, and to the limitations of coalition government, has been to beat UKIP at its own game and to set out the tough stance Conservatives would take if in government alone. The focus on the EU has therefore been constant since 81 Conservative MPs defied a three-line whip in October 2011 on a Commons backbench motion calling for an in/out referendum. Pressure on Prime Minister Cameron intensified as the Eurozone began to move towards a 'genuine Economic and Monetary Union', seen by many in the UK as a perfect opportunity to re-draw the terms of the country's membership of the EU.

For many Conservative MPs, British sovereignty is the bottom line for thinking about Europe and the concept of 'interference' has dominated their discourse on the EU. For instance, interference from Brussels in the form of red tape, social rules and environmental legislation is portrayed by Eurosceptics as holding back the potential of British business. Interference in the field of justice, where few distinguish between the competences and role of the European Court of Human Rights (ECHR) and the European Court of Justice (ECJ), is seen as a particularly egregious threat to British sovereignty. The ECHR receives very heavy criticism from British politicians and media, where it is associated with the EU despite the fact that it is part of an entirely separate organisation, the Council of Europe. Such is the distrust of European courts that Conservative backbenchers pushed strongly for the government to exercise its block opt-out from over 130 measures covering EU police and judicial cooperation as provided for in the Lisbon Treaty despite opposition from police and security services. This was a clear example of the ideological aversion to the jurisdiction of the ECJ taking precedence over the Conservative Party's traditional concern with security and criminal justice.

The division over Europe within the Conservative Party reflects a deeper split on Britain's place in the world and the kind of party that modern Tories want to have. The

compassionate, green and cosmopolitan brand that David Cameron stamped on the Conservative Party may have rejuvenated the party and brought it into government, but it was not widely seen to represent Conservative values at local level. For more traditional grassroots Tories, European integration directly challenges fundamental Conservative notions of free market economics, national identity, sovereignty and the role of Britain in the world. The Single European Act was acceptable because it was essentially economic and its objective of greater competition and less regulation was in line with Conservative economic thinking.

The political consequences of the Single Market, however, are far more problematic and this is seen as yet another area on which the party leadership is out of touch with the views of party activists. The final say on Conservative Party candidates for elections lies with local constituency associations, which frequently number less than 300 members but where Europe as an electoral issue is given a high priority. This means that the number of pro-European Conservative MPs is likely to continue to dwindle.

UKIP and immigration

The economic and financial crisis coincided with a hardening of British public opinion against immigration.[4] This in turn fuelled the extraordinary rise of UKIP, which has pointed the finger of blame at freedom of movement within the EU, thereby linking the party's *raison d'être* – withdrawal from the EU – with the issue of immigration. A poll in August 2014 revealed that 30% of Conservative voters would prefer their party to form a coalition with UKIP rather than any other in the event of a hung parliament in 2015.[5]

The open-door policy of the Labour Party Government to workers from the ten new EU Member States in 2004 resulted in record levels of immigration and strong resentment among the British electorate once the UK's economic circumstances changed. The strength of feeling on migration made it a key electoral issue in 2010. The Conservative Party was elected with a pledge to reduce net migration back to the levels of the 1990s – "tens of thousands a year, not hundreds of thousands" – by the end of this Parliament.[6] While this promise is unlikely to be fulfilled (due in part to migration from other states within the EU), it has been a guiding mantra of Conservatives in government.

UKIP undermined the Conservatives' policy on immigration by going further than any other party on the issue and has tapped into discontent in areas with high concentrations of older, working-class voters in struggling towns that feel left behind in modern Britain and forgotten by Westminster. It has laid the blame squarely on the 'disaster' of immigration and its social implications. The party launched an aggressive campaign in the run-up to 1 January 2014 warning about the threat of mass immigration from Bulgaria and Romania when transitional labour controls on the two countries were lifted. The issue of immigration from other European countries also featured heavily in the party's campaign for the May 2014 European Parliament election, in which it won 27.5% of the vote, ahead of both Labour (25.4%) and the Conservatives (23.9%).

This was the first time in over 100 years that one of the main parties did not top a Britain-wide election.

UKIP's success has resulted in the three traditional parties putting immigration including free movement within the EU firmly on their agenda. Members of the Conservative Party have responded to the UKIP threat by sharpening their rhetoric on EU freedom of movement – leading, ultimately, to Prime Minister Cameron's much-anticipated speech on immigration on 28 November 2014.[7] Originally, in January 2013, a group of more than 100 Tory backbench MPs called on the Government to "test the limits of existing arrangements" at EU level in order to reduce immigration from Europe.[8] They suggested that existing free movement rules that give EU citizens access to benefits and social security should be changed. They proposed that this could be achieved by building an alliance of like-minded Member States "opposed to the Commission's meddling in domestic social security rules".[9] They included Ireland in this potential alliance. Another proposal from this group is to amend the Free Movement Directive (Directive 2004/38/EC) so that the UK would have greater discretion to prevent European nationals who are economically inactive from being entitled to prolonged periods of social assistance. A final recommendation is to increase the threshold for automatic eligibility for permanent residence from five to ten years.

Conservative Cabinet members have taken backbencher concerns on board. Iain Duncan Smith, the Work and Pensions Secretary, said in March 2013 that the number of EU migrants claiming benefits in Britain had become a "crisis" and confirmed that he was

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[4] Robert Ford and Anthony Heath, 'Immigration: A nation divided?', *British Social Attitudes Survey 2014*, www.bsa-31.natcen.ac.uk, accessed 26 August 2014.
[5] TNS UK Public Opinion Monitor, 1 August 2014, www.tnsglobal.com, accessed 26 August 2014.
[6] The Conservative Party, *Invitation to Join the Government of Britain: The Conservative Party Manifesto 2010*, www.conservatives.com, accessed 26 August 2014.

[7] David Cameron, speech on immigration, 28 November 2014, blogs.spectator.co.uk, accessed 10 February 2015.
[8] Fresh Start Project, *Manifesto for Change: A new vision for the UK in Europe*, January 2013, p.32, eufreshstart.org, accessed 26 August 2014.
[9] *Ibid.*, p.33.

working to "tighten up our arrangements".[10] In December 2013, a document leaked from the Home Office unveiled a proposed future reform of capping the number of EU immigrants at 75,000 per year. Responding to the leak, Home Secretary, Theresa May, claimed that there was concern among her counterparts in the EU about the abuse of free movement and said that she and Prime Minister Cameron wanted a more flexible system that could restrict free movement rights until a country's national income was at a certain level.[11]

The Prime Minister elaborated on his vision of a more flexible system in a speech dedicated to immigration on 28 November 2014. While he stated support for the principle of free movement of people and warned against isolationism, he called for a significant reduction in the number of immigrants admitted to the UK – with a strong focus on migrants from within the EU. He expressed his intention to ensure that EU jobseekers have a job offer before they come to the UK, removing access to benefits if they do not. He also outlined plans to withhold access to 'in work' benefits and social housing for four years after an immigrant's arrival to Britain. In relation to future enlargement, he threatened to veto any future accession treaties unless free movement of people would not apply until the economy of the new member has closely converged with the existing Member States.[12]

The UKIP factor forced Labour Party leader, Ed Miliband, to admit in June 2012 that Labour "got things wrong" on immigration when in government and should not have allowed unrestricted access to the UK for citizens of the new EU states in 2004.[13] In March 2013, Yvette Cooper, the Shadow Home Secretary, presented the 'One Nation Labour' approach to immigration, which included maximum transitional controls for any future countries joining the EU; strengthening the habitual residence test to ensure that people have contributed sufficiently to the system before claiming welfare; and, ending the EU provision that requires family benefits, such as child welfare, to be paid for family members living in another EU country.[14]

Even the internationalist Liberal Democrats have hardened their stance on immigration. In March 2013, Deputy Prime Minister Nick Clegg dropped his party's proposal of offering illegal immigrants who have been in the UK for over ten years the opportunity to apply for citizenship. He also backed the idea of security bonds, whereby visa applicants from high-risk countries would provide a cash guarantee that would be repaid on leaving the UK.[15] Although Mr. Clegg consistently defended freedom of movement within the EU, a speech in August 2014 marked a significant change in tone on this issue:

> …when the EU enlarges in the future, we'll need to be stricter and clearer on the transition controls we apply to new Member States… We also need to be prepared to go beyond the seven-year maximum for transition controls, depending on the size and economy of the country joining the EU – and the extent to which we expect its nationals to look for work here. I also believe we'll need to agree a period of time in which existing Member States including Britain retain the right to put on the brakes if people begin arriving in numbers too big for our society to absorb successfully.[16]

The shift in rhetoric by the main political parties in the UK was a direct response to the concerns of voters and the rise of UKIP. In 2013, 77% of people in Britain wanted immigration reduced and just 31% thought that immigration had been good for the British economy.[17] Few politicians dare to speak of the benefits of immigration to the British economy, despite the protests of the business community and the consistent findings of the National Institute of Economic and Social Research to that effect. The government's own Migration Advisory Committee concluded in July 2014 that there was no strong evidence that recent low-skilled EU migrants had undermined the job prospects of Britons or had an impact on wage levels, housing, healthcare, crime, education or welfare benefits. The Committee's report also pointed to the net contribution of £2,237 per EU migrant per year to British public finances. It did, however, suggest that future EU enlargement (which is many years away) could pose more of a problem and that migrant flows from new Member States must be managed in a more coordinated fashion across the EU.[18]

Reports and studies on the positive impacts of immigration are unlikely to impact the political debate, particularly in advance of the 2015 general election. Immigration is now a toxic issue that all political parties must confront but this must be handled very carefully. Already there are indications that patience for the UK is wearing thin in other

[10] United Kingdom, *Parliamentary Debates*, House of Commons, 5 March 2013, col. 826, www.publications. parliament.uk, accessed 26 August 2014.
[11] 'European Union migrant cap plan illegal, says Nick Clegg', *BBC News*, 16 December 2013, www.bbc. com/news, accessed 26 August 2014.
[12] David Cameron, speech on Immigration, *op. cit*.
[13] Ed Miliband, speech to the IPPR, 22 June 2012, www.labour.org.uk, accessed 27 August 2014.
[14] Yvette Cooper, speech to the IPPR, 7 March 2013, www.labour.org.uk, accessed 27 August 2014.

[15] Nick Clegg, speech on immigration, 22 March 2013, www.libdems.org.uk, accessed 27 August 2014.
[16] Nick Clegg, speech on immigration, 5 August 2014, www.libdems.org.uk, accessed 27 August 2014.
[17] Robert Ford and Anthony Heath, 'Immigration: A nation divided?', *British Social Attitudes Survey 2014*, www.bsa-31.natcen.ac.uk, accessed 26 August 2014.
[18] Migration Advisory Committee, *Migrants in low-skilled work: The growth of EU and non-EU labour in low-skilled jobs and its impact on the UK*, 2014.

European capitals, which could damage the UK's position in the EU and threaten UK interests in other policy areas.

The criticism of migration from new EU Member States has already soured the UK's relations with previous EU allies such as Poland. Yet freedom of movement will be at the top of any Conservative-led Government's EU renegotiation agenda after the May 2015 General Election. This risks weakening the capacity of the UK to lead reform of the Single Market. How can the UK push for services liberalisation or a Digital Single Market when it is simultaneously seeking to restrict one of the fundamental elements of the Single Market?

External dimension

The second factor in the current debate on EU membership is the economic crisis in the Eurozone, which has created a two-tier EU that the UK never wanted and has provided British Eurosceptics with what they regard as further evidence of the dysfunctional nature of the European project. The impact of the single currency dates back to the late 1990s when a divisive debate took place on whether or not the UK should join the euro. The Confederation of British Industries (CBI), the Trades Union Congress (TUC), business leaders and many leading politicians invested a lot of resources, time, energy and reputation on supporting the case for UK membership. Despite predominantly negative public opinion on the euro, political momentum ran in favour of the single currency in the late 1990s. In February 1999, Prime Minister Tony Blair stressed that, in ruling out euro membership, the UK "would have lost all influence whatsoever in the economic future of the EU, of which we will remain a member".[19] The stakes were high and everybody knew it.

Nevertheless, the right moment for a referendum on euro membership never came and the opposition of the Chancellor of the Exchequer, Gordon Brown, thwarted the Prime Minister's efforts. The scale of public opposition to the euro, the strength of the anti-euro campaign, the criticism of the then-opposition Conservative Party and the ultimate letdown by the Labour Government left the pro-European community frustrated and dispirited. The UK's traditional pro-European voices kept their heads below the parapet for years to follow and were very slow to mobilise against increasingly vocal and effective Euroscepticism over the following decade. The travails of the Eurozone from 2009 convinced many that the UK had had a lucky escape and boosted the credibility of

Britain's Eurosceptics. It was only in late 2013, after years of anti-European rhetoric dominating British political discourse and media, that the Confederation of British Industry (CBI), the Institute of Directors, the manufacturers' organisation (EEF), and the TUC began to break their silence on Europe.[20]

By this stage, however, the EU's image in the UK had been severely tarnished, and this has proven difficult to reverse. The crisis in the Eurozone was used in British political discourse and media reports to deflect from the scale of the banking crisis that the UK itself had experienced. Eurosceptics gained the upper hand and put forward a compelling vision of an 'offshore Britain', freed from the regulatory burden of EU membership and from the sluggish economies of Europe to establish trade links with the rest of the world. Combined with global changes in trade flows and economic power, the Eurozone crisis made it easier to argue that the UK did not need the EU. This argument is perhaps best captured in the memorable description by Douglas Carswell MP (who defected from the Conservatives to UKIP) of Britain's EU membership as being "shackled to a corpse".[21] Public opinion was easily influenced by such imagery at a time when British audiences were being exposed to the social and economic consequences of the Eurozone crisis unfolding on their television screens.

Opinion polls provide a useful insight into the state of British public opinion over the course of the Eurozone crisis. The percentage of British respondents who said they would vote to leave the EU in an in/out referendum was regularly in a strong majority. The difference between 'In' and 'Out' voters narrowed after David Cameron gave his major Europe speech in January 2013 in which he promised substantial reform of the UK's relationship with the EU followed by an in/out referendum within five years. 'Out' kept its lead throughout the year following the speech but in 2014 polls began to show greater support for staying in the EU than leaving.[22] This could have been due to a number of factors, including the greater focus on the role of the EU in the run-up to European Parliament elections, the improving economic situation, or the impact of business and trade unions beginning to point out the advantages for the UK of EU membership in a more systematic way. Polls also show that a renegotiated relationship with the EU would win the overwhelming support of the British electorate. It is not clear, however, what kind of changed relationship that respondents have in mind or whether it is attainable at EU level.

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[19] United Kingdom, *Parliamentary Debates*, House of Commons, 23 February 1999, vol. 326, c. 182, hansard. millbanksystems.com, accessed 27 August 2014.

[20] Frances O'Grady, 'Revitalising Social Europe', speech to the IIEA, 25 October 2013, www.iiea.com, accessed 27 August 2014.
Confederation of British Industries, *Our Global Future: The Business Vision for a Reformed EU*, 4 November 2013, www.cbi.org.uk, accessed 27 August 2014.
EEF, *Manufacturing: Our Future in Europe*, 7 September 2013, www.eef.org.uk, accessed 27 August 2014.
[21] Rowena Mason, 'Britain "shackled to corpse" of EU, says Douglas Carswell', *Daily Telegraph*, 26 October 2012.
[22] YouGov tracker polls on EU referendum, 2012-2014, cdn.yougov.com, accessed 27 August 2014.

The Bloomberg speech

David Cameron's speech on Europe at the Bloomberg headquarters in January 2013 came in the context of these internal and external crises that made the UK's debate on EU membership politically uncontainable. In making the case for British membership of a more competitive, flexible and democratically accountable EU, the Prime Minister spoke in terms that appeal to many of the UK's European partners and in a language of constructive engagement. In making the point that "public disillusionment with the EU is at an all-time high", the Prime Minister was merely stating a fact reflected in opinion polls in the UK and across the European Union. In promising that a Conservative Government post-2015 would negotiate a new settlement with the Single Market at its heart, the Prime Minister appealed to the widely-held view in the UK that EU integration has gone too far. In promising an in/out referendum on that new settlement by the end of 2017, the Prime Minister had, however, launched a drawn-out, high-stakes game over Britain's EU membership.[23]

The political context in the UK has therefore changed enormously as a result of the speech. With his promise of a referendum, the Prime Minister was trying to seize control of the EU debate and to stifle the opposition of his own backbenchers, but pushing the referendum button only served to raise the stakes for all sides and to ratchet up the intensity of the debate. By setting the date for 2017 and making his plan contingent on the outcome of the next election, Mr. Cameron put the possibility of UK exit from the EU on the table and introduced a large degree of uncertainty and volatility into the UK's EU debate. Consequently, the prospect of a referendum overshadowed all discussions of Europe in the UK and everything that the UK does in Brussels, including Prime Minister Cameron's reform agenda. It is not at all clear that a deal could be negotiated with the other Member States within the timeframe he has set, which owes more to the vagaries of British politics than it does to any wider European perspective.

Mr. Cameron's speech was a party political one: its primary objective was to appease Conservative backbenchers. The renegotiation and referendum strategy outlined by the Prime Minister will also have important party political implications. If the Conservatives are re-elected in 2015, Mr. Cameron will be bound to a timeline of renegotiation that may not even be feasible at European level. If he manages to win some concessions for the UK from his European partners, he then has to convince his party that his renegotiation has been a success and that the UK should remain a member of the EU. Since there appears to be some distance between the maximum he can obtain at EU level and the minimum that Tory Eurosceptics are willing to accept, it is very likely that a number of MPs would

split from the party line and call for an 'Out' vote in the referendum. Alternatively, if the Conservatives end up on the opposition benches in 2015, Mr. Cameron is likely to be replaced by a more Eurosceptic party leader and the threat of an eventual UK exit from the EU is merely put on ice.

Either way, the Conservatives' self-inflicted agony over Europe is likely to continue for years to come.

It is not surprising that Labour Party leader, Ed Miliband, refused to back a similar in/out referendum pledge. If Labour were elected in 2015, the last thing the new government would want to do is to devote substantial time and resources to an EU referendum, particularly with a more vociferously anti-EU Conservative Party in opposition. Nevertheless, the accusation of denying the people a say on the EU could be damaging in the general election campaign. Mr. Miliband has therefore promised not to repeal the 2011 European Union Act, which provides for a referendum on any transfer of powers from the UK to Brussels. He has gone further by stating that a Labour government in 2015 would legislate for a new lock that guarantees an in/out referendum in the case of any transfer of powers. He does not, however, believe that this scenario will be triggered because a transfer of powers in the life of the next Parliament is unlikely.

In the meantime, he has adopted much of the language of the Tory Party in his reform plan for the EU: powers should come back the other way, less of the EU budget should be spent on the Common Agricultural Policy, action must be taken to protect "the integrity of the benefits system", and the power of national parliaments must be strengthened.[24]

Although most Labour MPs do not have very strong views on Europe, there are two factions within the party that favour an in/out referendum. There is the small left-wing faction that wants the UK to leave the 'capitalist club', and there is a larger group of pro-Europeans that want a referendum to put the issue of the UK's EU membership to rest, at least for another generation. This latter group believes that a Labour referendum pledge would neutralise Europe as a general election issue and, assuming a positive outcome, lock Britain into the EU for the foreseeable future. It has some strong advocates, including the chief of the Party's policy review, Jon Cruddas; and the former Minister for Europe, Keith Vaz. In May 2013, a group called 'Labour for a Referendum' was launched with the aim of pressuring Mr. Miliband to commit to holding an in/out vote after the next election. The organisation has the support of 15 Labour MPs and is chaired by John Mills, a Labour Party donor.

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[23] David Cameron, EU speech at Bloomberg, 23 January 2013, www.gov.uk, accessed 27 August 2014.

[24] Ed Miliband, speech to the London Business School, 12 March 2014, press.labour.org.uk, accessed 27 August 2014.

The Liberal Democrats, traditionally the most pro-EU party in the UK, have also backed an in/out referendum if a large new treaty is proposed. Unlike Ed Miliband, however, the party leader, Nick Clegg, believes that this is likely in the lifetime of the next parliament. He claims that a referendum on Britain's future relations with the EU is a matter of "when, not if".[25] Nevertheless, the common position of the two parties on this issue could come into play in the case of a Labour-Liberal Democrat coalition in 2015. Both Ed Miliband and Nick Clegg are instinctively pro-European and would face less opposition on EU issues within their own parties if they were in government together. Their difficulty might be that, having promised an in/out referendum in the case of eventual treaty change, they could well be obliged to fulfil that promise in the life of the next parliament.

There is a school of thought within the UK that a British exit would be far more likely under a Labour-led government because only a Conservative Prime Minister could convince a sceptical electorate that the UK should remain a member of the EU.

New structural context

Although the UK has never given its heart to the European project, its head recognised the economic benefits of accession and of remaining at the table ever since. The challenge of balancing its fundamental aversion to political integration with its desire for the economic benefits arising from the Single Market has dogged the UK since accession and will continue to do so. This has resulted in a series of opt-outs from Schengen to Justice and Home Affairs to the euro, which have already made the UK the most detached EU Member State. The risk, however, is that the UK is not only detached, but increasingly isolated within the EU. It is politically isolated because London's attitude to integration is evidently so far from mainstream thinking in other European capitals. It is also structurally isolated as a result of Eurozone integration. For instance, the UK is not at the table when the Eurogroup meets a day before the Economic and Financial Affairs Council (ECOFIN) to discuss issues relating to the single currency, which has become a central pillar of European integration. There is therefore a risk that the UK is by default left on the sidelines of the European project.

Even if British politics had not become so dominated by Euroscepticism and even if Prime Minister Cameron had not put an in/out referendum on the table, the UK's relationship with the EU would require change in the coming years. As the Eurozone

deepens, new mechanisms will be required for managing relations between euro and non-euro Member States. Genuine Economic and Monetary Union, including its need for greater democratic legitimacy, would constitute a substantial leap forward in integration for participating states that will eventually embrace all but two or three EU countries. The UK accepted the "remorseless logic" of Eurozone integration during the worst of the economic crisis, tacitly accepting a two-tier EU in which the UK would willingly take a back seat.[26]

The deepening integration of the Eurozone will require an institutional rethink to manage relations between the 'ins' and 'outs'. As the largest of the 'out' countries, and as the home to the financial capital of Europe, the UK can legitimately demand safeguards to protect the integrity of the Single Market and the rights of non-euro Member States. The agreement in December 2012 to the principle of 'double majority' voting at the European Banking Authority (EBA) and the concept of 'close cooperation agreements' for non-Eurozone states provide an indication of how relations between the integrating euro area and euro 'outs' might be managed. Nevertheless, as more states join the euro and as the single currency moves towards a genuine Economic and Monetary Union, new and more durable principles will be required to codify relations between the 'ins' and 'outs'.

The difficulty for the UK was clearly outlined by the Chancellor of the Exchequer, George Osborne, in January 2014: "If we cannot protect the collective interests of non-Eurozone Member States then they will have to choose between joining the euro, which the UK will not do, or leaving the EU."[27] The challenge in preventing EU decisions being taken automatically by the Eurozone majority is that all Member States except the UK and Denmark are legally obliged to join the single currency. A 'double majority' system might work for a while in the EBA, but is not sustainable in the long-term as it would effectively give the UK a veto over every area of decision-making.

The structural isolation of the UK within the EU will require creative thinking and constructive reform to overcome. It is therefore unfortunate that it coincides with a political shift towards Euroscepticism within the UK and the political marginalisation of the UK within the EU. Goodwill towards the UK may be in short supply as European capitals begin to assess the costs of giving it concessions and the possibility that, having received these concessions, London may not be able to convince the electorate to accept continued EU membership.

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[25] United Kingdom, *Parliamentary Debates*, House of Commons, 15 May 2013, vol. 563 col. 630. www.publications.parliament.uk, accessed 27 August 2014.

[26] George Osborne, 'Statement by the Chancellor of the Exchequer on the Eurozone Crisis', 27 October 2011, www.gov.uk, accessed 27 August 2014.
[27] George Osborne, speech to the Open Europe Conference on EU Reform, 15 January 2014, www.gov.uk, accessed 27 January 2014.

Whither the UK?

The future of the UK's relationship with the EU faces a dual challenge: political and structural. The political challenge is to make the case for the UK's continued membership of the Union over the volatile years ahead. The structural challenge is to secure the UK's position within the Single Market as the EU's centre of gravity shifts towards the Eurozone. The relationship between the Eurozone and the countries outside the Eurozone will be key. Since the UK's membership of the euro is realistically off the table, the possibilities for the future of the UK's position in the EU, outlined in detail in Chapter 2, are reprised for present purposes in the accompanying box.

Scenarios for the future of the UK's position vis-à-vis the EU

- **Fully-in:** The UK joins the euro, Schengen and other policies from which it currently opts out or abstains. The logic of a fully participating UK implies a fully functioning EU that has resolved its political and economic governance problems sufficiently to attract the UK. It would approximate a United States of Europe. While theoretically possible, this scenario is ruled out for the decade-long time horizon covered by this book. It is nevertheless included here to complete the full range of possibilities.

- **Half-in:** The UK does not join the euro but signs up to as many EU initiatives as possible in all other policy fields, similar to Sweden or Denmark. It engages actively and positively in the EU and thereby maintains its place at the Union's top table in spite of the fact that it is not a Eurozone member. The UK could take the initiative to become a leader in certain policy areas, e.g. security, foreign policy, energy policy, digital policy. This stance currently informs the policy of the Liberal Democrats, a majority in the Labour Party and a small minority of Conservatives.

- **Half-out:** The UK steps back from European integration and puts distance between itself and the Eurozone, while seeking to ensure the integrity of the Single Market. It only joins the initiatives that matter most to it, acknowledging that some interests would take a hit. The block opt-out from Justice and Home Affairs legislation provides a possible template for this position. This approach would appeal to a majority of the Conservative Party.

- **Fully-out:** The UK withdraws from the EU and seeks a bilateral free trade agreement or other special arrangement with the Union to secure trade relations. This would be the first time that a Member State has left the Union and the nature of the agreement between the UK and the EU is not clear. UKIP and some Conservative Party members have been campaigning for this outcome.

Conclusion

The UK's underlying attitude towards the EU has charted a relatively steady course over recent decades – one of arms-length pragmatism with a keen eye on the economic balance sheet. The portrayal of the EU as a zero-sum game by the British media has hampered the development of any emotional or psychological commitment to the Union. Despite this continuity, significant changes since 2000 have seen this position diverge from the approach of other EU Member States as they seek deeper political integration and a 'genuine' Economic and Monetary Union. Furthermore, the political debate in the UK about the EU has also undergone a transformation on account of the economic crisis, the election of the Conservative-led Government and the rise of immigration as the dominant issue and UKIP as a new political force.

The Prime Minister's speech on Europe in January 2013 was a watershed moment. He spoke of reforming the EU in language that would appeal as widely as possible across the EU. The aim was to contain the debate in Europe, Britain and within the Conservative Party. The success of this strategy was short-term at best, and the proceeding two years have seen the UK's EU membership at the top of the agenda in all arenas.

Structural changes, namely increasing integration within the Eurozone, require a rethink of the UK's position on Europe in any case. But developments in the UK since the 2010 General Election have made the context politically charged to a degree not seen since the 1970s. This has made the vision of a UK as Fully-in the EU unimaginable over the next decade. The behaviour of the Conservative-led Government has shifted Britain from what was a Half-in position to that of Half-out, as shown dramatically by Prime Minister Cameron's refusal, in December 2012, to join the Fiscal Compact, which forced the other Member States to conclude an agreement outside the Treaties. On this occasion, action spoke louder than words.

5. The Future of the United Kingdom

Paul Gillespie

Introduction

The United Kingdom faces a dual sovereignty question over the next decade as its governments and peoples decide how to deliver on the promise of deeper devolution to Scotland and whether to withdraw from the European Union. These internal and external decisions about the powers and levels of governing will have major consequences for Ireland, North and South. Potentially they will recast existing treaty-based and constitutionally-entrenched relations between Ireland and Britain, based on the 1998 Belfast Agreement and joint membership of the EU.

This chapter argues first that the internal Scottish independence question can only be understood in the context of these wider problems facing the UK as a whole relating to its constitutional structure and international relations. It then analyses the territorial politics of Scotland, Wales and England in that light, together with the political dynamics that could reopen the independence issue if the promises to deepen devolution are not delivered upon. Should the UK decide to withdraw from the EU in a subsequent referendum determined by an English majority, the political conditions for a shift to independence would be realised. Four possible outcomes for the internal and external future of the UK are then analysed along with the implications for Ireland, North and South. The chapter concludes that they are highly consequential, more so than for any other Member State of the EU.

The UK's dual sovereignty question

The twin processes of devolving power downwards within the UK and sharing it with other states in the EU radically challenge British unitary conceptions of sovereignty constructed in empire, even though devolution and power-sharing are now more necessary as well as difficult for the British state. It is a crisis of political identity for all concerned, in which resolution of the EU issue depends on finding a solution to that of the UK

itself.[1] Ireland, like Scotland, has been through this internal process of disentangling from imperial unionism, first peaceably through the Home Rule movement from the 1870s to the 1900s and then through violent anti-colonial revolution that gave 26 of its 32 counties an expandable dominion status in 1921-22. Many of the dynamics now on view in the British debate – notably devolution as "a process not an event"[2] – resonate with that earlier period. Labour's leader, Ed Miliband, promised to deliver "a Home Rule Bill for Scotland" within 100 days of a Labour victory in the May 2015 election.[3] Alex Salmond, the Scottish National Party (SNP) leader until he resigned after losing the 2014 independence referendum but who is to stand for Westminster in May 2015, and a great admirer of the Irish Home Rule leader Charles Stuart Parnell (1846-91), is widely regarded as the most talented Scottish – and British – politician of his generation.

The Irish Question was resolved by war not devolution. In contrast, Scotland's non-colonial independence question intensified after empire, war and welfare had eroded as glues holding the United Kingdom together.[4] It was provoked especially by Margaret Thatcher's stripping down of the industrial structure and welfare state that Scotland especially depended on – although other parts of the northern UK were as exposed to these pressures. Scotland's independence debate centres around its future relations with the United Kingdom, so the two issues must be analysed together. It pits those Scots who say they would be better off and better governed if they are independent from London rule against those who say Scotland benefits from its wider British affiliations and that breaking from the UK would be risky economically and politically.

Understanding why Scotland has reached a point where independence is a realistic option and a desired choice by 44.7% of its voters in a referendum which saw the highest turnout in British electoral history since universal suffrage was introduced, involves considering how the links with the existing UK have weakened so substantially. The case is strengthened by polling evidence showing a further swing towards support for independence since the referendum was held.[5] It requires an analysis of the UK's place in the world as well as of its internal development. An independent Scotland would

have to find recognition from other states to succeed, while the remaining UK would be substantially weakened geopolitically by Scotland's departure.

State sovereignty is a key factor in both these dimensions. The British constitutional tradition takes sovereignty extremely seriously. It is conventionally defined as the final and absolute political authority, with none existing elsewhere.[6] The doctrine is built into the idea of the crown-in-parliament (a top-down concept linking the monarchy with parliamentary control) which has driven the development of the British state in its imperial and post-imperial phases, ever since it was installed as that state's constitutional paradigm by the political and social revolutions of the 17th century. Such a deep-seated historical, intellectual and constitutional mindset is exceedingly difficult to escape from. This is so even if internal sovereignty has been shared internally in the 20th century through devolving powers administratively and then politically. Externally it was divided with other states through international treaties, organisations and – most comprehensively – with the European Communities since the UK joined them in 1973.[7]

Scotland and the EU sharply pose this question of sovereignty. The Scottish referendum campaign on independence hardened public support for all powers of taxation and spending to be held there, with only foreign affairs and defence exercised through Westminster. The vow made by the three pro-union parties (the Conservatives, Labour and the Liberal Democrats) in the last week of the referendum campaign acknowledged that and promised to deliver it by January 2015. But these parties disagree on whether and how to do this, allowing the Scottish nationalists to cry betrayal and open up the independence issue again. The decisive (55.3%-44.7%) 'No' outcome is therefore conditional on more powers being transferred.

As the vow implies, such a transfer must be constitutionally entrenched if it is to convince the Scots it will not be later withdrawn. That involves departing from the absolute sovereignty doctrine by making a transition towards a federal one, best defined as a combination of shared rule with self-rule.[8] This definition of federalism usefully combines the notion of divided sovereignty with self-government. It takes account of federalism's 'conceptual elasticity', which provides an intellectual and practical way to understand how several different political entities can come together in a political union,

[1] Paul Gillespie (ed.), *Britain's European Question – The Issues for Ireland*, Dublin: Institute of European Affairs, 1996.
Paul Gillespie (ed.), *Blair's Britain, England's Europe: A View from Ireland*, Dublin: Institute of International and European Affairs, 2000.
[2] Ron Davies, *Devolution: A Process not an Event*, The Gregynog Papers 2(2), Cardiff: Institute of Welsh Affairs, 1999.
[3] 'General Election 2015: Labour's Ed Miliband 'not focusing' on doing SNP deal', *BBC News*, 29 January 2015, www.bbc.com/news, accessed 9 February 2015.
[4] Linda Colley, *Acts of Union and Disunion, What has held the UK together – and what is dividing it?*, London: Profile Books, 2014.
Tom Devine, 'How history turned against Tory-voting Scotland', *The Guardian*, 13 September 2014.
[5] John Curtice, 'Panelbase on Labour and Independence', *WhatScotlandThinks blog*, 7 November 2014, blog.whatscotlandthinks.org, accessed 10 December 2014.

[6] F.H. Hinsley, *Sovereignty*, 2nd edition, Cambridge: Cambridge University Press, 1986.
[7] Linda Colley, *op. cit.*
David Marquand, *The End of the West, The Once and Future Europe*, Princeton: Princeton University Press, 2011.
[8] Daniel Elazar, 'The United States and the European Union: Models for their Epochs', in Kalypso Nicolaidis and Robert Howse (eds.), *The Federal Vision: Legitimacy and Levels of Governance in the US and the EU*, Oxford: Oxford University Press, 2001.

while preserving their autonomy.[9] Put differently, federalism "in its broadest sense is a conception of multilevel governance within nested polities".[10]

It is far from clear that Britain's constitutional culture is capable of this transformation, whether doctrinally, politically or in terms of its party system based on first-past-the-post voting for Westminster elections. The Scottish referendum debate has occurred at many different levels, including among historians and legal theorists concerning the original basis on which the union of England and Scotland was agreed in 1707 and their differing concepts of sovereignty. Whereas the English tradition of the crown-in-parliament was a top-down concept, the Scottish one was based much more on bottom-up popular sovereignty.[11] Much of British political tradition and culture ignores this contradictory heritage, but it was dramatised once more by the prospect of separation. The constitutional peculiarity persisted despite the flexibility with which these norms were varied for others – externally for former colonies with federal structures like Canada, Australia, India or Nigeria and internally (if less explicitly) for devolved administrations in Northern Ireland, Scotland and Wales. "Power devolved is power retained": this pithy phrase of Enoch Powell's expresses perfectly the unitary and absolutist parliamentary sovereignty that stops well short of such federal entrenchment in the UK itself, whether in the administratively devolved union state model of Britain to the 1980s,[12] or the most extended home rule variety, which morphed into devolution under the Labour Government led by Tony Blair after 1997, and is better described as a state of unions.[13]

This political debate could readily be seen in the Labour Party's agonised divisions about how much devolution to offer Scotland during the campaign. The party was split between those who want to deepen devolution and the party's London elite who concentrate on securing a UK election victory to address the social democratic values widely shared in Scotland – but increasingly less so in Conservative-dominated England. The sharp rebuke to its London leadership delivered by the Scottish Labour leader, Johann Lamont, in her resignation statement after the referendum highlighted these divisions. She accused London of neglecting Scotland and treating it like a branch office. Her complaint led to an overhaul of the party's policy and Scottish leadership, driven by intensifying competition from the SNP. Overall Labour has most to lose from a Scottish

'Yes' to independence, which would deprive them of their strongest electoral base. The SNP deftly captured the welfare state discourse from Labour by spinning it in national rather than class terms.

The historical merits of muddling through constitutionally have reached their limits here; more radical change is required. Effectively the choice facing the UK is a federalising one – taking due account of the asymmetrical scale of England compared to the other constituent units – or a breakup.[14] A British public opinion that wants the union to survive in a looser format is actually well ahead of its political class on the issue, polling shows. Two-thirds of Scottish respondents believe that Scotland will become an independent country within half a century, while only 17% are confident that will never happen. A minority of English and Welsh respondents agree: 24% in England think Scotland will be independent within a decade and 44% that Scotland will become independent within half a century.[15]

This internal sovereignty question is intimately linked to the external one concerning EU membership. The same polling shows a clear sociological and cultural divide in terms of age, class and region between those for and against EU membership (see Figure 1). It should be borne in mind, however, that the EU issue is not that important or salient for many UK voters, even if it does animate Conservative supporters more than most others. Voters do not rank it highly as a political priority, although that can change in the course of campaigning, when it can be linked to other issues considered more salient, such as immigration.

Scotland, Wales and England in a changing UK

Scotland

On 18 September 2014, Scottish voters said 'No' to the referendum proposition "Should Scotland be an independent country?" by a margin of 55.3% to 44.7% on a 97% voter registration and a very high turnout of 84.6% (compared to 65% in the 2010 general election). The campaign was marked by an unprecedented level of popular engagement. This was all the more impressive for being set against the general trend of diminishing turnout, hollowed out membership and mediatisation of leadership experienced recently

[9] Ben Rosamond, *Theories of European Integration*, London: Palgrave Macmillan, 2000, p.30.
[10] Rainer Bauböck, *Multinational federalism: territorial or cultural autonomy?*, IWE – Working Paper Series No. 15, 2001, p.3.
[11] Sionaidh Douglas-Scott, 'British withdrawal from the EU: an existential threat to the United Kingdom?', *Centre on Constitutional Change blog*, 20 October 2014, www.futureukandscotland.ac.uk, accessed 18 February 2015.
[12] James Bulpitt, *Territory and Power in the United Kingdom*, Manchester: Manchester University Press, 1983.
[13] James Mitchell, *The Scottish Question*, Oxford: Oxford University Press, 2014, p.289.

[14] David Torrance, *Britain Rebooted, Scotland in a Federal Union*, Edinburgh: Luath Press, 2014.
David Melding, *The Reformed Union: Britain as a Federation*, Cardiff: Institute of Welsh Affairs, 2014.
[15] British Future, *The Year of Uncertainty, State of the Nation 2015*, p.35, www.britishfuture.org, accessed 9 February 2015.

Figure 1. Who is 'In' or 'Out'? The culture clash*[16]

*by net support for voting 'In' or 'Out' in a referendum on EU membership
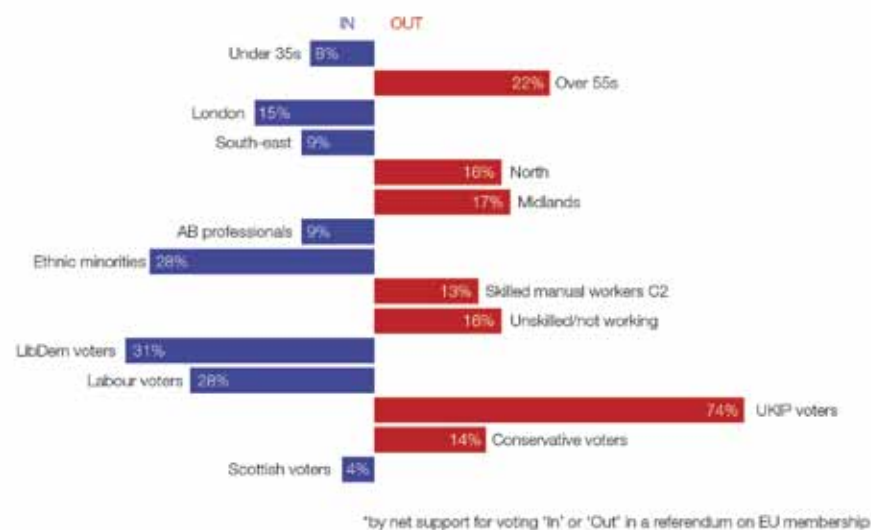
by major British parties and most of their European counterparts.[17] It was a remarkable affirmation of democratic participation. The level of civic involvement was confirmed after the referendum when, within weeks, membership of the SNP quadrupled, coming mostly from former members of the Labour Party. Simultaneously, polls showed the SNP would capture most Scottish seats from Labour in the May 2015 general election and is likely to win the 2016 Scottish Parliament elections too.[18]

The social demography and geography of the voting clearly reflected class and regional preferences and divides. This dynamic was well caught in a question put to a television panel by a member of the audience: "If we are Better Together why are we not better off?" Those with higher incomes and social status voted 'No' disproportionately, while the 'Yes' vote was 65% in the poorest neighbourhoods and it was from here that most of

the new voters came. Polls showed the elderly voted 'No' disproportionately, reflecting fears about pensions, savings and the currency. Those under 40 mostly voted 'Yes', while women were slightly more inclined to vote against independence.

Regionally, the 'No' vote was strongest in Aberdeenshire (the home of oil), in the borders with northern England and in rural districts. Predominantly working class Glasgow and Dundee voted 'Yes', middle class Edinburgh 'No'.[19] But within these overall patterns there were significant variations, making the outcome and the succeeding configuration of Scottish politics more complex as well as more exciting.[20]

Such dynamics, alongside the shift of voters from Labour to the SNP, tell a story of the realignment of Scottish party politics and popular engagement. The level of political awareness and involvement has so sharply increased that political leaders are obliged to deliver on promises made more than usual. The headline to an article in the *Financial Times* following publication on 7 September 2014 of a poll showing 'Yes' could win the referendum vividly conveys the panic among the London establishment: "Ruling elite aghast as union wobbles".[21] Thus the vow made by the three main pro-union parties to give Scotland deeper devolution days before the vote had to be delivered on; the 'No' vote was conditional on that.

The announcement the next morning by Prime Minister David Cameron that Scotland would be given extra powers to govern itself was accompanied by a commitment simultaneously to provide for English MPs to vote on English legislation. It was instantly recognised as a brilliant piece of tactical politics by Prime Minister Cameron, since 'English votes for English laws' would above all discomfort the Labour Party which relies so much on Scottish and Welsh seats in the Commons to counterbalance the stronger Conservative vote in England. But it was also bad strategic statesmanship, in that it linked the Scottish outcome to politicking elsewhere and therefore allowed the SNP to call betrayal and to claim the promises would not be delivered on. This was a crucial step in the SNP's framing of the referendum defeat as political victory, allowing the party to present itself as the guarantor of maximal devolution as a step on the way to independence. The new SNP leader, Nicola Sturgeon, made the most of that opportunity in the months following the vote.

[16] *Ibid*.
[17] Peter Mair, *Ruling the Void: The Hollowing of Western Democracy*, London: Verso, 2013.
Hanspeter Kriesi, Edgar Grande, Romain Lachat, Martin Dolezal, Simon Bornschier, Timotheos Frey, *West European Politics in the Age of Globalization*, Cambridge: Cambridge University Press, 2008.
Hanspeter Kresi, 'The Political Consequences of the Economic Crises in Europe: Electoral Punishment and Popular Protest' in Nancy Bermeo and Larry M. Bartels (eds.), *Mass Politics in Tough Times: Opinions, Votes and Protest in the Great Recession*, Oxford: Oxford University Press, 2014.
[18] Mure Dickie, 'Scottish Labour leader faces formidable challenge, *Financial Times*, 23 December 2014.

[19] Neil Davidson, 'A Scottish Watershed', *New Left Review* 89, September-October: 5-28, 2014.
[20] Gerry Hassan, 'Message to the Messengers: What do we do after Yes?', *Our Kingdom blog*, 9 December 2014, www.opendemocracy.net, accessed 10 December 2014.
[21] Sarah Neville and Clive Cookson, 'Ruling elite aghast as union wobbles', *Financial Times*, 12 September 2014.

Her party nevertheless participated in the Smith Commission set up after the referendum, mandated to reach cross-party agreement on how much further devolution Scotland should have. The condition that it be simultaneously matched by agreement on English legislation was dropped and the Commission report explicitly said its outcome was not dependent on agreement elsewhere. A tight timetable accompanied the pledge, for the Commission to report by 27 November, for heads of a Bill to be produced in December and for draft legislation to be tabled by the end of January 2015. The Smith Commission became the vehicle for a radical negotiation between the Conservatives, Labour, the Liberal Democrats, the SNP and the Scottish Greens, and for a widespread consultation exercise and receipt of public submissions (Smith Commission 2014).

Reporting as promised on 27 November 2014, the Commission agreed on a stronger Scottish Parliament within the UK structure. It would create a more autonomous government and parliament made permanent in UK legislation. Nothing would stop Scottish independence if that was freely chosen, as the report recognises "the sovereign right of the people of Scotland to determine a form of government best suited to its needs".[22] Thus its discourse and terminology recognised Scottish popular sovereignty and the need for permanence, even if this stopped short of constitutional entrenchment because of the doctrine of parliamentary sovereignty.

Its recommendations were grouped into three pillars. The first covered "durable but responsive constitutional settlement for the governance of Scotland". Issues of franchise and electoral system would require a two-thirds majority. Foreign affairs were reserved to Westminster; but there is a commitment to involve and consult Scottish ministers on EU affairs and for them to lead the UK delegation on occasions. A section on inter-government relations stressed the importance of the subject, as does Lord Smith in his introduction, recognising that the further Scotland travels from highly controlled and contingent devolution the more such federal-type institutions are required to resolve differences and anomalies.

Pillar two concerned the delivery of prosperity, a healthy economy and social justice. Pensions were reserved for the UK parliament, as were universal credits and the national minimum wage; but unemployment benefit was devolved and there was a commitment to sustainable finances. Pillar three was devoted to strengthening the financial responsibility of the Scottish Parliament. Income tax was declared to be shared, with rates devolved and the Scottish government to receive all income tax in Scotland. Capital, corporation

and oil and gas taxes were reserved. The first 10% of VAT will be allocated to Scotland, as will air taxes. The overall UK budget will be decided at Westminster, although there is ambiguity about Scottish MPs voting on income tax in England, as Cameron vowed to pursue this issue on the day the report was published.

A detailed fiscal framework said that the existing Barnett formula governing proportionate distribution of public expenditure to its constituent nations and regions will be maintained where it applies. This matches an undertaking given in the pre-referendum vow; but it has led to resentment in Wales, which believes it is underfunded compared to Scotland, and to fears in Northern Ireland that any alteration of the formula will expose its high level of funding to critical scrutiny. Scotland may also borrow on the international markets to manage economic cycles and can explore the use of a 'Made in Scotland' branding policy.

This was a more ambitious package of deeper devolution than many expected, reflecting Labour's willingness to compromise on deeper devolution, and especially on income tax, because of the electoral threat it faces from the SNP. It will encourage the development of more responsible politics in Scotland, in that spending will be more closely related to tax gathering there. But still Nicola Sturgeon criticised it, saying: "70% of our taxes and 85% of welfare staying at Westminster [is] not real home rule". It makes a number of steps closer to a federal model of governing, albeit one that is pitched solely at Scotland, without considering other parts of the UK, and without the restructuring that would be required if the UK was to make such a transition.

Labour faces potential difficulties with such a model of devolution. It is now the only British party with solid representation in England, Scotland and Wales. It stands to lose many votes and seats in Scotland, jeopardising its capacity to form a UK government. Such a settlement would change the balance, talents and demands on its MPs between Westminster and Scotland. Prominent party figures voiced fears that so changing these relations would unravel the remaining economic and welfare bonds holding the UK together, making it more difficult to construct a new narrative of union.[23] In that case, the unsuccessful strategy adopted by Labour in 1998 of devolving power from Westminster to remove the threat of nationalist separatism would be replicated in this more challenging period.

This would put the future of the UK itself in even greater jeopardy, since it would allow the SNP, and a stronger independence movement mostly on the more radical left-wing

[22] The Smith Commission, *Report of the Smith Commission for further devolution of powers to the Scottish Parliament*, 27 November 2014, www.smith-commission.scot, accessed 23 February 2015, p.13.

[23] Alistair Darling, 'A bad deal on devolved tax will turn the UK into a new Eurozone', *Financial Times*, 24 November 2014.

of Scottish politics, to redouble demands for independence by using deeper devolution as a platform. They will have difficulty swaying 'No' voters who believe the collapse of international oil prices in 2014-15 undermines the case Alex Salmond made for independence. But a failure to deliver a sustainable regime of deeper devolution would continually renew such demands. Labour is in great trouble if it cannot adapt to these new circumstances, which will have to include plans to federalise the UK.

Wales

It is useful and instructive to examine these problems from the Welsh perspective.[24] Wales differs greatly from Scotland in interests and needs. Its relationship with England is much more interdependent socially and politically and more dependent economically compared to Scotland's, reflecting relative poverty and greater transfers from the UK budget. Wales has not been included in the developing debate about the UK's future, driven as it is by the "near death" of the union in the referendum, as one Scottish source puts it, and the need to appease Scottish expectations. The same neglect applies to Northern Ireland – and they should cooperate more.

The Welsh First Minister, Carwyn Jones, foresaw this neglect when he proposed a constitutional convention on the UK's future.[25] It would consider a federal-type structure to replace the existing state, which he says is over-centralised in London notwithstanding the UK's devolved regions. He wanted the convention's terms of reference and agenda agreed before the May general election. But whereas Carwyn Jones is in step with Welsh public opinion he is out of step with the Labour Party mainstream. A Welsh perspective gives an insight into the difficulties as they both respond to Scotland's referendum on independence.

Those who share his view in Wales think such a convention should be an event with a set deadline and carefully prescribed tasks rather than an open-ended process that would better suit a Scottish nationalist agenda. Although Plaid Cymru, the Welsh nationalist party, is drawing votes from the predominant Labour in Wales, it does not support independence but rather sovereignty, reflecting Welsh public opinion. That opinion divides on what sovereignty should consist of. One definition distinguishes between powers reserved to Westminster like defence and foreign affairs, with the rest allowed to the Welsh Assembly along the lines of the Scottish model, whereas a

conferred powers model defines what Wales is allowed to have sovereignty over. The reserved model is becoming more influential in the Welsh Labour Party and among civil society groups involved in the Institute of Welsh Affairs. As can be seen from the Smith Commission report, it is now more widely used in the debate on the UK's constitutional future.

The systematic distinction between reserved and conferred powers remains contentious within the wider UK Labour Party and in sections of the Welsh one because it would potentially change the relationship between Westminster and Wales, as between Westminster and Scotland, in a fundamental way by bringing the UK closer to a federal model of government. Those who support a centralised Labour Party and the existing centralised state see the priority as ensuring a fair distribution of UK resources to weaker regions rather than devolving powers that could encourage a race to the bottom unless fairness is entrenched. And of course the party relies on Scottish and Welsh MPs to give it a majority in the general election – a prospect now threatened by the decisive swing to the SNP in Scotland.

That 'knife to the throat', as unionists see it (using language taken from opponents of Parnell's Home Rule in the 1880s), would give the SNP real leverage to gain more powers, allowing it to argue the case for independence. If it is a Conservative-led government, Nicola Sturgeon says Scotland would stay in the EU if England decided to withdraw, creating a constitutional crisis. Wales would potentially be profoundly affected by these developments in Westminster and Scotland. A concluding statement from the UK's *Changing Union* project, a collaboration between the Wales Governance Centre at Cardiff University, the Institute of Welsh Affairs and Cymru Yfory (Tomorrow's Wales), called for a post-election constitutional convention process including civil society representatives to culminate by March 2016. It should steer the UK towards a federal or quasi-federal union state rather than a unitary model and aim to agree a written constitutional settlement. This is one example of renewed constitutional activism in the UK.[26] Other examples include similar calls for a constitutional convention from prominent political scientists and lawyers.[27] Alan Renwick recommends drawing on the model of the Irish Constitutional Convention with a majority of citizens chosen at random and a minority of politicians chosen by the parties.[28]

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[24] Paul Gillespie, 'Wales bids to find its way in shifting UK', *The Irish Times*, 22 November 2014.
[25] Carwyn Jones, 'Wales and the Future of the United Kingdom', speech to a conference on Wales and the Changing Union, 2 April 2014, www.clickonwales.org, accessed 10 December 2014.

[26] 'UK's Changing Union: Towards a New Union', *Wales Governance Centre*, 4 February 2015, www.cardiff. ac.uk, accessed 18 February 2015.
[27] Vernon Bogdanor, *The Crisis of the Constitution The General Election and the Future of the United Kingdom*, London: The Constitution Society, 2015, www.consoc.org.uk, accessed 25 February 2015.
Charlie Jeffery, 'Constitutional Change – Without End?, conclusion to special issue of *Political Quarterly*, 85(5), March 2015.
[28] Alan Renwick, *After the Referendum, Options for a Constitutional Convention*, London: The Constitution Society, 2014.

So Carwyn Jones spoke more for Wales than for Labour; but rapid political change may put him more in both mainstreams. His case for a constitutional convention would give a Labour Government an opportunity to tackle the issues involved. They include defining and entrenching shared sovereignty between the UK and its nations in a written constitution; catering for English regionalism through city-regions and greater local government, an initiative which has taken on a real new momentum across party opinion; making the House of Lords into a territorial upper house; and more systematically addressing the growing and now well-documented inequalities between London and the south-east versus the rest of the country.[29]

Such a model of a changed UK would be an asymmetrical quasi-federalism giving different powers to different nations and regions.[30] That would meet Welsh demands for more time to consider its own interests, rather than aping Scotland.[31] The same applies to Northern Ireland, where greater powers could further divide the power-sharing Executive. Both now depend on transfers from a more self-aware and less generous England in what is well described as a *realpolitik* union relying more on instrumental than emotional affinities and in which more powerful Scotland upstages weaker Wales for attracting London's attention.[32] Both are similarly reluctant to fully adopt a more responsible type of politics where real choices have to be made until they are sure their long-term need for fair transfers is guaranteed in recognition of their peripheral status.

The Scottish question drives the debate. Whether the UK can survive that assault depends on its capacity for political renewal.

The emerging 'English Question'

The political calendar facing the UK over the next five years plays into the uncertainty about its survival. Legislation to implement the Smith Commission proposals came by the end of January 2015, just months ahead of the general election. The overall fragmentation of the party system which sees the two largest parties receiving only 60% of the popular vote (compared to 95% in the 1950s), a weakened Liberal Democrat party, the SNP challenging Labour in Scotland and UKIP challenging the

Conservatives in England and a resurgent Green Party gaining members and votes, may usher in another coalition government or a minority one (see Chapter 7). It would have a motivation to seek another election in a short time rather than serve out the full five-year term. That tension would overlap with elections to the devolved parliaments and assemblies in 2016. And there is the prospect of a referendum by 2017 on the terms or fact of the UK's EU membership if the Conservatives lead the government; that is less likely if Labour is the leading party, although political pressures on it to do likewise will not diminish.

The dual sovereignty question dealt with earlier in the chapter will drive these events, joining up the UK's internal arguments about devolution and federalism to the external ones concerning its EU membership and role in the world. There is a growing realisation among pro-EU figures in Britain that a vote to leave the EU would imperil the UK itself.[33] These dialectics between the two dimensions will severely test the UK political leadership's capacity for deep-seated political reform and renewal. Popular disenchantment with the political class makes the task even more difficult, amidst such a potentially historic realignment of its party system – and hence perhaps of its first-past-the-post electoral system too.[34] So does the emerging combination of English nationalism, xenophobia and appeal to those who feel left behind by globalisation among both Conservative and Labour supporters represented by UKIP.[35] The strong contrast between attitudes of the general public towards EU membership and those of a panel of opinion formers (leaders drawn from the worlds of business, media, politics, academia, science and the arts) was summarised as follows in a YouGov poll conducted in August 2014 for the Chatham House think tank:

- Public support for holding a referendum on membership of the EU has changed little since the last edition of the survey and remains high at 60%, with 24% opposed, opinion-formers are narrowly opposed, with 50% against and 46% in favour.

- Support for remaining in the EU has grown among opinion-formers and is now at 72%. Among the public, narrowly more would vote to remain in the EU (40%) than to leave (39%).

[29] Equality Trust, *A Divided Britain? Inequality Within and Between the Regions*, 2014, www.equalitytrust.org.uk, accessed 10 December 2014.
[30] Jim Gallagher, 'The English Question', *Prospect*, November 2014. Responses to this article, Prospect, December 2014.
[31] Lee Waters, 'How can Wales be at the heart of the debate?', *The Welsh Agenda*, 53, pp.11-14, Winter 2014.
[32] Richard Wyn Jones, 'Is Labour throwing Wales under the bus?, *Click on Wales blog archive*, Institute of Welsh Affairs, www.clickonwales.org, accessed 10 December 2014.

[33] Nicholas Watt, 'Vote to quit EU would imperil national unity, says Tory MP', *The Guardian*, 24 December 2014.
[34] Andrew Rawnsley, 'The parties prepare for a hung, drawn and quartered parliament', *The Observer*, 14 December 2014.
'Britain's electoral system. The breaking point.', *Economist*, 21 February 2015, pp.20-23.
[35] Robert Ford and Matthew Goodwin, 'Understanding UKIP: Identity, Social Change and the Left Behind', *The Political Quarterly*, 85: pp.277–284, 2014

- Majorities of the public and opinion-formers say that the UK should aspire to be a "great power" rather than accept that it is in decline. 63% of the public and 61% of opinion-formers support this view, the highest level since the survey was first conducted. A majority of the public says that the UK has a responsibility to maintain international security, provide troops for peacekeeping missions and help lead the global response to climate change.

- A plurality of the public now thinks that the UK's closest ties should be to the EU (30%) rather than to the US (25%), a reversal of the position in 2012.

- Skewed perceptions of the financial costs of EU membership have become more pronounced. While Britain's net contribution to the EU budget in 2013 was just over £11 billion, among the public the median estimate was £40 billion (up from £27 billion in 2012) and the mean estimate was £118 billion (up from £74 billion in 2012).

- Almost half the public (49%) would support limiting free movement of people within the EU even if that would mean limiting their own rights to live and work elsewhere in Europe. Only 26% oppose such restrictions.

- Scots would vote to remain in the EU by a two-to-one margin. Asked how they would vote in a referendum, 59% of Scots said they would vote to stay in (a score far higher than for any other part of the country) and just 24% said they would vote to leave. This is a big shift from the previous Chatham House survey in 2012, when there was a slight lead among Scots in the sample for those voting to leave (41% vs. 40%).

- Voters in London would vote to stay in the EU, while those in the rest of the south, the midlands/Wales and northern England would vote to leave.

- Scottish respondents are more pro-European, more supportive of development aid and more likely than English ones to say ethics should play a role in foreign policy.[36]

The emerging 'English Question' is the hitherto silent one which has now been awakened both by the changing material and emotional bonds within the UK after the end of empire, the relative lack of experience of war since 1945 and decolonisation in the 1950s and 1960s, the erosion of welfare and the recent strong emergence of Scottish and Welsh identities. English nationalism is a belated response to these deep historical trends among sections of England's population.[37] It has become inextricably bound up with hostility towards the EU, fanned by divisions in the Conservative Party and by a deeply Eurosceptic media, as is spelled out in Chapter 4.

This entanglement with a European 'other' makes the contemporary English Question a really difficult issue to handle for the main parties and for the whole of the UK if it is to hold together. England's distinct political culture and emerging self-awareness is much more closely bound up with Euroscepticism than is the case in Scotland, Wales or Northern Ireland, where in contrast a European identity is seen to bolster their own national or regional ones. Three detailed polling reports[38] designed by political scientists come to the following conclusions:

> [W]e developed the idea that a political 'project' was forming in England around the question 'who governs us?' Put simply, people in England see a democratic deficit in the way they are governed and are looking for a remedy in the form of self-government. We believe there are four 'pillars' which underpin this self-government project. The first three are about different dimensions of the democratic deficit. They are the main inspirations behind the growing demand for self-government. They have to do with: *Scotland*, compared to which people in England feel disadvantaged and under-represented; *the EU*, over which there is a sense of lack of control in England; and *immigration* where we also find that sense of lack of control. The fourth pillar of England's self-government project concerns the institutional arrangement through which the democratic deficit should be remedied.[39]

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[36] Thomas Raines, *Internationalism or Isolationism? The Chatham House–YouGov Survey British Attitudes Towards the UK's International Priorities*, London: The Royal Institute of International Affairs, January 2015.

[37] Ben Wellings, *English Nationalism and Euroscepticism: Losing the Peace*, Oxford: Peter Lang, 2012.
[38] Richard Wyn Jones, Guy Lodge, Ailsa Henderson and Daniel Wincott, *The dog that finally barked: England as an emerging political community*, London: Institute for Public Policy Research, 2012.
Richard Wyn Jones, Guy Lodge, Charlie Jeffery, Glenn Gottfried, Roger Scully, Ailsa Henderson, Daniel Wincott, *England and its two unions: The anatomy of a nation and its discontents*, London: Institute for Public Policy Research, 2013.
Charlie Jeffery, Richard Wyn Jones, Ailsa Henderson, Roger Scully and Guy Lodge, *Taking England Seriously: The New English Politics*, London: The Future of England Survey, 2014.
The reports are available at www.ippr.org.
[39] Charlie Jeffery, Richard Wyn Jones, Ailsa Henderson, Roger Scully and Guy Lodge, *Taking England Seriously: The New English Politics*, London: The Future of England Survey, 2014, p.6.

Asymmetry is built into the UK because England has 85% of its population and a roughly commensurate share of its economic, social and cultural resources. But to say this also distorts England's own diversity in each sphere. Economically England is divided, as already mentioned, between a comparatively rich (and mostly Conservative-voting) south-east, on which the global financial London city-state sits astride, and much less well endowed northern, western, eastern and central regions (mostly or more Labour-voting) beset by deindustrialisation, relative impoverishment and static incomes. As we have seen, these voting patterns are now made more complex by diminishing support for the main parties and the rise of smaller ones.[40]

Immigration becomes a huge additional question when it is superimposed on these problems. It is a proxy issue for many of them, exercising emotions and resentments quite aside from economically rational or (rather different) critical sociological analysis of its real economic, social and cultural impact.[41] The well-known paradox that racial or xenophobic prejudice is often most intense where there are fewest immigrants is fully at work here, revealing that fear of the 'other' among groups who believe themselves to be vulnerable to change is a real factor at play.[42] Multicultural London, so much of whose economic prosperity depends on immigration, is thereby much less prone to this mood than smaller places like Clacton-on-Sea, where UKIP made its first Westminster breakthrough but has far fewer immigrants than elsewhere. This tension between openness and protection suffuses the British debate and reflects different interests of the winners and losers from globalisation there as elsewhere in Europe.[43] Immigration affects social groups and classes variously; allowance must be made for levels of skill and capacity to absorb change and difference among immigrants and host societies alike in evaluating it.[44]

Going into the election, immigration became a matter of competitive one-upmanship of restrictive policies, feeding into the Eurosceptic mood and adding to the difficulties the Government has with defining an EU reform project capable of finding more general acceptance. The anti-immigration issue was, of course, not confined to the UK; but its

government became exceptionally prone to inject the subject into EU policy-making, as distinct from other governments as subject to right-wing populist opposition parties but less willing to compromise on free movement of labour within the EU.

Once awakened, however, the English Question demands an answer, and deservedly so on demographic and democratic grounds. The demand for English votes on English legislation, given fresh voice by David Cameron on 19 September 2014 is far from simple to define and far more consequential constitutionally than he seemed to realise. Distinguishing legislation with exclusive impact on English voters is not easy to do.[45] And the logic of implementing it leads inexorably to a dual parliamentary mandate, which would make unitary legislation for the whole UK impossible to realise.[46]

Thus a tempting partisan approach to this question, calculated to appeal to Tory MPs attracted by UKIP's English nationalist agenda, has the unanticipated effect of reinforcing the cleavages driving the UK apart. An English parliament is incompatible with the continued existence of the UK itself because of England's scale. Other ways must be found to express the democratic anomaly contained in the West Lothian question first formulated by the Scottish Labour MP Tam Dalyell in the 1970s, whereby English MPs should demand an equivalent right to oversee English legislation as Scottish devolutionists demanded for theirs. Several reports explored alternative ways of doing this, including second readings in Westminster.[47] Proposals by the Conservative Leader of the Commons, William Hague, to give English MPs rights to debate and sometimes veto legislation affecting England only at committee stage represented an interim compromise in his party's policy ahead of the election.[48]

Alternatively, the Labour Party leadership warmed to the idea of empowering city-regions outside London and incorporating them in a renewed UK polity. This would be explored in the type of constitutional convention proposed by Carwyn Jones; but the national Labour leadership was ill-prepared for this debate and seemed vulnerable to Conservative accusations that they were willing to sacrifice English interests to maintain their UK-wide parliamentary majority through disproportionate Scottish and Welsh support. In this way, the English Question became divisive within the Labour Party too.

[40] Philip Stephens, 'The great fragmentation, *The Financial Times*, 25 February 2015.
Vernon Bogdanor, *The Crisis of the Constitution The General Election and the Future of the United Kingdom*, London: The Constitution Society, 2015, www.consoc.org.uk, accessed 25 February 2015.
[41] Alex Glennie and Jenny Pennington, *Europe, Free Movement and the UK, Charting a New Course*, London: Institute for Public Policy Research, April 2014, www.ippr.org, accessed 10 December 2014.
[42] Robert Ford and Matthew Goodwin, *Revolt on the Right, Explaining Support for the Radical Right in Britain*, London: Routledge 2014.
[43] Hanspeter Kriesi, Edgar Grande, Romain Lachat, Martin Dolezal, Simon Bornschier, Timotheos Frey, *West European Politics in the Age of Globalization*, Cambridge: Cambridge University Press, 2008.
[44] James Wickham, 'Immigration: Wishful thinking by well-meaning people', *Progressive Economy @TASC blog*, series 5-10 February 2015, www.progressive-economy.ie, accessed 18 February 2015.
David Goodhart, *The British Dream: Successes and failures of post-war immigration*, London: Atlantic Books, 2013.

[45] Mark Hennessy, 'Mind the gap: Scotland's push toward devolved power comes at a price', *The Irish Times*, 8 December 2014.
[46] Michael Kenny, 'England awakens', *The Welsh Agenda*, 53: pp.8-11, Winter 2014.
Vernon Bogdanor, 'Why English votes for English laws is a kneejerk absurdity', The Guardian, 24 September 2014.
[47] McKay Commission, *Report of the Commission on the Consequences of Devolution for the House of Commons*, March 2014, webarchive.nationalarchives.gov.uk, accessed 3 February 2015.
[48] 'English MPs would get tax veto under Conservative plans', *BBC News*, 3 February 2015, www.bbc.com/news, accessed 9 February 2015.

Devolution of executive and some spending power to a Manchester city-region by the Conservative Chancellor Osborne threatened to outflank or at least upstage Labour's rather belated efforts to address the question. But early in 2015 its leadership voiced more support for a constitutional convention approach.

Implications for Ireland

Irish policy-makers have been watching the UK's intensifying debate on membership of the European Union and Scottish independence with growing fascination and alarm. Ireland's increasingly formal status of independence from the 1920s evolved alongside a continuing informal economic and cultural dependence on Britain until the 1960s, which was transformed into interdependence in the following decades through membership of the European Communities. The two states, economies and peoples have never been as interdependent as they now are, yet would face new borders and tensions should the UK withdraw from the EU. Ireland's fundamental interest is to remain close to both, but how can this be done if they draw so much apart? And if either or both of these events occur, what reciprocal effects will they have in Ireland, North and South?

These questions require further research and action within the framework of the complex interdependence between the two states, as this book makes clear; they are flagged here along with four suggested possible political outcomes.[49]

David Cameron's commitment to a referendum on a renegotiated deal with Brussels is accepted as a regrettable political reality by the Irish Government, even though it knows very well how risky referendums are. The rapid growth of Euroscepticism, intimately associated with English nationalism is forcing a transformation in the UK's relations with the EU, the logic of which could herald a UK withdrawal in 2017 assuming the Conservative undertaking to hold a referendum in that year is adhered to. The prospect of a UK withdrawal is alarming for Irish policy-makers because it would jeopardise key conditions that have brought Britain and Ireland closer together over the last generation. It would restore a damaging bilateralism based on power relationships between the two states, which had been moderated by the multilateralism created by their membership of the European Communities since the 1970s and then by more recent reconciliation after the Anglo-Irish Agreement and the formal State visits by Queen Elizabeth II and President Michael D. Higgins in 2011 and 2013. Such a bilateralism would make it

both more difficult and more necessary to proclaim, as did the then Irish Ambassador to London, Bobby McDonagh, in an address to the IIEA in 2012 that: "The strength of the modern British-Irish relationship is necessarily based on equality; not equality in size but in sovereignty; not equality in power but in dignity."[50]

The fact is that this is the second referendum preoccupying British politics, following that on Scottish independence, is equally fascinating and disquieting for Irish observers. Some Scots who want to stay in the EU voted to leave the UK in 2014, while those who voted 'No' to independence may, as we have seen, find the question reopened if a Scottish majority in favour of the EU is trumped by a UK (meaning English) majority against.

Consideration of a range of possible outcomes allows us to think about the future in a structured way by providing a framework to address uncertainty and contingency. Policy analysts from the IIEA, examining the implications of the UK's changing relations with the EU for Ireland and how they should be handled by policy-makers, suggest three possibilities: accommodation, repatriation and withdrawal.[51] Accommodation would see EU Member States agreeing to give the UK minor concessions that do not alter the fundamentals of the Union and do not require treaty change. Repatriation would be a more substantial renegotiation, probably involving treaty change and preferably conducted multilaterally rather than bilaterally. It would reform the rules governing relations between the Eurozone and other EU Member States, protect the Single Market and preserve the EU's overall integrity. But if exercised bilaterally it could fundamentally change the competitiveness equation with Ireland to Britain's advantage. Withdrawal would arise from an unsatisfactory repatriation negotiation rejected in a referendum, or from an accident of miscalculation and domestic political dynamics drawing on the forces already mentioned.

A new deal would then have to be negotiated between the UK and the EU – and between Ireland and the UK to avoid a disastrous re-imposition of (EU) border controls between North and South and a much more ruthless competitive space between them.

Ireland's options in managing these changes are also threefold, according to O'Ceallaigh and Kilcourse. An unlikely reactive response would see Ireland avoid taking any steps that would damage the close relationship with the UK, including stepping back from further EU integration. A proactive response would combine Ireland's commitment to

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[49] Based on Paul Gillespie, 'The Complexity of Irish-British Interdependence', *Irish Political Studies* 30 (1): pp.37-57, 2014, special issue on British-Irish relations; and Paul Gillespie, *Scotland's Vote on Independence, The Implications for Ireland*, Dublin: Institute of International and European Affairs, 2014.

[50] Bobby McDonagh, 'Ireland and Britain: A New Agenda', address to IIEA, 2 July 2012 in *"Irish Friends and Friends of Ireland..." London Speeches 2009-2013*, Dublin: Institute of International and European Affairs, 2014, p.32.
[51] Dáithí O'Ceallaigh and James Kilcourse, *Untying the Knot, Ireland, the UK and the EU*, Dublin: Institute of International and European Affairs, 2013.

the developing core of the EU with keeping good relations with the UK as a priority. A third interpretive option would see Ireland use its privileged knowledge and engagement with the UK as an interpreter and mediator of British views for other EU partners, acting as a bridge between them but being careful to preserve its autonomy and independence.

This is one set of possibilities. Mapping it with the options should Scotland stay in or leave the UK provides a different set of outcomes and implications for Ireland. These possibilities, drawn up before Scotland's vote, remain valid notwithstanding the decisive 55.3% to 44.7% outcome of the September 2014 referendum. This is because the resurgent SNP does not accept the question is fully settled. If deeper devolution is not satisfactorily delivered or if the UK decides to leave the EU the question will be reopened.

The table below suggests four outcomes depending on whether Scotland votes to leave the UK in a subsequent referendum and whether the UK votes to leave the EU. The four allow one to identify hypothetical changes in the UK's position as a partner in complex interdependence with Ireland, the effects on Northern Ireland and the interests of various stakeholders in the complex interdependence regime. These are stark alternatives, and outcomes may be more hybrid and mixed, but they do help clarify potential change.

Figure 2. **Relationship between the UK, Scotland and the EU**[52]			
		Relationship between UK and EU	
		Member of EU	*Exit from EU*
Relationship between Scotland and UK	*Scotland Part of UK*	*Outcome 1* • Federalising UK • New British-Irish relationship • England leave UK?	*Outcome 2* • Unsettled UK • Border problems • Scotland issue
	Scotland Exit from UK	*Outcome 3* • Unsettled UK • British-Irish regime change • Rethinking of UK	*Outcome 4* • UK breakup? • British-Irish regime change • Irish unity?

Outcome 1 – still the most likely one – keeps Scotland in the UK and the UK in the EU. A deeper Scottish devolution and a renegotiated UK relationship with a changing EU and

deepening Eurozone, possibly through a new EU treaty, might include the reinforcement of demands – potentially led by a UK now committed to deeper devolution – for a stronger regional voice at the EU table.

All this would reinforce a debate on whether the UK itself should become a federal state, in which the two discourses could interact positively. If pursued, that would be a genuinely radical innovation. But because of present political cultural values and political structures in England it may not be feasible, as this chapter argues. As Keating puts it in the last words of his study of Scottish independence:

> If English elites and English opinion insist that the central constitution remains essentially untouched by devolution then their only real option is to reconstitute themselves as a new nation-state. The end of the UK is unlikely to come about from the secession of Scotland as long as the Scots have other options. It is more likely, stranger to say, to come from the secession of an England that is no longer prepared to pay the political or economic price of union.[53]

Either way, the Irish-British regime would require deep change taking full account of this unsettled and fragmenting condition.

Outcome 2 would see Scotland deciding to stay in the UK but the UK later deciding to leave the EU, almost certainly with an English majority determining the referendum result. That would reopen the Scottish question and therefore the UK one, also further unsettling the UK. This is because EU membership is seen by Scottish elites and institutions as a more existential question involving basic interests than is the case in England, making Scotland more like Ireland and Wales in this respect.

Major issues would be posed for the Irish-British regime in this case, including that the Irish border would become the EU one, potentially creating a messy and more harshly competitive regulatory environment. The new east-west arrangements between Ireland and Britain outlined in the 2012 Downing Street statement would be challenged and stakeholders would be very busy redefining their interests in this scenario as in the others. Northern Ireland and Wales would have to define their interests in a more devolved UK before the EU decision was made and would then have to consider where their best interests lie if the UK decides to withdraw, presumably based on an English majority.

[52] Adapted from Paul Gillespie, 'The Complexity of British-Irish Interdependence', *Irish Political Studies* 29 (1) pp.37-57, 2014, at p.52.

[53] Michael Keating, *The Independence of Scotland: Self-Government and the Shifting Politics of Union*, Oxford: Oxford University Press, 2009, p.179.

Outcome 3 would see Scotland out of the UK and the UK remaining in the EU. This is less plausible following the September referendum, but it remains possible if Scottish public opinion remains deeply dissatisfied about the delivery of devolution even after a UK vote to stay in the EU.

It would unsettle the UK and reduce its solidarity because a dominant and increasingly less communitarian England, politically more likely to vote Conservative, would be less willing to fund and share power equitably with Wales and Northern Ireland, despite their probable desire to remain part of the union. There would have to be a rethink within the remaining parts of the UK and a redesign of the Irish-British regime. The issue of Scotland's EU membership would be negotiated first with London and then with Brussels, probably on a joint Scottish-UK basis making it more likely there would be a pragmatic agreement reached. This outcome might suit Ireland's interests best, as Scotland could become an Irish ally in the new EU setting. However, it could also see Scotland become a determined competitor for investment as much as a Celtic soul sister.

One way or another, Irish-Scottish relations are intensifying. The Minister for Foreign Affairs and Trade, Charles Flanagan, put it as follows:

> As neighbours, friends and partners across political, economic, cultural and many other spheres, relations between Ireland and Britain have never been stronger. We are committed to working with everyone across these islands to strengthen and deepen our connections.[54]

Outcome 4, most radically, would see Scotland out of the UK and the UK out of the EU. A UK breakup is likely in this case, since a predominantly Eurosceptic England with fewer communitarian or solidaristic values would increasingly resent and be less willing to fund Wales and Northern Ireland; they too would want to rethink their futures despite their existing distinct but deep relations with the rest of the UK.

This would require radical change in the Irish-British regime of complex interdependence, bearing in mind Eamon Gilmore's point that "[u]niquely, Ireland has a constitutional relationship with the UK reflected in the Belfast Agreement and in a binding international treaty."[55]

If the UK breaks up, then Irish unity would be put on the political agenda far more quickly than most Irish political elites and voters North or South expect or desire. This is not to predict Irish unification but it is to say it would become a more urgent political option than now, with potentially rapidly changing preferences on all sides, including among unionists, who would lose the object of their traditional loyalty and might even seek a better federal deal from a Dublin in the EU than a London outside it.[56] Its multiple stakeholders would have to radically redefine their interests.

Aside from the political and social implications, the Northern Ireland economy with a 64% state share, receiving a £10.5 billion block grant from London in 2010-11, amounting to £5,850 per head compared to the rest of the UK's £2,454, (a deficit of 38.3% compared to an average 12.3% elsewhere) would be a daunting task to absorb for an Ireland recently out of its EU-IMF programme. The latest statistics for 2011-2012 report a slight reduction on these figures, showing a fiscal deficit of £5,311 per head, compared to the UK average of £2,133 per head and 33.1% and 10% respective deficits. As John Bradley says in Chapter 13, some of the assumptions made about regional income can be disputed, but the overall picture is clear. Northern Ireland would become a *demandeur* for favourable treatment in such circumstances, rather than a more comfortable recipient of UK transfers as of now.

These four possible outcomes show that the relationship between Ireland and the UK is far less settled than the Joint Statement signed by Enda Kenny and David Cameron in March 2012 assumes.[57] The question has not been resolved by the Scottish independence vote. Since the framework set up by the complex interdependence regime created since the 1970s between Britain and Ireland directly involves both these dimensions, the outcomes will have reciprocal effects on both states. A great deal depends on how robust the regime's structures are to withstand the asymmetric power relations where the larger entity in the relationship may assert its own basic interests over common ones set up by the recently restructured regime between Dublin and London.

How far will Britain's leaders take Irish interests into account as they make these decisions and how vocally will Irish leaders assert them?[58] The fact that the St. Patrick's Day meeting between Enda Kenny and David Cameron was not held in 2015 because of the looming election may show there is less commitment to it on the British than the

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[54] Charles Flanagan, *Irish-Scottish Relations: A New Chapter*, address by the Minister for Foreign Affairs and Trade of Ireland Charles Flanagan to the Europa Institute, University of Edinburgh, Scotland, 5 February 2015, www.dfa.ie, accessed 23 February 2015.
[55] Eamon Gilmore, address by the Tánaiste to the British-Irish Association, Cambridge, 7 September 2013, www.dfa.ie, accessed 4 November 2013.

[56] Dennis Kennedy, 'Is it time to revisit the idea of a federal Ireland?', *The Irish Times*, 13 November 2014. Paul Gillespie, 'New federal deal might suit the North', *The Irish Times*, 3 January 2015.
[57] John Bradley, 'Beyond the Belfast Agreement: economic relations within these islands', *Journal of Cross Border Studies in Ireland* 8, 2013, pp.29-42.
[58] Jennifer Todd, 'The vulnerability of a (quasi-)constitutional settlement: Northern Ireland after 1998 and the British-Irish relationship', *IBIS Working Paper*, 12 September 2014, www.ucd.ie, accessed 18 February 2015.

Irish side – although the meetings between departmental heads agreed in 2012 were not similarly cancelled. These issues are now being taken up more seriously, particularly on the Irish side, with more pronounced Irish policy being expressed that the UK remains in the EU.[59] These outcomes could be much more immediate than is currently anticipated by Irish leaders, public opinion or voter preferences.

Conclusion

Resolving the UK's dual sovereignty question over the next decade will involve an intense calendar of political choice, debate and conflict in our neighbouring island – and in Ireland too. These decisions are highly consequential for an Ireland intent on staying in the EU even if the UK withdraws; and for a Northern Ireland which must live with the fallout from a changing UK increasingly dominated by a more self-aware England responding to Scotland's debate on independence.

This chapter has concentrated on the UK's internal sovereignty question even while arguing that it cannot be resolved fully without addressing the external one. Its conclusions mesh with other chapters in this book identifying alternatives for the UK's role in a changing EU dominated by a deepening Eurozone.

The next decade can therefore reopen major issues in Irish-British relations that have conventionally been regarded as relatively settled and stable. The Belfast Agreement of 1998 institutionalised power-sharing and inter-governmental arrangements between the Irish and British states, on the basis of their mutual consent and territorial integrity. Should Scotland decide to leave the UK in a future referendum, this integrity would change in Britain and would have major political consequences for Northern Ireland. If Scotland stays in the UK, the necessary process of political reform and restructuring required to retain it will also affect Northern Ireland profoundly.

Northern Ireland's peace process makes it exceptional in the scheme of devolution within the UK, whatever political form that takes in future. But the deep structural changes underway there will, over the next decade, become much more consequential for the North. It will have to tackle economic, budgetary and political shocks arising from a changing UK and is ill-prepared for them. Were a further shock – UK withdrawal from the EU – to be added to this list, the consequences for the North's economy and the disruption to the indispensable wider setting in which Irish-British reconciliation has been achieved would be immense and unsettling for all concerned.

Ireland's escape from economic and political dependence on Britain following their joint membership of the European Communities from the 1970s provided the opportunity to forge a new interdependence and then a much closer and more harmonious relationship in recent years. Politically this east-west *entente* is strengthened by the 2012 Downing Street agreement between Dublin and London. The next decade will robustly test that agreement's commitment to deepen relations through consultations and joint action. The inherent asymmetry of power between the two states makes it difficult to compensate by political or legal means when such fundamental interests are at stake.

[59] Charles Flanagan, 'Ireland, Britain and Europe', opening remarks by Minister Flanagan at European Council on Foreign Relations, 14 November 2014, www.dfa.ie, accessed 10 December 2014.
John Bruton, 'Tory plan to renegotiate EU terms could backfire', *The Irish Times*, 15 January 2014.
Paschal Donohoe, 'EU stronger with UK as committed member state', *The Irish Times*, 19 December 2013.
Danny McCoy, 'Ireland needs to sharpen its act whether or not the UK departs from EU', *The Irish Times*, 27 November 2013.

6. The Future of the European Union

Brendan Halligan and
Tony Brown

Ever-closer union

A central element of the UK debate on Europe relates to the preamble to the 1957 Treaty of Rome, which asserted the determination of the signatories "to lay the foundations of an ever-closer union among the peoples of Europe."[1] In 1992, the Maastricht Treaty referred to "a new stage in the process of creating an ever-closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen."[2] Then the Treaty on European Union, as amended in 2009 by the Lisbon Treaty, stated that the signatories were "resolved to continue the process of creating an ever-closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizens".[3] The European Council, meeting on 26-27 June 2014, addressed this issue in the context of its consideration of the Union's next institutional cycle and stated in its Conclusions 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 further."[4]

The process of European integration

The processes referred to in the treaty texts reflect the fundamental observation that the European Union is constantly under construction, as Jean Monnet stressed in the very last paragraph of his memoirs: "It is a process of change, continuing that same process which in an earlier period of history produced our national forms of life."[5] Perhaps the best description of the integration process is that of Andrew Shonfield who described it

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[1] *Treaty of Rome*, 1957
[2] *Treaty on European Union* (Maastricht), 1992
[3] *Lisbon Treaty*, 2009
[4] European Council, *Conclusions of European Council 26-27 June 2014*, Brussels, 2014.
[5] Jean Monnet, *Memoirs*, translated by Richard Mayne, London: Collins, 1978, p.524.

in a series of lectures in 1972 as a "Journey to an Unknown Destination".[6]

A basic premise for any analysis of European integration is that common solutions will be constructed by the Member States voluntarily sharing sovereignty in carefully specified areas of policy in accordance with agreed procedures established by law. Shared sovereignty stands, it should be noted, in contrast to intergovernmentalism and is unique in the conduct of international relations.

If European integration is seen as a process in which sovereignty is being progressively shared on a voluntary basis by countries that elect to do so, then its evolution can be predicted along three separate but inter-related vectors:

- An enlarging membership;
- An expanding agenda; and
- A deepening interdependence.

Enlargement

In respect of enlargement, the membership of the Union has gone from six to 28 in a series of seven phases. At the end of 2014 there were six candidates at various stages of negotiation or preparation for negotiation. Formal negotiations were underway with Montenegro and Serbia while negotiations with Turkey and Iceland were stalled for various reasons with the commencement of negotiations with the Republic of Macedonia deferred due to the 'name' impasse with Greece. Albania was accorded candidate status in June 2014.

In his political guidelines for the European Commission taking office in 2014 – A New Start for Europe – President Jean-Claude Juncker argued that:

> the Union and our citizens now need to digest the addition of thirteen Member States in the past ten years. The EU needs to take a break from enlargement so that we can consolidate what has been achieved among the 28. That is why, under my Presidency of the Commission, ongoing negotiations will continue, and notably the Western Balkans will need to keep a European perspective, but no further enlargement will take place over the next five years."[7]

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[6] Andrew Shonfield, *Europe: Journey to an Unknown Destination*, Harmondsworth: Penguin Books, 1972.
[7] Jean-Claude Juncker, *A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change. Political Guidelines for the next European Commission*, presented to the European Parliament in Strasbourg, 15 July 2014, ec.europa.eu, accessed 18 February 2015, p.10.

Notwithstanding the exclusion of further enlargement over the term of the Juncker Commission, negotiations will continue and will impact on the character and *modus operandi* of the Union as a whole.

The UK has been a constant advocate of EU enlargement on the grounds that it would gradually transform the Union into a loose federation of states. Yet, in the context of his arguments for reforms which would meet the demands of British Eurosceptics, Prime Minister Cameron has indicated that the UK might be prepared to block or delay further enlargements unless there was agreement on stricter controls on freedom of movement and was quoted as saying that "as we contemplate countries like Serbia and Albania one day joining the EU we must find a way to slow down access to each other's labour markets until we can be sure this will not cause vast migrations. I look forward to find a way to continue with enlargement but in a way that regains the trust and support of our peoples."[8]

In short, enlargement has exposed inherent contradictions in Britain's strategy to influence the character of the Union, with the potential to increase rather than reduce tensions in troubled regions such as the Western Balkans.

Expanding agenda

The European project has moved progressively from a Coal and Steel Community to a Common Market covering trade, then in a major leap to a Single Market covering all the factors of production, from which came a Monetary Union with a single currency, ending the era of competitive devaluation, of which more below. Successive treaty amendments since 1987 have reflected the need to address complex challenges, like climate change and energy security, which have expanded the economic policy agenda. The need to devote attention to questions of justice, crime and judicial cooperation has been recognised. The evolution of a common foreign and security policy, as well as the need for common positions on international trade and environmental issues, have added an international dimension of growing importance in view of changed relations in global affairs.

The European Council of June 2014 set out a strategic agenda for the Union in what it called times of change and listed five overarching priorities which will guide the Union's activities over the five years of the current institutional cycle:

- Stronger economies with more jobs;
- Societies enabled to empower and protect;
- A secure energy and climate future;
- A trusted area of fundamental freedoms; and
- Effective joint action in the world.

Each of these priorities is sub-divided into areas for urgent and concerted action, for example in developing the Single Market in products and services and completing the Digital Single Market by 2015; completing negotiations on international trade agreements, including the Transatlantic Trade and Investment Partnership (TTIP); confronting the challenge of youth unemployment; ensuring focus on affordable, secure and green energy; better management of migration in all its aspects; improving judicial cooperation; and, achieving a stronger engagement of the European Union in world affairs.[9]

This list of initiatives, which the UK supported, points to an expanding rather than a contracting agenda and suggests that the dynamic for ever-closer co-operation is unstoppable. If that is so then it will force the UK to make a choice on its future relationship with the Union.

Interdependence

The reality of the interdependence of EU states in the rapidly evolving world of economics, politics and social relations is being reflected in changes in the decision-making system and the institutional architecture of the Union. Changes in decision-making in the Council have been characterised by continuous movement away from unanimity towards majority voting, in other words, by the progressive abandonment of the veto. And deepening the integration process also involves changes in the 'institutional architecture' of the Union.

Over the years, the original dialogue between the Commission and the Council of Ministers has slowly turned into a trilogue as the European Parliament was consciously given the role of co-legislator with the Council. And with the Lisbon Treaty, the European Council itself has perforce become a formal institution, with a permanent President, with the result that the decision-making system is now best described as a quadrangular one.

The Eurozone crisis has denied the new institutional setup any opportunity to 'settle in' as the Union has, as expressed by Brigid Laffan in her State of the Union Address to

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[8] David Cameron, 'The EU is not working and we will change it', *Daily Telegraph*, 15 March 2014.

[9] European Council, *op.cit.*

the European University Institute in May 2014, "been tested, tested perhaps like never before…the Union's legal framework, its governance structures, its ability to respond to pressing societal needs and relations among the Member States have all been placed under severe strain since 2009." While recognising that the Union had managed to battle through the acute phase of the crisis, even at a high cost in social, economic and political terms, she concluded that it "is now in mending mode, but its troubled Member States continue to face a legacy of hardship and debt".

Arguing that it is neither wise nor feasible to attempt to predict the 'state of the union' by the end of the present decade, Prof. Laffan identified a "chasm between the world of the Brussels/Frankfurt beltway and domestic politics in the Member States", revealing a division of politics in the Union "exemplified by the striking resilience of the EU's policy-making system, on the one hand, and deep political and economic fissures across the Member States on the other." She concluded by recalling the words of Robert Schuman who reflected that "the hard lessons of history have taught me not to trust hurried improvisations or overly ambitious projects" and arguing that the European Union "has been crafted by artisans not architects."[10]

Challenge

Together, these three elements of the Union's evolution constitute a massive challenge in respect of popular understanding and support. Political developments over recent years, culminating in the outcome of the European Parliament elections in May 2014, demonstrate a significant erosion of the 'permissive consensus' on integration built up over a period of perceived progress and prosperity.

As the Greek academic, Loukas Tsoukalis, has written on the limitation of the permissive consensus:

> …the continuous widening and deepening of European integration; more countries joined, diversity increased while decisions taken in Brussels began to reach the nooks and crannies of our societies. From something faraway and little understood, yet seen as part of a system that delivers the goods…it does not take very much to begin to be seen as something alien and increasingly threatening.[11]

Not surprisingly, the European Parliament elections saw a reflection of this development in the rise of anti-establishment and Eurosceptic parties of both the Right and Left. On the Right, the Front National in France and UKIP in the UK emerged in the top spot while, on the Left, Spain's Podemos saw five of its candidates elected as MEPs with a mandate derived from some element of dissatisfaction with the current system at national and EU levels.

The Oxford academic, Kalypso Nicolaidis, has commented that:

> …while the four mainstream parties still hold 70% of the European Parliament, the same does not hold true for the hearts and minds of Europeans. Euroscepticism comes in many shades. While some of the voters in the maligned 30% – racists, neo-fascists, xenophobes – are outside the bounds of 'reasonable disagreements', others simply voted against the government of the hour and their policies.[12]

Richard Corbett, the British Labour MEP and former member of the van Rompuy Cabinet, has characterised the election results as:

> …a shock to the mainstream parties, both in the European Parliament and in governments across the Union. Indeed, it is hard to find a politician who does not say 'reform'! It is actually the mainstream parties who have to come up with the most proposals, whereas the anti-system parties just want to leave or destroy.[13]

In the UK, the election saw UKIP take 24 of the 73 seats – an increase of 11. The Labour Party also gained, increasing its representation from 13 to 20. The Conservative Party lost seven seats to end up with 19, while the Liberal Democrats suffered a disastrous collapse in support losing ten of its 11 seats. The British National Party lost its two seats. In the Parliament, the Conservatives are part of the third largest group – European Conservatives and Reformists – with 70 seats. This group, described as conservative, anti-federalist and moderately Eurosceptic, includes the Polish Law and Justice Party, the Danish Peoples Party, Alternativ fur Deutschland, the Ulster Unionist Party and the one Fianna Fáil MEP, Brian Crowley. UKIP forms part of the Europe of Freedom and Direct Democracy Group, which has 48 seats.

[10] Brigid Laffan, 'The State of Our Unsettled Union', address at the European University Institute, 9 May 2014.
[11] Loukas Tsoukalis, *The Unhappy State of the Union*, London: Policy Network, 2014, p.26.

[12] Kalypso Nicolaidis, 'Merkenzi's Better Europe', *Policy Network Blog*, 4 June 2014, www.policy-network.net, accessed 20 February 2014.
[13] Richard Corbett, 'Reforming the EU is a Process not an Event', *Policy Network Blog*, 3 June 2014, www.policy-network.net, accessed 20 February 2014.

Spitzenkandidaten

From the UK viewpoint, the institutional dimension of the debate on EU reform reached a crisis point over the procedure for appointment of a new President of the European Commission to succeed Jose Manuel Barroso.

The original Treaty texts provided that "The governments of the Member States shall nominate by common accord the person they intend to appoint as President of the Commission; the nomination shall be approved by the European Parliament."[14] Following the intensive institutional debates in European Convention of 2002-2003 in which the possibility of direct election of the Commission President was raised by, among others, Ireland's John Bruton, a new and less dramatic, procedure was proposed. This became Article 17.7 of the Treaty on European Union: "Taking into account the elections to the European Parliament and after appropriate consultations, the European Council, deciding by qualified majority, shall put to the European Parliament its proposed candidate for the Presidency of the Commission. This candidate shall be elected by the European Parliament by a majority of its members."[15]

The main European political families interpreted this Article as meaning that the candidate nominated by the winning political family should have priority in trying to gain the backing of a majority of the members of the European Parliament. This approach was seen by its proponents as making EU politics more interesting, more transparent and more democratic. The candidates of the five main families – the *spitzenkandidaten* – campaigned across most Member States.

The success of the European Peoples Party (EPP) in the June 2014 elections led to their nomination of former Luxembourg Prime Minister, Jean-Claude Juncker, for election by the European Parliament, a move strongly opposed by Prime Minister Cameron, who argued that it undermined the position of the national governments and parliaments by handing over power to the European Parliament. Forcing a vote at the European Council, under the terms of Article 17, he was supported only by the Hungarian Prime Minister, Viktor Orban, and Jean-Claude Juncker's nomination was approved. It was, by any standard, a major defeat for the British Prime Minister and marked another stage of the progressive marginalisation of the UK within the Union, especially in the European Council where David Cameron has to deal with his peers. It was a spectacular own goal.

However, in recording its decision to propose Jean-Claude Juncker to the European Parliament as candidate for President of the Commission, the European Council, in a somewhat placatory tone stated that "once the new European Commission is effectively in place, the European Council will consider the process for the appointment of the President of the European Commission for the future, respecting the European Treaties."[16]

The Eurozone

The six-year crisis of the Eurozone has seen the EU Institutions struggling to produce a coherent response to the twin challenges of ensuring the stability and ultimate survival of the currency and restoring growth and employment across the economies of all of the Member States.

The 2012 report, *Towards a Genuine Economic and Monetary Union*, by the Presidents of the European Council, the European Commission, the Eurogroup and the European Central Bank, provided the basis for progress on both fronts. It recommended action in a number of areas – from ensuring a strong framework for fiscal governance in Eurozone to the creation of a Banking Union, with a Single Supervisory Mechanism and a Single Resolution Mechanism for banks and a Deposit Guarantee Scheme, as well as measures for creating a fiscal capacity for the EMU – so-called Fiscal Union – and for an integrated economic policy framework for the Eurozone – so-called Economic Union. This package introduced challenging concepts such as the mutualisation of sovereign liabilities, contingent redistribution mechanisms and even a common budget, which will have to be addressed in the medium term.

Crucially, the four Presidents insisted on the need for "strong mechanisms for democratic legitimacy and accountability", involving national governments and parliaments while at the same time ensuring that "the common interest of the Union is duly taken into account." Self-evidently, this implies movement towards some form of Political Union, since "reinforcing the capacity of the European level to take executive economic policy decisions for the EMU is essential."[17]

In short, the measures taken in response to the Eurozone crisis have led to an intense period of institution building, amongst the most creative in the Union's history, which is destined

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[14] *Treaty on European Union* (Maastricht), 1992.
[15] *Lisbon Treaty*, 2009.

[16] European Council, *op.cit.*
[17] Herman Van Rompuy, *Towards a Genuine Economic and Monetary Union*, Brussels: European Council, 2012, p.14.

to continue well into the decade ahead. As can be seen, it makes a Half-in strategy for the UK seem less tenable and reinforces the shift to the current Half-out position.

That conclusion is buttressed by the fact that the Union's institutional architecture has been made even more complicated by the emergence of the Eurozone which, *de facto*, has become the core of the Union. The proposal by Chancellor Merkel and President Hollande to establish a permanent President of the Eurogroup of Eurozone Finance Ministers confirms that the institutional architecture is a long way from being settled. There is already a 'Eurozone European Council' which points towards a future configuration of the Union which, in dealing with one set of challenges, may well give rise to others.

By the beginning of 2015, 19 Member States had joined the euro and a further six were committed by Treaty provisions to join later when they have the economic capacity to do so. On the other hand, Britain and Denmark have secured legal opt-outs from membership and Sweden is exercising a *de facto* opt-out. These three countries have indicated that they do not wish to participate in the creation of a common currency as an adjunct to the Single Market. For Prime Minister Cameron "at the core of the European Union must be, as it is now, the Single Market. Britain is at the heart of that Single Market and must remain so."[18]

This is an interesting policy stance since further development of the Single Market is very much on the EU agenda. The Jean-Claude Juncker guidelines paper describes the market as "Europe's best asset in times of increasing globalisation." and highlights the importance of "creating a connected digital single market."[19] Accepting the importance of the Single Market, another scenario must be considered: that the Eurozone will become the de facto core of the European Union, endowed with its own institutions and decision-making procedures from which Britain, Sweden and Denmark will be excluded. Arriving at that destination will require political will to take each of the steps outlined above, from Banking to Political Union, with an acceptance, in the words of French government advisor, Jean Pisani-Ferry, that "Europe's ineffective governance is at the root of the pains it has had in muddling through its crisis…"[20]

As these issues are addressed, the question is whether membership of the Single Market but self-exclusion from the euro are compatible with each other or, indeed, are politically acceptable in respect of a Union to which all are theoretically committed to the same degree.

This leads to consideration of the phenomenon of 'variable geometry', which was discussed in a UK Government paper:

> The Eurozone crisis is changing the shape of the EU. It is pushing it towards greater 'variable geometry' – with a number of different configurations of Member States cooperating in different policy areas. This should make for a more effective EU, a body with the flexibility of a network not the rigidity of a single bloc. Variable geometry should not undermine the foundations of membership of the EU, in particular the Single Market, and no Member State should be excluded from participating in areas it wants to join.[21]

President Juncker has argued that the general European interest involved working with everyone – whether in the euro or not, whether in the Schengen agreement or outside, whether supportive of deeper integration or not. He stated his personal belief that "We do not necessarily all have to move at the same speed – the Treaties provide for that and we have seen that we can work with different arrangements."[22]

Whether or not this is feasible is the key question for the UK's engagement with Europe, assuming it wishes to remain inside the tent. This issue is taken up in the 'Agenda for Europe' (Chapter 17) and is offered as a way out of the impasse.

Reforming the European Union

Whatever the details of legislation, institutional development and practical action, the European Union that emerges from the continuing euro crisis will be different, even transformed, both by the measures required to deal with the crisis and by those needed to address the growing phenomenon of popular dissatisfaction and disengagement with the European Union project as a whole.

Addressing the two Houses of Parliament in Westminster on 27 February 2014, Chancellor Merkel spoke of the need to ensure that:

> …the results of European policy should improve the conditions for initiative, innovation, enterprise and jobs. To that end we must continue

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[18] David Cameron, EU Speech at Bloomberg, London, 23 January 2013.
[19] Jean-Claude Juncker, *op.cit.*,p.4.
[20] Jean Pisani-Ferry, *The Euro Crisis and its Aftermath*, Oxford: Oxford University Press, 2014, p.166.

[21] Foreign and Commonwealth Office, *Review of the Balance of Competences between the United Kingdom and the European Union*, 2012, p.9.
[22] Jean-Claude Juncker, *op.cit.* p.12.

to cut superfluous red tape at European level which is hampering our businesses, in Germany and in the United Kingdom…That is why we…have worked together to make the European Commission take the subject of better regulation seriously at last and begin to act. The European Commission must only regulate matters that cannot be adequately regulated by the Member States themselves. More attention needs to be paid to the subsidiarity principle in Europe.[23]

Jean-Claude Juncker has stated that his emphasis as Commission President will be on concrete results in key areas. "Beyond that I will leave other policy areas to the Member States where they are more legitimate and better equipped to give effective policy responses at national, regional or local level, in line with the principles of subsidiarity and proportionality. I want a European Union that is bigger and more ambitious on big things and smaller and more modest on small things."[24]

Political reality

The IIEA paper *Europe is Our Story* opens with the statement that:

> The financial and economic crisis of the last few years has raised fundamental issues for the European Union. The level of public hostility to the so-called austerity regime; the apparent disjuncture in Europe between north and south; the rise of deep public concern about migration; the waning of support for redistribution/solidarity and cohesion; the rise of extreme nationalist and sectarian political parties; all these and other factors demonstrate the need for a reappraisal of what the European Union is, what aims and values it expresses and how well it achieves them.[25]

A number of important questions arise. What are the things that must be decided together? How far and how deep should integration go? Who wants to participate in what? And for what purpose? The over-arching questions were identified by José Manuel Barroso as "What is the agreed, settled, joint purpose of our Union? To what extent do we join our destinies, irrevocably, and without reserve? In short: what is our vision?"[26]

Answering those questions will demand clear and determined political leadership. Yet, there is much evidence that the Eurozone crisis has demonstrated weakness and drift at the highest political levels, with Jean Pisani-Ferry commenting that "Policy credibility has been squandered in this crisis at a faster pace than any time in recent history, but beyond credibility, an even scarcer commodity, trust, has been lost."[27]

Chancellor Merkel addressed this issue in her Westminster speech, arguing that "only a strong and competitive European Union will fulfil its promise of prosperity for this and for future generations and will win back the confidence of its citizens…whatever we do or fail to do now to renew the European Union's political shape in keeping with the time will decide Europe's future."[28] Prime Minister Cameron has argued that his call for a renegotiation of Britain's relationship with the EU recognises the reality of change in the Union itself and that the European Union that emerged from the Eurozone crisis was going to be a very different body. In graphic terms he forecast that "It will be transformed perhaps beyond recognition by the measures needed to save the Eurozone."[29]

The *Strategic Agenda for the Union in Times of Change*, which represents the most advanced thinking of the European Council, was set out in terms that were sensitive to concerns such as those of Prime Minister Cameron and the government of the Netherlands. Its introductory chapter stated that, in line with the principles of subsidiarity and proportionality, the Union must concentrate its action on areas where it makes a real difference. It should refrain from taking action when Member States can better achieve the same objectives. This repetition of the subsidiarity principle was to emphasise that the credibility of the Union depended on its ability to ensure adequate follow-up on decisions and commitments leading to the conclusion that "this requires strong and credible institutions, but will also benefit from closer involvement of national parliaments. Above all, the emphasis should be on concrete results."[30]

For example, the promotion of entrepreneurship and job creation is seen to involve improved functioning of the labour market, *inter alia* by reducing unnecessary administrative burdens and compliance costs in a targeted manner, respecting consumer and employees' protection as well as health and environment concerns. Action in this area will be controversial with the achievement of balance between the interests of business and employees likely to prove difficult. The General Secretary of the British

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[23] Angela Merkel, speech to the Houses of Parliament, London, 27 February 2014.
[24] Jean-Claude Juncker, *op.cit.*
[25] Dermot Scott (ed.), *Europe Is Our Story: Towards a New Narrative for the European Union*, Dublin: Institute of International and European Affairs, 2014, p.6.
[26] José Manual Barroso, speech to the Humboldt University of Berlin, 8 May 2014, p.6.

[27] Jean Pisani-Ferry, *op.cit.*, p.xiv.
[28] Angela Merkel, *op.cit.*
[29] David Cameron, EU speech, *op.cit.*
[30] European Council, *op.cit.*

Trades Union Congress, Frances O'Grady, spoke at the IIEA of workers' concerns about the dilution of basic rights in any changes in the direction of EU social policy.[31]

Overall, this casts the future of the Union in language that is appealing to the UK such as a commitment to reinforcing the global attractiveness of the Union by completing negotiations on international trade agreements like the TTIP, by 2015. The international dimension is enhanced by a key chapter of the *Strategic Agenda* – "The Union as a Strong Global Actor" – which argues that "to defend our interests and values and to protect citizens, a stronger engagement of the European Union in world affairs is crucial."[32]

This complements Prime Minister Cameron's earlier emphasis on the desirability of a future "in which Britain is at the forefront of collective action on issues like foreign policy and trade…"[33] His November 2014 speech on immigration and free movement within the EU[34] has highlighted an issue which is likely to dominate the forthcoming general election debate and any subsequent negotiation or re-negotiation. It is clear that the issue of migration, in its various forms, is on the political agenda in most EU countries while the principle of free movement within the Union remains fundamental.

Prime Minister Cameron insisted that "people want Government to have control over the number of people coming here and the circumstances in which they come, both from around the world and from within the EU. They want control over who has the right to receive benefits and what is expected of them in return…If we are to maintain this successful open meritocratic democracy we treasure we have to maintain faith in government's ability to control the rate at which people come into this country."[35]

His detailed proposals on benefit entitlement and related issues produced a carefully nuanced response from the European Commission whose spokesman stated that "these are UK ideas and they are part of the debate. They would have to be discussed without drama and should be discussed calmly and carefully." The Polish Prime Minister, Ewa Kopacz, reacted with the firm statement that "Poland will not agree to changes undermining the principle of the EU's Single Market, specifically the free movement of people…which should as such be maintained in its current form." As for Germany, the Federal Chancellor's Office recognised that Prime Minister Cameron had acknowledged

the importance of the principle of free movement but undertook to work closely with the British Government to deal with "all the problems."[36]

Events may prove these linguistic contortions to have been the final heroic attempts to give Britain a convincing rationality for staying in the EU.

A final thought

Whatever changes have taken place in the European Union since Margaret Thatcher spoke in Bruges, and whatever changes may come about as the Union emerges from the great crisis of the Eurozone, the closeness of the relationship built up between the UK and the rest of the Union over the years cannot be gainsaid. As David Marquand remarks:

> …the complex, humdrum activities of the Brussels Eurovillage have become part of the woof and warp of British politics, British economic life and British jurisprudence; that secession from the EU would have a drastic impact on virtually every aspect of British politics and government.[37]

In an article in the *Telegraph* on 15 March 2014, Prime Minister Cameron set out the seven specific changes he wanted to secure, including:

- New controls on migration when new countries join the EU;
- Tighter immigration rules to ensure that migrants come to Britain to work;
- New powers for national parliaments to block unwanted European legislation;
- Freeing businesses from red tape;
- Turbo charging free trade deals with the US and Asia;
- Bringing powers back from Brussels to Britain; and
- Abolishing the principle of 'ever-closer union'.

He concluded that changes to the existing EU Treaties will be required to achieve the changes he proposes: "…my strong preference is to enact these changes for the entire EU, not just for Britain."[38]

[31] Frances O'Grady, 'Revitalising Social Europe', speech to the IIEA, 25 October 2013, www.iiea.com, accessed 27 August 2014.
[32] European Council, *op.cit.*
[33] David Cameron, EU speech, *op.cit.*
[34] David Cameron, speech on Immigration, 28 November 2014, blogs.spectator.co.uk, accessed 10 February 2015.
[35] *Ibid.*

[36] 'Response to Cameron Immigration Speech', *Open Europe blog*, 1 December 2014, openeuropeblog. blogspot.ie.
[37] David Marquand, 'First Brexit, Then Break-up'. New Statesman Online, 3 October 2013. www. newstatesman.com., accessed 8 June 2014. p.4.
[38] David Cameron, *Daily Telegraph, op.cit.*

The likelihood of major treaty change remains an imponderable in the face of the political climate after the 2014 European Parliament elections and the obvious difficulty of securing ratification by all 28 Member States. Roger Liddle comments "without it, a package of unilateral UK demands comes across as a thinly disguised ultimatum to our partners that, unless they prove accommodating, Britain may end up leaving the EU."[39]

Should that be the fate of the UK then it would have implications for the UK itself, for the EU as a whole, for Ireland and, crucially, for Northern Ireland. These implications are evaluated in turn in the chapters that follow.

SECTION B

OPTIONS AND SCENARIOS FOR CHANGE

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[39] Roger Liddle, *The Europe Dilemma,* London: Policy Network, 2014, p.222.

7. Four Scenarios for Change

Brendan Halligan

Introduction

In the Institute's previous analysis of the future of the UK in Europe, scenario building was based on the rather simple hypothesis that either the Conservatives or Labour would form a majority government, with the freedom to implement their own European policies. For the sake of continuity, this model is taken as the starting point for the following analysis but the findings are qualified later to take account of the new political circumstances described in previous chapters.

1996 Scenarios

The IIEA's 1996 publication, *Britain's European Question: The Issues for Ireland*,[1] put forward five scenarios for the future of the European Union in terms of British involvement and analysed them in light of their implications for Ireland.

- **Mosaic Europe:** This scenario envisaged Europe as a multi-tiered Union with permanent differences in the degree of integration opted for by Member States. Member States could choose from menus of policies and those that volunteer for the full list would constitute a core Europe. Britain would be taken as agreeing to no more than the minimum set of common policies and would be precluded from full participation in the Institutions. For Ireland, the

[1] Paul Gillespie (ed.), *Britain's European Question: The Issues for Ireland*, Dublin: Institute of International and European Affairs, 1996, pp.183-186.

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tension between European membership and partnership with Britain would be at its most acute under this scenario

- **The Outsider:** Under this scenario, Britain would pursue a lone strategy, with all other Member States effectively constituting the core Europe. The unitary structure of the Institutions would be preserved for the other Member States. For the first time, Ireland would have to consider derogations in order to adjust to common responsibilities while trading off against the costs arising from Britain's non-participation.

- **Belated Union:** This scenario, deemed the most desirable for the future solidarity of the EU, would consist of concentric circles. An *avant-garde* of Member States would press ahead with deeper integration and others would be free to join later. Britain would be committed to eventual membership of all aspects of integration. It would judge when to join the various common policies and the costs and benefits of possible Irish responses would have to be estimated in each case and decisions made accordingly.

- **The Gambler:** Under this scenario, the UK would opt in to each new initiative at European level but gamble on being able to change it later from the inside – although it would not be able to do this unilaterally. In this scenario, Ireland would continue, more or less as in the past, to protect its European interests by being at the centre of integration, managing relations with Britain on a case-by-case basis. Problems arising from Britain trying to alter the terms and conditions would be shared with all other Member States.

- **The Leader:** Britain fully committed to playing a leading role in shaping the future of Europe is described as the most benign but the least likely scenario. This would ensure balance between the large states, inject a plurality of values into the system and ensure a robust cultural diversity. For

Ireland, this would be the best of all worlds. British-Irish relations could then be optimised and the benefits from EU membership maximised, providing this did not lead to the emergence of a *directoire*.

2000 Scenarios

The IIEA's 2000 book, *Blair's Britain, England's Europe – A View from Ireland*,[2] returned to the 1996 scenarios, reordering them and renaming two of them: 'Mosaic Europe' (which became 'The Opportunist') and 'Belated Union' (which became 'The Late Joiner'). The scenarios were then analysed for their implications for Ireland and their compatibility with the central thrust of Ireland's European policy, in light of the developments in the years since the previous publication.

- **The Outsider:** This would be the most malign outcome for Ireland. The interdependent relationship with Britain that has been built up in the multilateral context of the Union would be adversely affected, with a tendency for the relationship to drift back towards a bilateral one, in which the smaller partner is always at a disadvantage. The management of such a relationship could limit the freedom of Ireland to stay at the core of Europe.

- **The Opportunist:** This scenario is less negative in its implications for Ireland, but would still be disturbing overall. At worst, Britain would freeze its involvement in the integration process at its current level and an *avant-garde* of some EU states would create something approximating a federation. For Ireland, the problem of staying in the EU

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[2] Paul Gillespie (ed.), *Blair's Britain, England's Europe: A View from Ireland*, Dublin: Institute of International and European Affairs, 2000, pp.276-278.

core would be magnified. In a fractured Europe, the pursuit of national interests would become far more complex than would otherwise be the case.

- **The Late Joiner:** A multi-speed Europe with Ireland integrating faster than Britain has been the norm since both countries entered the EEC and its implications are well known. Generally-speaking, they have been carefully managed by the two sides and there have been few negative effects on British-Irish relations. From an Irish perspective, this scenario is relatively benign.

- **The Gambler:** This posture can work to the benefit of Ireland, when it acts as a mediator between Britain and the other states. It can also work the other way round. Past experiences suggest that the implications of this scenario would depend on the actual cause of individual disputes as Britain tried to renegotiate part of the *acquis*.

- **The Leader:** In broad terms, a successful Union would be in Ireland's national interest, bringing greater economic opportunities and providing space for Northern Ireland to work out its own destiny. But Britain as an EU leader would have some negative implications if it contributed to the creation of a *directoire* and by possibly making defence a core competence of a new form of Union.

This book suggests that there are four main scenarios in respect of the UK relationship with the EU, ranging from Fully-in to Fully-out of the Union.

Obviously, the first scenario is Fully-in, a state of affairs that governs the relationship of most Member States with the Union. Self-evidently, a commitment to full engagement in the Union is the working hypothesis governing the application of any country seeking membership since a conditional form of membership is never on offer. There was no suggestion that such a form of membership was being sought when Britain negotiated

its entry into the then European Economic Community, as the negotiating positions of Prime Ministers Macmillan and Heath would testify. There were no mental reservations about full commitment to the Treaties.

Subsequent events have proven otherwise. Not only has there been a series of opt-outs from core projects, but both parties insist that the process of 'ever-closer union', to which the UK solemnly subscribed in 1972, should go no further and this unilateral limitation on the process of integration has become the heart of their approach to Europe. History has been rewritten to assert that the UK signed up for a 'common market' in 1973 rather than an 'ever-closer union' which, allegedly, is proceeding by stealth at the behest of an unelected Brussels elite.

Full engagement in the European project would require the abandonment of the *ne plus ultra* position but the evidence suggests that this scenario is more hypothetical than real. In fact, it is highly improbable. In circumstances where UK membership is evaluated in purely utilitarian terms without regard to the political rationale then full engagement is automatically off the table.

The second scenario is that of a Britain Half-in the EU, sometimes described as 'minding the gap', the key feature of which is a series of opt-outs from what other Member States would regard as core projects. In sum, under this scenario there is no question of Britain joining the euro, entering the Schengen Area, signing the Fiscal Compact or becoming part of the Banking Union but on the other hand there is a willingness to act in full conformity with the requirements of the Single Market. Broadly speaking, the Half-in policy is that favoured by the Labour Party and the Liberal Democrats but only accepted under sufferance by the Conservatives.

'Minding the gap' accepts that there is a gap to be minded and the objective is to prevent it from widening any further or, to the extent that it cannot be wholly prevented, limiting the widening process to the minimum. For the short to medium-term this may survive as a strategy but at some point revisions to the Treaties will be required to bring the management of the Eurozone into compliance with Member State constitutions and the gap will widen to the point of being unbridgeable. There will be two Europes in all but name. The viability of the Half-in policy is thus contingent on developments over which the UK has little or no influence and seems ultimately destined to morph into the third scenario, that of Half-out.

This third scenario is the policy stance towards which the Conservative Party has been moving with growing momentum since their defeat in the 1997 general election. It no longer pretends that Britain should be at the heart of Europe, accepts that the gap

between the Eurozone and the others will progressively widen and is willing to live with the consequences.

In this scenario, membership of the EU would be reduced to full participation in the Single Market and international trade agreements, together with participation in the policies that were self-evidently of value to Britain, such as the European Arrest Warrant. From a historical perspective it can be seen that this formulation of the relationship with the Union is not too far distant from that of the European Free Trade Area, which was initially promoted by Britain but effectively went out of business when the Conservative Governments of the 1970's abandoned it as a failed experiment and opted instead to join the EEC.

It has been argued above that a Half-out position is untenable over the medium-term because the integration process will continue to both deepen and widen and, as a consequence, the gap between Britain and the others will be continually widened; indeed, on occasion it may actually be widened by conscious decision of the British government itself, as with the refusal to sign on for the Fiscal Compact or to join the Banking Union. This has led some to describe the Half-out scenario as one of 'widening the gap' whereby the relationship with the EU is progressively weakened, with the logical consequence that membership becomes more nominal than real.

Whether such a relationship is sustainable depends on the position adopted by the other Member States. The European Union is, after all, a voluntary organisation and the result of pragmatic political decisions made by nation states which have calculated they are better off cooperating with each other rather than trying to survive alone and, given the choice of having Britain within rather than without the broad European tent, the choice may be to keep them inside, even though they are perceived to be difficult neighbours. That type of decision was made after all at the Maastricht Intergovernmental Conference when the UK was permitted to stay outside the Eurozone but to remain inside the new European Union. It is conceivable that this form of accommodation may be allowed to continue indefinitely into the future. The balance of probability is that the other Member States will try to avoid a rupture with Britain, as the Conclusions of the European Council of June 2014 would suggest.[3] That may not be possible, however, were the next scenario to be acted out.

The fourth scenario is that of the UK being Fully-out of the EU. Withdrawal is the preferred option of many, if not most, within the Conservative Party, including cabinet ministers, and is the logical culmination of processes set in train by Mrs. Thatcher herself.

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[3] European Council, *Conclusions of European Council 26-27 June 2014*, Brussels, 2014.

A grouping of mainly Conservative MPs, along with some from Labour, the DUP and UKIP, has been established entitled 'Better Off Out', a description that requires little embellishment. It is, by definition, the position of UKIP and is enthusiastically supported by most of the print media, particularly the Murdoch and Harmsworth press stables. Keeping to the simplified model of a two-party system within a politically homogenous United Kingdom then leaving the EU is a possibility that merits serious analysis. It depends on at least three factors. Firstly, that the Conservative Party continues in office after the 2015 general election, secondly, that it has sufficient parliamentary support to actually hold a referendum on EU membership and, finally, that the electorate votes to leave the EU.

Leaving aside for the moment the question of whether the Conservatives can form a government, the other big unknown in the event of a referendum is the attitude of British business. Many companies and leading executives are in favour of remaining in the EU, as are the business media and financial press. What is unknown, however, is their willingness to campaign vigorously in the referendum campaign, as was done late in the Scottish referendum. This issue will be examined in more depth in Chapter 11.

The next government

The last scenario depends on the composition of the next government since it would only become operable if the Conservative Party can construct a working parliamentary majority from within its own ranks or with the support of like-minded parties, such as UKIP and the DUP. This raises the question of the complexion of the next government and here the analysis would suggest the following outcomes are possible:

- Single party majority government;
- Single party minority government;
- Coalition majority government;
- Coalition minority government.

Given that each of these four possibilities could apply equally to either the Conservatives or to Labour then the number of possible governments comes to eight. There is scope for further complexity as the relative strengths of the Liberal Democrats, UKIP and the SNP (and its allies) will be decisive in constructing a working parliamentary majority should either the Conservatives or Labour fall short of that objective.

Notwithstanding this somewhat bewildering range of theoretical possibilities, real life politics suggests that the next government will be led either by the Conservatives or by Labour. Consequently, the second scenario of being Half-in would obtain under a Labour-led government but the Fully-out scenario would become germane under a Conservative-led government. A Labour-led government would involve the support of the Liberal Democrats and/or an alliance of the SNP, Plaid Cymru and the Greens, whereas a Conservative-led government would involve the support of UKIP and/or the Democratic Unionist Party (DUP). Were the DUP to be the only party formally associated with that government then it would put Northern Ireland centre stage with regard to the referendum on Europe and would certainly introduce new tensions into the troubled politics of Northern Ireland. The implications of this development are analysed in Chapter 13. Equally, if the SDLP were to be formally associated with a Labour-led government that would introduce its own set of tensions, which up to now have been absent. Furthermore, if the electorate decides to vote for withdrawal from the EU it would have implications for the future of the UK itself, which are analysed in Chapter 5.

The big question

The big question is whether the promise of a referendum has let the genie out of the bottle and unleashed forces in society that will be difficult to contain. For example, if a Labour-led government were to refuse to hold a referendum or if the referendum were to be held but defeated, the question arises as to whether the outcome would be accepted as the final word on the question of withdrawal from Europe. If a referendum were denied by a Labour-led government then its term of office could be so poisoned by the virulent reaction of the Eurosceptic faction that its ability to pursue a Half-in strategy on Europe would be close to zero. The relationship with Europe would, to state the obvious, be fraught.

A more ominous prospect would be where the referendum was held but the proposal to withdraw was defeated, perhaps narrowly, with the defeated faction alleging that the process was fundamentally flawed, say due to undue interference by big business or some other outside forces. That could trigger a refusal to accept the legitimacy of the result, leading to disaffection and forcing a Conservative-led government to distance itself from Europe even more than it had intended. Both these scenarios are predicated on the breakdown of the conventions that enable democracies to function whereby the express wish of the majority is respected by the minority and for that reason would generally be regarded as unlikely, although not impossible.

Scotland could add to this state of confusion. One strategy propagated by the SNP is that if a majority in England were to vote for withdrawal but with a majority in Scotland voting to stay in the EU then the Scottish government would demand a second referendum on independence on the grounds that within a federation the rights of the component nations must be respected. Were the second referendum to be conceded,

which is problematic, and were it to be carried, which is likely, then the United Kingdom would be broken up and Scotland would join the EU as an independent state just as England was withdrawing. The very fact that this scenario can be advanced as being within the realms of possibility is in itself a commentary on the extent to which British politics have changed within the space of a decade.

Another possibility remains, which is the reverse of the above. This could arise if the UK as a whole were to vote in favour of staying in but with England voting for withdrawal. In short, the vote in Scotland, and possibly Wales, would be decisive in overturning the English majority. It is impossible, at this remove, to make any credible prediction as to the fallout within England but, if it were widely held that the will of the English people had been thwarted by the Celtic fringe, the UK would most likely be an even more truculent partner in Europe. That possibility is analysed in several chapters of this book, along with the repercussions for Ireland.

Conclusion

The above analysis indicates that the politics of the UK has changed profoundly over the past half century. Old certainties have given way to deep uncertainty about the future. New political forces have been unleashed by cleavages within that sense of identity that once bound Britain together. This is particularly evident in Scotland, as our previous studies had anticipated. But it is also true of England, as the previous studies had forecast. The biggest change over the past half-century is the emergence of an English national identity separate from that of Britishness. While its ultimate form and content are as yet unknown, it is nonetheless possible to assert that the constitutional order is being rearranged in a way that is transforming Britain from a unitary state into a federation of sorts.

But so profound and historic are the forces at work that it would be wise, at this stage, to refrain from definitive judgements. It would be better to sketch out the broad contours of the changes ahead and to analyse their implications for Ireland, bearing in mind that the greatest threat to any society comes from the failure to prepare for what was once unthinkable. The chapters in the following section attempt to explore the uncertainties which beset Ireland's relationship with its biggest and nearest neighbour.

8. The Process of UK Withdrawal from the EU

Brendan Halligan

Introduction

The clarification of what is meant by 'withdrawal' is clearly central to the analysis of its aftermath. It will be quickly seen that none of the conventional options would allow the UK to realise its objectives of controlling immigration and modifying EU social policy to its own requirements. The conclusion to be drawn is that a distinctive solution will have to be devised for Britain on the basis of sectoral agreements which somehow try to square the circle of allowing the UK access to the Single Market while restricting the free movement of persons, which is the nub of the problem.

In effect, this means there could be two sets of negotiations. The first phase would be where Britain attempts to renegotiate its 'relationship' with the European Union (to use the language employed by the Conservatives to describe this stage of the proceedings). The outcome of the negotiations would be put to the British electorate by way of referendum in the form of a choice between staying in or departing from the EU. On the assumption that the terms were acceptable to the Government, then David Cameron and his colleagues would campaign in favour of Britain staying inside the Union.

On the other hand, it follows that, if the terms were unacceptable, the Government would not campaign in favour of staying in (and might actively campaign in favour of withdrawal).

In short, the stakes could not be higher during this first phase of the negotiations. Ideally, it should be the only set of negotiations, as everybody understood to be the case in 1975 when Prime Minister Harold Wilson finessed the terms of Britain's membership. It was clear he wanted to stay in and so the other leaders wanted to help him, even though he had brought the problem on his own head.

But that is not the situation on this occasion, at least not in the way in which it has been presented by Prime Minister Cameron. He and his colleagues have an open mind on the deal that can be done. It cannot be taken for granted, as in the case of Harold Wilson (or the Irish or Danish governments after negotiating protocols to the Treaties which had been rejected by their electorates) that Prime Minister Cameron will campaign for the deal struck with his peers in the European Council. That will put great pressure on the other leaders to come up with an acceptable formula. Some might classify that as undue pressure or even a form of blackmail and react accordingly. The task of coming up with a bespoke solution to keep Britain in the EU may well be conducted in an atmosphere of distrust and resentment but hopefully not, as the solution will lie in some form of special relationship between the UK and the EU that the other Member States have not been prepared to contemplate to date. That will be no easy task as this chapter indicates.

If the subsequent referendum results in a decision to reject the new relationship and to terminate the UK's membership of the EU, then the withdrawal phase would be triggered and phase two of the negotiations would commence. Having failed to effect a reconciliation, the unhappy couple would set about divorce proceedings. Phase two would commence, in accordance with the provisions of the Treaties as set out below.

The withdrawal process

In addressing the implications of withdrawal, it is assumed as a matter of course that the UK will not be able to dictate the terms of the disengagement but will have to negotiate them with the other Member States in accordance with the provisions of the Treaties. That point is often overlooked in public debate in Britain, which is prone to the wishful belief that the UK will have a *carte blanche* in dictating the terms of its exit from solemn treaty obligations which it had voluntarily assumed.

The provisions governing withdrawal are laid down in Article 50 of the Treaty on European Union (TEU) and Article 218 of the Treaty on the Functioning of the European Union (TFEU), as set out in the boxes below. Under Article 50 TEU, the European Council will lay down the guidelines for the negotiations from the EU perspective and will ultimately finalise them. In political terms, that means the Heads of State and Government will initiate and conclude the negotiations and each will clearly have their own national interests to protect.

In operational terms, the European Commission will submit recommendations to the European Council for opening the negotiations and, under Article 218 TFEU, will

probably be charged with the day-to-day negotiations. When completed, the withdrawal agreement will have to be endorsed by the European Council, having first received the consent of the European Parliament. The agreement will then, of course, need to be ratified by each of the national parliaments in the form of an international treaty between the EU and the UK.

The timescale laid down for the negotiations in Article 50.3 TEU is two years, although this may be extended with the agreement of both sides. It is obvious that any deal will have to protect the interests of the Member States, both individually and collectively, as well as those of the UK itself. This will be a tall order, to say the least. Throughout the negotiations it is inevitable that the UK will be cast in the role of a *demandeur*, given the power relationship between the two parties, a point of departure which would be of some importance for Ireland as the asymmetry in negotiating strengths will affect the shape and content of the outcome, and Ireland will be part of the stronger party.

That said, the working hypothesis employed throughout this book is that there will be a predisposition all round to negotiate a balanced deal, one that would act as the foundation for a long-term, harmonious relationship between the EU and the UK to their mutual advantage. Nonetheless, the room for manoeuvre will be limited by the legal and economic frameworks that have already been established since the Treaty of Paris was first signed in 1951, as will become clear in the following analysis.

It may also be the case, due to the complexity of the issues involved and the various national interests to be protected, that the process of negotiating the terms of withdrawal will become progressively more acrimonious as they proceed and that any goodwill with which they had opened would be dissipated, a not unusual occurrence during the course of protracted negotiations. The potential for badwill to replace goodwill introduces a note of uncertainty into the following analysis and hints at the possibility that the negotiations will be both prolonged and protracted. That would constitute its own problem for the conduct of Irish-British relations in addition to those that are examined later.

The first step in assessing the implications of withdrawal is to identify the option or options available to the UK and it is worth looking at three of those identified, the Norwegian, the Swiss and the Turkish models, in addition to the Singaporean and other options, so as to sharpen the context for assessing the political implications of withdrawal. It is concluded that none of the models would work for the UK and, consequently, that a new solution would be required.

Article 50 of the Treaty on European Union

50.2 A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

50.3 The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

Article 218 of the Treaty on the Functioning of the European Union

218.1 Without prejudice to the specific provisions laid down in Article 207, agreements between the Union and third countries or international organisations shall be negotiated and concluded in accordance with the following procedure.

218.2 The Council shall authorise the opening of negotiations, adopt negotiating directives, authorise the signing of agreements and conclude them.

218.3 The Commission, or the High Representative of the Union for Foreign Affairs and Security Policy where the agreement envisaged relates exclusively or principally to the common foreign and security policy, shall submit recommendations to the Council, which shall adopt a decision authorising the opening of negotiations and, depending on the subject of the agreement envisaged, nominating the Union negotiator or the head of the Union's negotiating team

The EEA – The Norwegian Model

The framework most frequently advanced for a new UK-EU relationship is membership of the European Economic Area (EEA). For that to be possible the UK would, in the first instance, have to re-join the European Free Trade Area (EFTA), which it left in 1973. On becoming a member of EFTA, the UK would then automatically become bound by the Agreement on the European Economic Area (1994), which brings the EU and EFTA states together in a Single Market. The EEA is, in effect, an enlarged Single Market and consequently provides for the inclusion of EU legislation covering the four freedoms – the free movement of goods, services, persons and capital – throughout all the states in the EU and EFTA.

In summary, the EEA Agreement allows the EFTA states to participate in the Single Market on the condition that they apply the *acquis communautaire* in their domestic legislation. This is the key point when it comes to assessing the EEA as a possible *modus vivendi* for life outside the EU.

Joining the EEA would mean that the existing corpus of Single Market legislation would remain in force in the UK and, furthermore, that all new EU legislation relating to the market would be dynamically incorporated into its domestic law without amendment. This is the *modus operandi* of the Agreement so as to ensure the homogeneity, or 'unicity', of the Single Market. It follows as a matter of course that it is not possible to grant EEA members a derogation from EU laws governing the Internal Market and that, ominously from a UK perspective, this restriction applies to the free movement of persons. To state the obvious, there would be no legal means open to the UK to secure a derogation from any one of the four freedoms, such as the free movement of persons. This is an

important starting point for assessing the viability of the EFTA option in view of the belief expressed in previous chapters that immigration from within the EU is the main reason why the Conservative Party committed itself to a referendum on the EU.

As things stand, leaving the EU to join the EEA would make no difference whatever to the UK's power to limit or control immigration from other Member States. From that perspective, it would make no political sense whatever for the UK to leave the EU and join the European Economic Area.

That conclusion is buttressed by the following considerations. One political consequence of the EEA Agreement is that EFTA states have no right to vote on legislation governing the Single Market, although they are consulted in advance by the European Commission and may submit their views on the legislation during its preparation. These procedures have given rise to what is called 'fax diplomacy', reflecting the fact that in the last analysis the EFTA states are reduced to a subservient role: they are informed of the latest Single Market legislation by the EU and are then required to incorporate it into their domestic law without amendment. As noted earlier, some thousands of legal acts have been extended to EFTA states in this fashion since they elected to join the EEA. The Norwegian analysis of this relationship is instructive.

In addition to the Single Market provisions, the EEA Agreement also covers 'flanking policies', such as social policy, consumer protection and environment policy. Here again, the *status quo* would prevail in respect of social policy, an area often quoted as part of the motivation for UK withdrawal from the EU. The EEA option offers no escape route from legislation such as the Working Time Directive, which is frequently presented as an example of unwanted interference from 'Brussels' in UK domestic affairs.

At its simplest, the political price to be paid by the UK for leaving the EU would be the loss of membership of the Competitiveness Council and, as a direct consequence, the legal capacity to shape legislation. Real political power would have been traded for indirect influence and that loss would be immediate, total and permanent. In effect, the UK would have transformed itself from an insider to an outsider and from a policy-maker to a policy-taker, which could be regarded as a nonsensical and self-defeating trade-off.

It is true that the role of an EU outsider does not appear to be either a political or a psychological problem for Norway. Perhaps this is because Norway was never a member of the European Union and is comforted by vast oil and gas reserves and cushioned by its huge sovereign wealth fund from the effects of global competition. In any event, Norway is enmeshed in the Nordic Council, which lessens its sense of isolation. On the other hand, membership of that body involved membership of a free travel area within the Nordic region and so imposed obligations regarding the free movement of persons which it elected to continue with its EU neighbours by joining the Schengen Area and which the UK refused to join (as did Ireland).

In contrast, the UK has none of the economic buffers or regional allegiances enjoyed by Norway and the experience of being isolated outside the EU, and worse still at the receiving end of 'fax diplomacy', might prove too demeaning, and, ultimately, unacceptable for a society that regards the supremacy of its national parliament as paramount.

Furthermore, the EEA Agreement does not cover either the Common Agricultural Policy (CAP) or the Common Fisheries Policy (CFP). From a UK perspective, the direct effect of the Norwegian Model would be quitting the CAP and putting farmers back on the national payroll, to be financially supported by the British taxpayer. The savings on the EU budgetary contribution, which in 2013 amounted to some £8 billion, would balance off the cost of course. But these would have to be offset against the financial contribution EFTA members are required to make as a sort of Single Market membership fee; the contribution would go directly to the EU's 12 eastern Member States and, taking Norway as the basis for the calculation, could be of the order of £4.5 billion per annum. In that case, the net savings would be around €4 billion, which would then have to be devoted to compensating UK farmers. Putting the farmers back on the political agenda would hardly be an attractive proposition for British policy-makers.

Withdrawal from the CFP would constitute an exceptionally difficult area of negotiation in so far as the management of fishing stocks and other marine resources requires an unusually high degree of coordination between the EU's maritime states, so much so that fisheries is one of the few policy areas where the Union has an exclusive competence. An acceptable deal would be very difficult to negotiate, although the agreements with Norway and Iceland could offer precedents to be followed. The Icelandic experience, however, is a worrying reminder of the political difficulties to be surmounted and further detracts from the attractiveness of the Norwegian Model.

All things considered, membership of the EEA would not solve the UK problem as conceived by the Conservative Party. The Norwegian Model has come to be known as the 'Norwegian Fantasy', which is precisely what it is: a delusion. In real terms, it offers nothing to those seeking to escape from the obligations of EU membership regarding the free movement of persons or social policy. The *status quo ante* would remain in being. In Shakespearian terms, the Norwegian Model is *Much Ado About Nothing*. It will not arise.

A bilateral relationship – The Swiss Model

The Swiss Model, which is sometimes advanced as an alternative solution, is not an option either. It is nothing more than a variant on the Norwegian Model in that, instead of an overarching agreement providing for access to the Single Market, Switzerland has concluded a series of bilateral agreements with the EU that simply add up to the same thing. The point to note is that the relationship provides for the free movement of persons between Switzerland and the EU, a provision which has, however, been put in doubt by the outcome of the Swiss referendum on 'mass immigration' which was adopted in February 2014 and which would limit the number of EU citizens entitled to reside and work in the country. These restrictions have yet to be transposed into Swiss domestic legislation but were they to be applied as intended then the EU has indicated that the overall package of agreements would have to be renegotiated.

In effect, the EU has made it clear that the price for free access to the Single Market is the free movement of persons between Switzerland and the EU. It has gone on to state that it expects Switzerland to honour the agreements in full. In terms that are frequently applied to describe the EU itself, the Single Market is a set menu with a fixed price; there is no provision to dine *à la carte*. The resulting standoff between the EU and Switzerland confirms the centrality of the free movement of persons to the operation of the Single Market, which is on par with the free movement of goods, services and capital. The four freedoms are indivisible.

The straightforward conclusion is that the Swiss Model is no more a solution to the Conservative Party's problems with Europe than the Norwegian.

Associate membership – The Turkish Model

The same is true of Associate Membership, sometimes touted as a way out of the dilemma. The problem with this form of relationship is that it was conceived as a precursor to full membership and a means of entry into the EU rather than an escape route from the Union. Associate Membership involves its own form of 'fax diplomacy', this time in respect of the Customs Union. Under the terms of its Associate Membership, Turkey has been granted access to the Customs Union, a logical preliminary to full membership, but must accept all EU decisions on its operation, something that has caused Turkish misgivings about the limitations this imposes on its freedom of action in trade relations with third parties.

It could be said that, for Turkey, Associate Membership has amounted to no more than an intensified form of dialogue with the EU. Crucially, it does not provide Turkey with access to the Single Market nor, indeed, with much else by way of special privileges. Consequently, it is clear that Associate Membership is no solution either for a state wishing to have free movement of goods, services and capital with the EU to the exclusion of the free movement of persons. It is but another of the fantasy solutions. It does, however, highlight the difficulties that will arise if the UK wishes to pursue, or is forced to pursue, the so-called 'Openness Model'.

In and out – The Openness Model

Being both in and out of the EU is a hybrid model which found particular expression in an essay that won the Institute of Economic Affairs (IEA) Brexit Prize in 2014. It set out a vision of Britain after the UK, negotiating strategies for securing a future based on "Openness not Isolation" and a cost-benefit assessment of exiting the EU[1]. It can be taken as representative of those advocating UK withdrawal on the basis of their commitment to free market economics and an aversion to state interference with markets. The IEA is often described as Thatcherite in orientation and ideology.

The 'In and Out' model is based on the proposition that the UK should secure open trade relations on a global scale. With regard to Europe this is to be achieved by membership of EFTA while remaining outside the EEA (rather like Switzerland). For the rest of the world it is to be accomplished by developing bilateral strategic relations with countries like Australia and Canada, as well as emerging powers in Asia and Latin America.

The essay is helpful in setting out what might be regarded as the real wish list of those in favour EU withdrawal and might be summarised as enjoying free access to the Single Market but without being a member of it. It is conceded that this will probably prove impossible in practice and that some elements of the *acquis communautaire* will have to be accepted as the price for admission to the Single Market. It is also helpful in outlining the quite enormous investment of time and political capital required in working out a new relationship with the EU while simultaneously forging new trade relationships with non-European countries, as well as the damage that will be done to investment by the uncertainty attaching to the final deal between Britain and Europe. It is helpful too in admitting that ultimately the case for withdrawal is political rather than economic, an insight that should be borne in mind whenever the UK seeks to renegotiate what it calls its 'relationship' with the EU.

[1] Iain Mansfield, *A Blueprint for Britain – Openness not Isolation*, London: Institute of Economic Affairs, 2014.

The problem with the model is that it attempts to reconcile the irreconcilable, as would the Norwegian and Swiss models. The focus here, however, is not on the control of borders but rather on regaining political sovereignty for the economic objective of freeing markets from outside over-regulation. But the end result is the same. Membership of the EEA, as in the case of Norway, or a bilateral trade relationship, as with Switzerland, would involve both rules and institutions, as well as legal mechanisms for dispute resolution.

In short, this model has the merit of proving that unfettered sovereignty is unattainable. It is but the latest variant of Churchill's concept of being "with Europe but not of it".

Going it alone – The Singapore Option

Cutting the UK adrift from the EU altogether has been advanced by those propagating not just withdrawal but disassociation from the EU in favour of a return to a 19th century version of free trading on the high seas. Singapore is often quoted as an example of this model.

It may transpire that, *in extremis*, the Singapore Option will be forced on the UK rather than being voluntarily assumed. This could arise if a privileged partnership proves impossible to concoct despite everybody's efforts to the contrary. At that point, the Singapore Option would be adopted by default. The problems with repositioning the UK in the world are geopolitical. Singapore is at the heart of the greater Asian economy, the UK is not; Singapore is a city state without aspirations towards a major role in global affairs, the UK is a large European country accustomed to playing on the world stage, and is intent on doing so indefinitely. More to the point, the UK is located in Europe rather than Asia.

The model suffers for the further drawback that Asia, like other regions, is developing its own form(s) of free trade areas which, self evidently, will exclude outside states.

For the UK, the Singapore Option does not fit with geographic, economic, political or demographic realities. For these reasons, it may justifiably be classed as another 'fantasy solution'.

A privileged partnership – The UK Option

The logic of the European Union, which the countries of Europe have constructed for themselves by way of treaties, automatically rules out the Norwegian, Swiss and Turkish models as workable alternatives to the demands of being fully in the EU but with a derogation on the free movement of persons. The logic would further suggest that the only feasible solution is something new in the form of a privileged partnership.

The concept of a 'privileged partnership' was advanced at one time by Chancellor Merkel as a way of binding Turkey to the EU without it becoming a member, but the details were never spelled out and the idea was let die. Nevertheless, the concept of a partnership is likely to prove attractive as negotiators search for a solution to the UK's new relationship with the EU. It would seem the only way forward given that, as things stand, membership of the Single Market and restrictions on the free movement of persons are incompatible. It follows that the only way to regulate EU-UK relations would be through a series of sectoral agreements covering goods, services and capital but excluding the free movement of persons, agriculture and fisheries.

The problem with this approach is that the sectoral agreements would have to be underpinned by an elaborate institutional framework governing their homogenous interpretation and by establishing mechanisms for independent surveillance, judicial enforcement and dispute resolution. To many in the Conservative Party, this would come perilously close to the very arrangement from which they wished to escape but an institutional framework would be an unavoidable necessity if the sectoral agreements were to function on the basis of legal certainty, an essential prerequisite from the perspective of international business.

Self-evidently, a distinctive solution along these lines would involve a complicated agenda for regulating EU-UK relations, with a whole series of implications for the UK in the first instance and, secondly, for the EU as a whole. The analysis pursued in Chapters 14 and 15 starts with the implications for the UK and, because of constitutional developments underway these past two decades, commences with the future of the UK itself as a *sui generis* form of federalism.

SECTION C

IMPLICATIONS FOR IRELAND

9. Political Implications for Ireland

Tom Arnold and
James Kilcourse

Introduction

This chapter sets out the difficulties that changes in the UK and in the UK's relationship with the EU present to Ireland's national interests. It explains the need for Ireland to maintain close relations with the UK while simultaneously remaining a committed member of the EU and suggests how this might be achieved.

Developments in the UK affect Ireland to a greater extent than developments in any other state. This chapter analyses how changes in the UK's relationship with the EU might affect key objectives underlining Ireland's national interest. The three key priorities for Ireland over the coming five to ten years may be postulated as follows:

- Establishing economic recovery, growth and stability;
- Maintaining peace and stability on the island of Ireland; and
- Keeping Ireland at the heart of Europe and fully engaged as a constructive partner in the EU

Economic recovery, growth and stability

The Irish government decision to exit the troika programme at the end of 2013 represented a significant turnaround in economic fortunes. The Irish economy in 2014 grew by an estimated 5%, assisted by positive economic growth in two major trading partners, the UK and the US, a competitive euro exchange rate and healthy flows of inward foreign investment.

Looking to the medium-term future, a healthy UK economy is an important factor in sustaining Irish economic recovery. It would not be in Ireland's interest that the evolving UK-EU relationship should reduce British economic growth or introduce trade barriers that would impact on trade flows between the UK and Ireland.

Trade flows between the UK and Ireland in many respects resemble trade flows between regions of a state rather than between two separate states. In the agri-food sector, for instance, the supply chains of the two countries are dependent on each other's ingredients and products for their respective national demand. Moreover, trade flows in the agri-food sector are larger than bilateral flows that either has with any other country. The economies of the two countries are deeply intertwined but Ireland – as the smaller, less diversified economy – would be disproportionately impacted by any disruptions to Irish-British economic and trade relations.[1]

Internal changes within the UK could also have an economic impact on Ireland. Greater devolution within the UK could open the door to greater tax powers for Edinburgh, Cardiff and Belfast. The Stormont House Agreement of December 2014 – discussed in more detail in Chapter 13 – provides for the devolution of tax rates from 2017 to a Northern Ireland Executive under certain conditions. The possible implications of more aggressive tax competition from neighbouring economies will need to be kept under close review.

Peace and stability on the island of Ireland

EU membership over the past four decades has been an important factor in the Northern Ireland peace process and in the development of Irish-British relations. Common membership of the Union as independent partners allowed informal contacts to develop between Irish and British officials and politicians, it demonstrated that the two states had much in common, and it helped to reduce the traditional psychological gap between a global power and its much smaller neighbour. Meetings on the margin of the European Council provided Irish and British leaders with a regular forum to discuss Northern Ireland issues in advance of the Belfast Agreement in 1998.

Since 1998, common EU membership has played its part in the normalisation of Irish-British relations, which are now better than they have ever been. In September 2013, then Tánaiste and Minister for Foreign Affairs and Trade, Eamon Gilmore, explained the

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[1] John Bradley, 'Beyond the Belfast Agreement: Economic relations between and within these islands', *Journal of Cross Border Studies*, No. 8, Spring 2013, pp.29-42, www.crossborder.ie, accessed 1 September 2014.

benefit of EU membership for Irish-British relations and his concern at the prospect of British detachment from the EU:

> When you are members of the same club with so many common interests and a similar way of doing business, you grow closer. We certainly have.
>
> Our hard work in Europe over forty years has shaped the way we work with each other – from our export markets to our extradition arrangements. I cannot think of an area that has not been enhanced in some way by those efforts. […]
>
> So when I detect that those voices advocating greater detachment from Europe are gaining in strength and volume, I grow concerned. Because I know that our bilateral cooperation is woven so tightly into – and benefits so much from – our membership of the EU that they cannot be treated as alternatives. […]
>
> …at best British detachment from Europe would slow and limit our efforts towards closer cooperation with each other. At worst it could reverse them."[2]

In its October 2014 *National Risk Assessment*, the Irish Government identified a UK exit from the EU as a significant geopolitical risk that could "present significant challenges for Ireland in terms of…bilateral relations with the UK [and] Northern Ireland issues".[3] This matters because the fragile peace in Northern Ireland requires constant attention and efforts in London, Dublin and Belfast. A UK detachment or withdrawal from the EU could isolate nationalist communities in the North. It could also see the eventual reduction or termination of EU structural funds and funding for cross-border cooperation, which continues to assist the peace process and the economic development of the border region. Furthermore, while informal and formal contacts between Irish and British officials could continue to be cultivated within the bilateral context, they would lose a very important element of commonality if the UK were no longer in the EU.

Keeping Ireland at the heart of Europe

Ireland's active engagement in the European Union has been of central importance to the country's economic and social progress. As a small, open economy, the European Single Market and single currency provided the necessary environment for Ireland to develop. Ireland's EU membership also contributed to a rule-based international system, which Ireland has long seen as the best way to protect its interests and promote its values.

Statement by then Taoiseach, Seán Lemass

Ireland's commitment to being at the heart of Europe was evident even before its accession to the European Economic Community in 1973. In a statement to Ministers of the Governments of Member States of the European Economic Community in Brussels in 1962,[4] Taoiseach Seán Lemass made the following remarks:

> The Treaty of Rome, as an expression of the ideal of European unity, brought into being a more closely integrated organisation than either the Council of Europe or the Organisation for European Economic Cooperation. Political considerations, we know, played a considerable part in the motivation and the successful outcome of the negotiations for the Treaty and the aims of the European Economic Community go much beyond purely economic matters. The Contracting Parties in the preamble to the Treaty affirmed their determination to lay the foundations of an ever-closer union between European peoples and their resolve to strengthen, by combining their resources, the safeguards of peace and freedom. Their call to other peoples of Europe to join in their effort was addressed to those "who share their ideal". In the Bonn Declaration,

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[4] Seán Lemass, *Statement by Mr Seán F. Lemass, Prime Minister of Ireland, to Ministers of the Governments of the Member States of the EEC*, Brussels, 18 January 1962, www.cvce.eu, accessed 26 February 2015.

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[2] Eamon Gilmore, address by the Tánaiste to the British-Irish Association, Cambridge, 7 September 2013, www.dfa.ie, accessed 1 September 2014.
[3] Department of the Taoiseach, *National Risk Assessment 2014*, October 2014, p.17, www.taoiseach.gov.ie, accessed 1 December 2014.

they reaffirmed their resolve to develop their political cooperation with a view to the union of their peoples and set in motion procedures designed to give statutory form to this union.

It was in full awareness of these facts and, in particular, of the importance attached by the member States to political objectives, that my Government, in the letter of 31 July, 1961, applying for admission to the Community under Article 237 of the Treaty, declared that we share the ideals which inspired the parties to the Treaty and accept the aims of the Community as set out therein, as well as the action proposed to achieve those aims.

I desire to emphasise that the political aims of the Community are aims to which the Irish Government and people are ready to subscribe and in the realisation of which they wish to play an active part. As I have already said, the Irish nation has always had a strong sense of belonging to Europe. We are also very conscious of the great advantages which can accrue to all the countries concerned and to world peace from a strong and united Europe. These considerations were an important factor in the decision taken by my Government in July. That decision was discussed at the time in our National Parliament and, I am happy to say, met with almost unanimous approval. But long before the formal decision was taken the European Economic Community and our position in relation to it were matters of wide public interest and debate. I can, therefore, say that our application not only represents a deliberate decision on the part of the Government but also corresponds to the sentiments of our people generally.

By contrast, Britain has shown consistent reservations about moves to closer European integration. The risks for Ireland of this divergence of overall approach between the two countries was presciently outlined by the previous Chair of the IIEA UK Group, former Taoiseach and Minister for Foreign Affairs, Dr. Garret FitzGerald, in 2000:

> It could well be the case that, in the future, tensions between Ireland's relationship with Britain on the one hand and with Germany and France on the other, which have hitherto been largely absent, might become more of a problem for Irish diplomacy. There must at least be a possibility that a future stronger pull towards Britain, with which successive Irish Governments have had to work closely in seeking to resolve the Northern Ireland crisis, could conflict with Ireland's need to enjoy a capacity for independent action in the European sphere. As we move into the new century, maintaining a balanced relationship simultaneously with all three of our major European partners may pose a challenge to Irish diplomatic ingenuity.[5]

A UK disengagement or withdrawal from the EU could necessitate a shift from the multilateral context of the Union to a stronger bilateral relationship. This could put Ireland, as the smaller partner, at a disadvantage and limit its freedom to stay at the core of Europe.

The EU without the UK could also be a less comfortable place for Ireland. Given the two states' similar views on the Single Market, free trade, financial services, corporate taxation and justice and home affairs issues, a UK withdrawal could weaken Ireland and expose it to greater pressure from less liberal continental partners. Ireland could be forced to consider what elements of Irish economic policy could be defended and what may have to go in a less liberal post-UK European Union. Combined with the influence of British media in Ireland, Irish public opinion towards European integration could change as the UK disengages from the EU.

The future of UK-EU relations and implications for Ireland

The changing relations between the UK and the EU in particular could have a serious impact on each of Ireland's strategic priorities for the coming years. To determine how

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[5] Paul Gillespie (ed.), *Blair's Britain, England's Europe: A View from Ireland*, Dublin: Institute of International and European Affairs, 2000, p.259.

exactly the Irish national interest might be affected, it is necessary to assess the possible future scenarios individually and to analyse their implications for Ireland. The realistic scenarios for future UK-EU relations set out earlier in the book are: Half-in, Half-out and Fully-out. Of these, it is clear that the scenario of Half-in would be most beneficial to Irish interests, as it would see minimal changes in the UK's relationship with the EU. The UK could continue to shape the Union in a positive way and Ireland would have a key ally on important policy priorities. Relations between the two countries could continue to develop within the conducive context of the EU.

The UK Half-out of the European project would be more benign than exit but could still create difficulties for Ireland. The bottom line in maintaining stable relations between the UK and EU (and therefore between the UK and Ireland) is the integrity of the Single Market, which would hardly be threatened under this scenario. In many respects the UK is already Half-out of the European project and has been since the day it acceded in 1973. This scenario could, however, see London taking a further step back and seeking the bare minimum of integration to remain within the Single Market. The UK's 2014 decision to opt out of over 100 justice and home affairs measures under Protocol 36 of the Lisbon Treaty shows the difficulties that such an approach might create for Ireland.

The Fully-out scenario is the most unpredictable and certainly the least conducive to Irish interests. This would be the first time that a Member State has left the Union and the nature of the new relationship between the UK and the EU is not clear. British Eurosceptics argue that the UK, because of its size and economic importance for the rest of Europe, could obtain a favourable deal that would give it a high level of access – if not complete access – to the Single Market. While this would on the surface appear to be strongly in Irish interests, it could in fact create problems for Ireland. If the UK were to succeed in excepting itself from the 'rules of the game' in Europe while retaining access to the Single Market, it would open the prospect of a rule-constrained Ireland being less competitive than its neighbour, which is already Ireland's closest competitor for the attraction of inward investment. Free trade between the UK and Ireland would be very important if the UK were to leave the EU, but unhindered free trade between the UK and the EU may be less desirable from an Irish point of view.

Ireland would be unlikely to have to face this catch-22 scenario given that Dublin would almost certainly not be the only voice at the EU table with reservations about a very generous deal for the UK. No Member State would want to reward the UK for leaving the EU by granting it full access to the Single Market, just as no Member State would wish to see the UK benefit from the club without paying its membership fees. A UK outside of the EU would therefore face some restrictions in terms of its access to the Single Market. Chapter 8 has discussed potential association models, including those

between the UK and EEA, Switzerland and Turkey, and has concluded that none of these models would be likely to be to the political or economic benefit of the UK.

New model

Given the downsides to existing models, and the UK's specific status as an EU member and one of the largest economies in Europe, a new model of relationship would be needed if the UK were to exit the Union. Writing in December 2011, Jonathan Faull, the most senior British official in the European Commission, warned that the UK risks becoming the Channel Islands of the EU: "Formally apart, with lovely pageantry and some economic success, but following rules and policies made elsewhere".[6] Eurosceptic commentators in Britain argue that a reasonable compromise between access and regulation could be achieved and this would enable the UK to focus on trading with emerging markets, where the majority of the world's economic growth is located.

The final outcome is likely to be somewhere between these two poles. The UK would have to accept some unwanted regulation from Europe to retain access to priority areas of the Single Market. If it chose to adopt an independent trade policy, it would mean foregoing the Customs Union and facing a complex and costly Rules of Origin system in its trade with the EU. Creating a new model of cooperation between the UK and the remaining EU would be a difficult and lengthy process; Switzerland's tricky relationship with the EU attests to this. There would be several years of uncertainty following a UK decision to exit, during which substantial time and resources would have to be expended on the 'British Question' by European capitals and EU Institutions.

The challenge for Ireland

It is clear that Ireland's national interest is best served by a UK at the heart of Europe and by maintaining stable political and economic relations across the Irish Sea and with all constituent nations of the United Kingdom. Since there is likely to be extreme uncertainty on these two fronts over the coming five to ten years, the challenge for Ireland is to protect and pursue its national interest within this unstable and unpredictable environment. It is in Ireland's strategic interest to stay as close as possible to both the UK and Europe.

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[6] Jonathan Faull, 'Off on a Sonderweg?', *E!Sharp blog*, December 2011, esharp.eu, accessed 1 September 2014.

The clearest statement of government policy on Ireland's approach to UK membership of the EU was made by Taoiseach Enda Kenny in January 2015 at a meeting with Irish Ambassadors:

> The Government's position is clear and unequivocal: we want the UK to remain in the EU. This is clearly in our national interest, and in the wider European interest. Our shared EU membership has played an immensely important role in strengthening relations between our two islands, not least in creating the environment for business links to flourish and as a force for peace and reconciliation in Northern Ireland

> While we are respectful of the domestic debate which is ongoing in the UK, it is impossible to remain silent on an issue which impinges so directly on Ireland's national interests. We support continued UK membership of the EU. We agree with many of its policy objectives in areas such as trade, regulation and the single market. We will give our backing, where possible, for reasonable adjustments in the operation of the EU. But we will be candid if we are presented with proposals that we do not see as achievable or desirable. Friendship is predicated on openness and honesty, and this will predicate our approach.[7]

The following sets out how this might be achieved.

Staying close to the UK

Multilateral

Maintaining strong relations with the UK and its constituent parts over the uncertain years ahead is made easier by the fact that the structures for doing so are already in place. The institutions created by the Belfast Agreement provide a potential means to manage any difficulties arising from change in the UK's relationship with the EU and internal UK developments. The British-Irish Council (BIC), with its aim "to promote the harmonious and mutually beneficial development of the totality of relationships among the peoples

of these islands", offers a possible avenue.[8] Common policies, from which individual members may opt out, could be developed on questions of transport, agriculture, the environment, culture, health, education and other matters of mutual interest which are within the competence of member institutions. The Council could, therefore, become a significant network for the development of regional interests and could enable a more equal relationship between the various nations and regions of these islands, particularly if England were given a separate representation. It must be recognised, however, that, in order to be effective, the BIC would require radical new powers.

The importance of the British-Irish Council would become more obvious to all concerned if the UK became increasingly detached from the EU and if it devolved more powers to its constituent nations. If the BIC is to play a significant role in the years ahead, it will require greater engagement by the London government in the workings of the Council. Since Tony Blair left office, the British Prime Minister has only attended one summit and this was a historic meeting in Belfast after the restoration of the Northern Ireland Assembly in May 2007. Generally, the Deputy Prime Minister or a Secretary of State for Scotland, Wales or Northern Ireland attends on behalf of the London government. The other Heads of Administration, including the Taoiseach, the First Minister of Scotland, the First Minister of Wales and the First and Deputy First Ministers of Northern Ireland usually attend. There is therefore an imbalance between the attention given to this forum by the governments of smaller countries and territories of the two islands and the relative lack of interest by the government in London (not to mention the fact that the largest nation on these islands – England – is not represented at all).

The experience of the Nordic Council demonstrates that states and territories can work together in a multilateral framework despite varying degrees of integration with the European Union. Members of the Nordic Council cover the entire spectrum from minimum to maximum EU integration: Finland is in the Eurozone, Sweden and Denmark are in the EU but not in the Eurozone, Norway and Iceland are members of the European Economic Area, while the Faroe Islands and Greenland remain outside of European economic structures. The Council also highlights the potential limitations of such multilateral cooperation on the fringes of a much larger and more integrated Union. As an inter-parliamentary forum, the Nordic Council is weak on the economic and political level. Its primary role is at the societal level, in the field of cultural cooperation and in bringing officials and politicians from the eight members together on a regular, institutionalised basis.

[7] Enda Kenny, opening remarks by the Taoiseach at the Department of Foreign Affairs Conference, "Representing the Global Island", 13 January 2015, www.taoiseach.gov.ie, accessed 26 February 2015.

[8] *Northern Ireland Peace Agreement*, 10 April 1998, Strand Three, Article 1, www.taoiseach.gov.ie, accessed 1 September 2014.

Bilateral

The direct bilateral relationship between Dublin and London will also be important in the years ahead. The ten-year cooperation agreement announced by the Taoiseach and the Prime Minister in March 2012 strengthened the political relationship between Ireland and the UK by establishing regular meetings between Secretary Generals/Permanent Secretaries of government departments and through formal exchanges of civil servants.[9] These personal ties at official level will be crucial to steer the two countries through any potential difficulties arising from a greater British detachment from the EU. The two governments will have a number of common interests in the case of a UK withdrawal, for example, continuing to cooperate closely on Northern Ireland, maintaining the Common Travel Area, and seeking to ensure that economic and trade relations suffer minimal disruption.

Staying close to the EU

Ireland remains firmly committed to EU integration, regardless of the ongoing debate within the UK on its future place in the Union. Speaking at the IIEA in October 2013, the then Minister for European Affairs, Paschal Donohoe, said:

> Ireland is an integrated and committed member of the EU community. And will remain so. On such a vital topic of national interest, we will not be caught in the slipstream of decisions that others make.[10]

Decisions made in the UK could present Ireland with two dilemmas in its relations with the rest of the EU community. The first is the need over the coming years to support London and its objective of staying in the Union while simultaneously differentiating Ireland from the UK. It is in Ireland's interest for the UK to remain in the Union and Ireland must do what it can to help secure this outcome. This could mean backing some of the reforms that the UK is demanding (which, in any case, could suit Ireland very well) and voicing this support at European level. It could mean advising the UK on how to pitch its aims in EU negotiations. It could also mean acting as an interpreter for the UK in other European capitals and articulating clear arguments for continued UK membership of the EU. Ireland intends to stay in the EU, however, and the assistance it provides for the UK cannot be allowed to alienate other European partners. In 1972,

then Minister for External Affairs, Patrick Hillery, viewed Ireland's accession to the EC as a release from what he called "our gate lodge attitude towards England".[11] In some European capitals the distinction between the UK and Ireland is still not very well appreciated. Ireland's position as a committed EU member therefore needs to be unambiguously communicated across Europe to avoid a perception in other Member States of Ireland as the 'gate lodge' to the UK.

The second dilemma that Ireland could face in its relations with the EU was outlined above: the potential binary choice that Ireland could face between its nearest neighbour and its continental partners. To avoid this requires careful statecraft, as described by Brendan Halligan in his 2013 Dr. Garret FitzGerald Lecture.[12] Whatever deal is reached between the UK and the EU, it cannot be allowed to impinge either on Irish-UK relations or on Ireland's place in the EU. This could be a fine line for Ireland to tread. A UK outside of the EU cannot obtain full access to the Single Market without certain conditionality. If this conditionality proves unacceptable to the UK, obstacles to trade and cooperation could be raised.

In the case of a UK withdrawal, Ireland may have to call on its EU partners to allow special arrangements to continue cooperating with the UK in certain areas and to maintain a free trade relationship. As a constructive and committed EU Member State, Ireland would have the political capital and goodwill to argue that it would be impermissible to allow a situation in which it would be disproportionately affected by a UK withdrawal. Ireland's partners in Europe would almost certainly understand its predicament. Derogations for Ireland would be necessary to avoid the country being "caught in the slipstream of decisions that others make" and would therefore be more acceptable to Ireland's EU partners than concessions demanded by the UK. The nature of these derogations would be dependent on the type of relationship that the UK establishes with the EU. It would be important that they would not be perceived as giving an advantage to Ireland at the expense of other Member States.

Multiple unions

In the case of a UK Half-in or Half-out of the EU, strengthening the British-Irish Council would still be a worthwhile endeavour in order to assist the regions and governments of the two islands through the possible turbulence in the years ahead,

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[9] Taoiseach Enda Kenny and Prime Minister David Cameron, *Joint Statement of British-Irish Cooperation*, 12 March 2012, www.merrionstreet.ie, accessed 1 September 2014.
[10] Paschal Donohoe, 'Reflections on the Horizon Ahead', speech at the IIEA, 31 October 2013, www.iiea.com, accessed 1 September 2014.

[11] Patrick Gallagher, 'The Belgians That is Another Story', Video, RTÉ Archive, 29 November 1972, www.rte.ie/archives, accessed 11 September 2014.
[12] Brendan Halligan, 'Strategies for a Small State in a Large Union', Dr. Garret FitzGerald Lecture to the IIEA, 9 May 2013, www.iiea.com, accessed 18 February 2015.

particularly that arising from greater devolution within the UK. It would also allow for continued cooperation on issues relating to EU membership, such as agriculture, fisheries, research and innovation, transport, energy and the environment. It would not mean that Ireland's capacity for independent action in the EU sphere would be in any way restricted. Nevertheless, a more active British-Irish Council operating within the EU could be described as a 'Union within a Union'.

There would be clear advantages to stepping up cooperation within the BIC in the case of UK withdrawal from the EU. This situation, in which Ireland would remain a full and active member of the EU, would see Ireland operating within 'two Unions'. Like Finland within the Nordic Council, Ireland would have to prioritise its integration in the wider European Union from a geographically peripheral location, while maintaining strong bilateral and multilateral ties with its closest neighbours. Finland's Aland Islands have a special status within the EU that recognises their cultural and economic distinction. In a similar fashion, Ireland's relations with the UK (and, in particular, with Northern Ireland) may require some derogations from EU law to achieve this balancing act. It would be preferable, however, to avoid this situation in order to maintain the unity of the EU.

A post-UK European Union

An important consideration for Ireland in assessing the scenarios of the coming years is what its position might be within a European Union without the UK. The likely impact of a UK exit on the European Union is analysed in Chapter 15, but the indirect implications for Ireland also merit attention. Without the UK, the EU would lose a strong advocate of an open and liberal Europe. The UK's strong support for free trade, including initiatives that are important to Ireland like the Transatlantic Trade and Investment Partnership (TTIP), would be muted. Ireland would lose an ally in the field of financial services and taxation, and would probably face greater pressure from continental partners on the question of its corporate tax rate. Other priority policy issues such as services liberalisation and the Digital Single Market would suffer a blow. The EU's Common Foreign and Security Policy (CFSP), which Ireland sees as furthering its foreign policy traditions and interests, would be diminished. Moreover, the balance of power within the EU would shift to the south and east, where Ireland has few natural allies on strategically important issues.

As a small state with a consequently limited capacity to shape outcomes at European level, Ireland has, since its entry into the European Economic Community, endeavoured to be smart. In a European Union without the United Kingdom it is evident that the

smart course for Ireland would be to enhance relations with Germany and France. Up to the 1950s, Irish foreign policy was almost exclusively Anglo-centric, and for good reasons. When Garret FitzGerald became Foreign Minister he recognised that the European Union was the friend that Ireland had always been looking for and that membership could provide a psychological liberation from its "neurotic relationship with Britain".[13] As a result, he prioritised relations with Germany and France, cognisant that they were the cornerstones of Europe. Later, Ireland held the Presidency of the European Council in 1990 and organised two summits on German reunification. Gerry Collins, then Foreign Minister, was invited as the first Foreign Minister to visit East Germany after the fall of the Wall. Without the UK, Germany will increasingly become the most powerful Member State and Dublin will likely become even closer to Berlin. Similarly, Ireland will capitalise on its good political and cultural relations with France to ensure a closer relationship in a reconfigured EU.

Nevertheless, the EU without the UK would likely be a less comfortable place for Ireland. The advantages of EU membership, however, would continue to far outweigh the costs of following the UK into 'splendid isolation'. EU membership would continue to enhance rather than restrict Ireland's sovereignty in a globalised and interdependent world. It would continue to provide opportunities for trade and employment to Irish citizens and businesses. And membership of the Eurozone and the Single Market would continue to boost Ireland's attractiveness for foreign direct investment from the US, China and elsewhere.

Conclusion

Ireland's national interests face challenges over the coming years due to decisions that will be taken in the UK. Whatever happens in the UK's relations with the EU, Ireland must work towards the goal of remaining a committed member of the EU and maintaining strong relations with the UK and its constituent nations and territories. It will be imperative to build upon the current institutional relationship across the two islands to ensure economic and political stability. It may also be necessary, in the case of UK withdrawal, for Ireland to request an arrangement that allows it to maintain bilateral trade and free movement with the UK, while remaining a core EU member.

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13 *Ibid.*

10. Economic Consequences for Ireland

Edgar Morgenroth

Introduction

The potential economic implications of a UK exit from the EU are a key consideration both within the UK and in other EU Member States. Given the close economic as well as geographical, political, cultural, social and historic connections between Ireland and the UK, Ireland is particularly exposed to any economic impact. The scope and scale of the potential impact is a function of the existing linkages and how these are related to EU membership. However, there may also be additional impact beyond the existing linkages in the form of third country effects.

The key economic linkages between Ireland and the UK are trade, both merchandise and services, foreign direct investment and energy (electricity and gas). In addition, there has traditionally been significant labour movement. EU membership impacts on all of these, either in the form of free movement (trade, capital, labour) or through regulation (energy markets, common standards etc.). The impact of a UK exit depends on how this would change the nature of the linkages, which in turn depends on the actions of the UK and the EU post exit and the nature of the new relationship.[1] If none of the linkages are changed, the UK leaving the EU might not have any significant impact. However, an exit of the UK only makes sense for the UK if it changes some of the relationships with the EU. Furthermore, if the EU allowed the UK to derive all of the benefits of EU membership but with less costs, then other Member States could be tempted to follow suit.

If the UK were to leave the EU, it is likely to affect the free movement of people, which is one of the key topics of UKIP. The UK is also likely to take steps to compete more vigorously as a financial market centre. It is likely that it would reduce restrictions on imports of agriculture and food products from outside the EU in order to reduce prices, which would have a negative impact on Irish food and drink exports to the UK. It may also take a tougher stance on fishing and offshore natural resources.

Allowing a former Member State all the benefits of EU membership without any drawbacks would threaten the basis of the Union. The EU would need to respond by imposing some penalty for leaving the EU. This could be reflected in the nature of the free trade agreement that will inevitably be negotiated, but it may also relate to other benefits of the Union like the free movement of people, which would be of particular concern to Ireland as Ireland would be the only EU member with an external land border with the UK, and given the significant migration flows between Ireland and the UK.

Existing relationships between the EU and other close partners point to the likely future relationship between the EU and the UK were the UK to leave the EU. The relationship between Norway and the EU, which was referred to in previous chapters, involves the European Economic Area Agreement (EEA) that was signed in 1992. This guarantees free trade between Norway and the EU. It also requires Norway to adhere to all relevant EU directives, pay into the EU, but allows Norway freedom over fishing, agricultural and environmental policies. As such this agreement gives Norway almost the same benefits and costs as apply to EU members but without being able to influence EU directives directly.

Switzerland is an Associate Member of the EU, which encompasses a number of agreements regarding free trade, travel, agriculture and public procurement. However, Swiss voters voted to limit the degree of free movement of people in a February 2014 referendum. As a response, the EU has excluded Switzerland from the Erasmus student mobility and Horizon 2020 research funding programmes. There has also been substantial pressure on Switzerland to increase financial service sector regulation and to enact measures to limit the potential for tax evasion by EU citizens using Swiss financial institutions.

The EU also has an agreement in place with Turkey, which is an applicant country, and since 1964, following the signing of the Ankara Agreement in 1963, an Associate Member. This entails a customs union and progressive harmonisation of tariffs in Turkey and on third country products but excludes basic agricultural products.

Quantifying the potential economic impact

In order to get a better understanding of the potential impact of a UK exit from the EU, it is necessary to consider the economic connections in more detail. Here three connections are considered. Firstly, and perhaps most importantly, trade forms a vital connection between the UK and Ireland and this is facilitated through the operation of the EU Single Market.

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[1] It is assumed throughout that Ireland will remain a member of the EU.

Ireland has particularly close trade links with the UK. While the analysis here focuses on exports and imports, supply chain linkages are also very important for Ireland, given the fact that UK wholesalers often supply the Irish market and given the high market share of UK supermarkets in Ireland. Increased trade barriers would reduce export volumes and increase import prices.

The second area of connections considered here is foreign direct investment (FDI) by UK firms in Ireland and Irish firms in the UK. As EU membership is an important determinant of FDI from outside the EU in EU countries, exiting the EU might have negative consequences for FDI flows to the UK and may benefit Ireland. Lastly, it is often not recognised that Ireland has very important energy market connections to the UK via the gas and electricity interconnectors.

Impact on merchandise and services trade

While the EU excluding the UK is the largest export market for Irish merchandise exports, the USA is the most important individual export destination for merchandise trade (see Figure 1). The UK ranks second to the US since 2008 and to rest of the EU since 1985. The EU excluding the UK accounts for more than twice the volume of merchandise exports to the USA, which indicates the high dependence of Ireland on the EU market.

However, the UK is a particularly important export destination for indigenous enterprises. Data from the CSO Census of Industrial Production shows that, in 2012, 43% of exports from Irish firms were destined for the UK, while foreign companies exported just 12% of their exports to the UK. The UK accounts for a particularly significant share of exports for sectors like wearing apparel, leather and related products (62.5%); wood and wood products except furniture (72.9%); paper and paper products (64%); and other non-metallic mineral products (62.3%).[2] These are also sectors that are largely indigenous-owned.

For the UK, the EU (excluding Ireland) is even more important as an export destination than the EU (excluding the UK) is for Ireland (see Figure 2). The USA is the single most important export destination and Ireland is the fifth most important export destination. Despite the relatively small economic size of Ireland, this market is of significant importance to the UK. Thus, any impediment to trade due to an exit of the UK from the EU relative to the current situation could have a significant impact on the UK. Compared to Ireland, for which 16.5% of merchandise trade would be impacted, just over 49.2% of UK merchandise exports would be affected.

Figure 1. Merchandise Export Shares for Exports from Ireland[3]
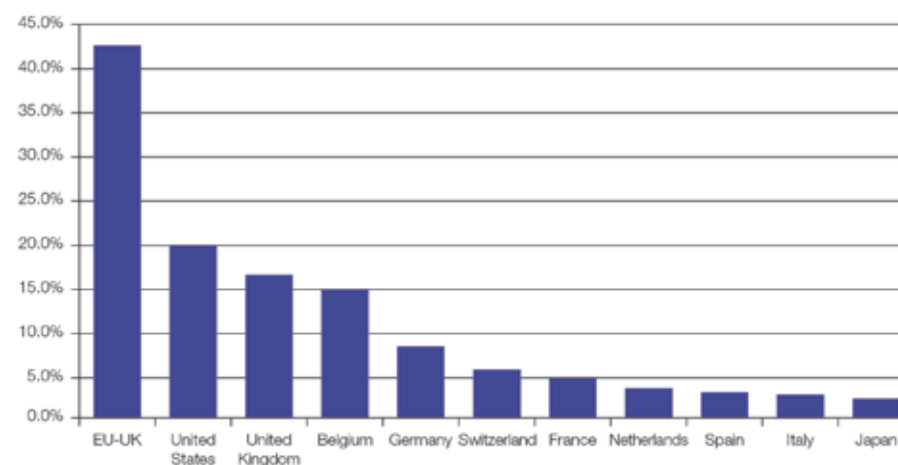
Figure 2. Merchandise Export Shares for Exports from the UK[4]

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[2] Based on data from the CSO Census of Industrial Production, 2012.
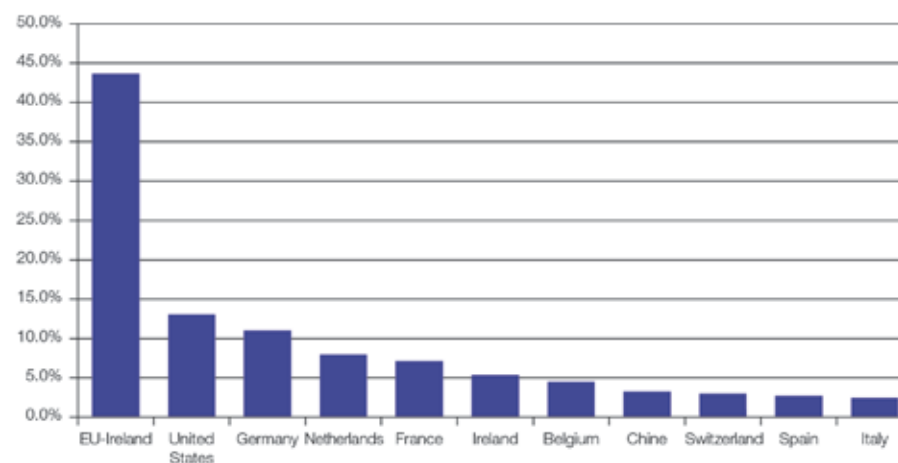
[3] Figures from UN-COMTRADE database for the year 2012.
[4] Figures from UN-COMTRADE database for the year 2012.

Services trade[5] is often ignored, perhaps because this is a more recent phenomenon and because fewer data are available compared to merchandise trade. However, services trade is becoming more important, particularly in developed economies, and services exports from Ireland are now bigger than merchandise exports in terms of value. In 2012, almost 38% of services exports from Ireland were destined to EU member countries excluding the UK, which is twice the UK export share (see Figure 3). Other major destinations for Irish services exports are Germany, the USA and France. The top ten individual countries account for just over 64% of total services exports.

Figure 3. Export Shares for Services Exports from Ireland by Country[6]
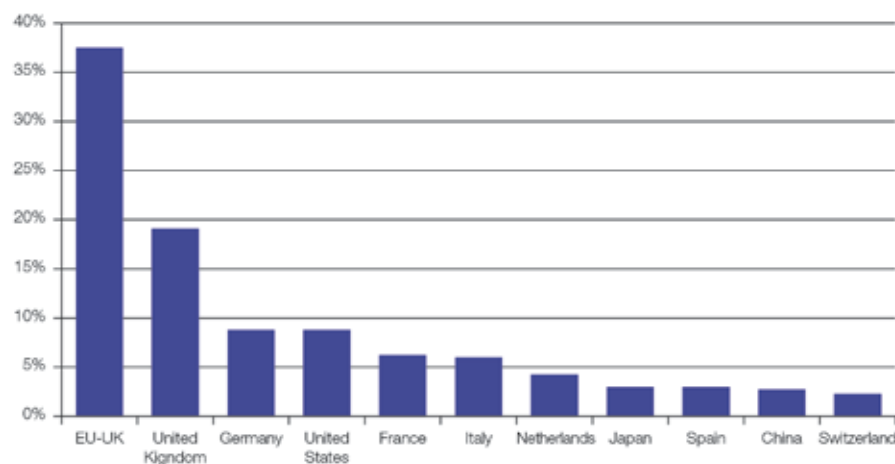
For the UK, the EU (excluding Ireland) is again the largest export market for services, while the USA is the most important single country. Notably, Ireland is the second

largest individual market for UK services exports, ahead of Switzerland, Germany and the Netherlands. In total, 56% of UK services exports are destined for the EU including Ireland.

Figure 4. Export Shares for Services Exports from the UK by Country[7]
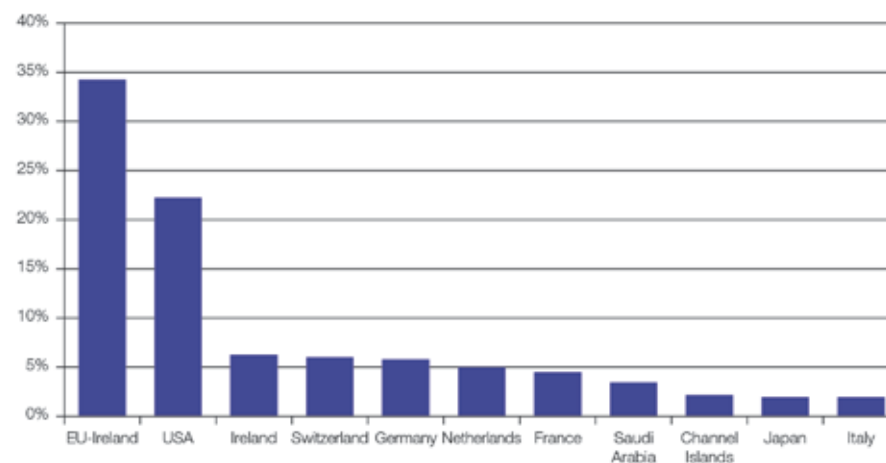
It is possible, using analytical tools, to estimate the likely impact of the UK leaving the EU. The standard tool to assess trade potential and policy impacts is the so-called gravity model. There is a vast literature that shows significant positive impacts from customs union membership and bilateral trade agreement.[8]

If the UK were to leave the EU, it would need to negotiate some form of trade agreement with the remaining members. To identify the effect of this change one needs estimates of the benefits of EU membership and estimates of the benefits of a trade agreement with the EU. Just one study has analysed both impacts using a gravity model, controlling for a

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[5] International trade in services is defined by the OECD as services traded between residents and non-residents of an economy; services provided by foreign affiliates established abroad; and services supplied by individuals located abroad, either as service suppliers themselves or employed by service suppliers including those in the host country.
[6] Figures from CSO Services Export Statistics for the year 2012.

[7] Source: Own calculations using data from the Office of National Statistics for the year 2012.
[8] This sort of model was used to underpin the work on trade impacts in the Centre for European Reform Report entitled *The economic consequences of leaving the EU: The final report of the CER commission on the UK and the EU single market*, www.cer.org.uk, accessed 18 February 2015.

range of factors and this analysis shows that membership of the EU increases the volume of merchandise trade more than bilateral trade agreements.[9]

In particular, EU membership was found to increase trade by 31%. EFTA membership does not have an impact on trade, but bilateral agreements with an EU member increases trade by 9.4%. Thus, assuming the UK would negotiate a bilateral trade agreement similar to those already in place with other countries, which might be thought of as a worst-case scenario, trade between the UK and its EU trading partners including Ireland would be 21.6% lower. Of course, individual flows may change differently, for example the trade between Ireland and the UK may be impacted more or less than the expected 21.6%, but there has been no analysis to estimate differential impacts. There is also no analysis on third country effects, given that an increase in trade barriers may lead to a trade diversion effect.

In 2012, Irish exports to the UK amounted to US$19.4 billion and a reduction in those exports by 21.6% (US$4.2 billion) would reduce total Irish exports by 3.6%. The impact on the UK would be larger at minus 10.6% (US$50.4 billion) due to the fact that 26 trade flows are affected. Some analysis suggests that trade agreements have a similar effect on services trade as they have on merchandise trade,[10] which implies that the impacts used for merchandise trade may also be valid for services. However, in the absence of a similar detailed analysis of the impact of trade agreements, the results of such calculations should be treated with caution. Ireland would suffer a reduction in services trade of 4.1% (€3.7 billion) while the UK would see services trade reduced by 8.6% (£9 billion). The impact on the UK is lower for services trade compared to merchandise trade as more of its services exports are destined for markets outside the EU.

Energy markets

Ireland and the UK are closely linked in terms of energy markets and Ireland imports 89% of its oil products and 93% of its gas from the UK.[11] EU policy aims at even closer linkage and integration with the completion of a wider Internal Energy Market (IEM) in the EU, encompassing electricity and gas networks. Already there is a Single All-Island Electricity Market (SEM), which functions via North-South electricity interconnection.

Furthermore, the Irish electricity grid is linked to the British grid since 2001, via the Moyle Interconnector to Scotland and since 2012 via the East-West Interconnector. The gas grids are also linked via an interconnector to Scotland, and the bulk of the gas consumed in Ireland is supplied via that interconnector.

Interconnection improves security of supply and, given the differences in wholesale prices between Great Britain and Ireland, reduces energy prices in Ireland because British wholesale electricity prices are lower than those in Ireland; but the difference in prices is expected to narrow in the future because the current wholesale price is not high enough to make investment in electricity generation profitable, which has led to significant underinvestment.[12] Furthermore, recent research suggests that the completion of the IEM will result in higher electricity prices in Ireland in the future.[13]

It has been estimated that, in order to meet the EU objective of connecting with the IEM, the interconnection capacity would need to be doubled, which would be cheaper via England than directly to France.[14] A UK exit from the EU could impinge on the SEM and would impact significantly on the potential and cost of integrating with the IEM. If the UK were outside the IEM, more expensive interconnection with France might be required. A UK that is outside the IEM would also not need to apply EU regulation which might also increase the cost of importing electricity from the UK. Not being subject to EU targets for green house gas (GHG) emission reductions, the UK may also be less interested in further interconnection in order to import wind-generated electricity from Ireland.

Security of (energy) supply is often taken for granted but is far less certain given the increased frequency of severe weather events and geopolitical frictions. Interconnection significantly improves security of supply and indeed Ireland is heavily dependent on gas supplies via the interconnector with Scotland. These gas supplies are particularly important as gas plays a central role in electricity generation in Ireland. While the interconnector comprises three offshore pipes, a section of the onshore pipe in Scotland comprises a single pipe, which poses some vulnerability.

The economic cost of energy outages in Ireland has been investigated in a number of papers. For example, in relation to gas supplies it has been estimated that, depending on

[9] Gary Clyde Hufbauer and Jeffrey J. Schott, 'Fitting Asia-Pacific Agreements into the WTO system' in Richard Baldwin and Patrick Low (eds.) *Multilateralizing Regionalism: Challenges for the Global Trading System*, Cambridge: Cambridge University Press, 2009.
[10] Fukunari Kimura and Hyun-Hoon Lee, 'The Gravity Equation in International Trade in Services', *Review of World Economics*, Vol. 142(1), pp.92-121, 2006.
[11] SEAI, *Energy Security in Ireland: A Statistical Overview*. Dublin: Sustainable Energy Authority of Ireland, 2011.

[12] Paul Deane, John FitzGerald, Laura Malaguzzi Valeri, Aidan Tuohy and Darrgh Walsh, 'Irish and British electricity prices: what recent history implies for future prices', *Economics of Energy and Environmental Policy*, 3(2), 2014.
[13] John FitzGerald and Laura Malaguzzi-Valeri (eds.), *Irish Energy Policy: An Analysis of Current Issues*, ESRI Policy Series Paper No. 37. Dublin: Economic and Social Research Institute, 2014.
[14] Paul Gorecki, *The Internal EU Electricity Market: Implications for Ireland*, ESRI Policy Series Paper No. 23. Dublin: Economic and Social Research Institute, 2011.

the day in the week and the season, losing gas supply for electricity generation would cost between €0.1 billion and €1 billion per day.[15] If, in addition, gas supplies for heating were to be lost, the cost would be even higher.

Under current EU rules, if there is a shortage of gas, Member States must ensure that the available supply is shared equitably and they are not allowed to hoard their own supply at a neighbour's expense. This improves security of supply inside the EU. If the UK were outside the EU this protection would no longer be automatic but would instead be negotiated, possibly at a price, between the UK and Ireland.

Overall, a UK exit from the EU could impact negatively on security of energy supplies and might increase the cost of connecting to the Internal Energy Market.

Foreign direct investment

One of the reasons why firms invest abroad is to access markets and the literature shows that membership of a customs union, by creating a larger market, has a positive impact on FDI attraction by creating a larger market. With a population of over 500 million people and a combined GDP of over €13.5 trillion, the EU is the largest market in the world. It is thus not surprising that the EU is also a significant recipient of FDI from outside the EU.

The stock of FDI in the UK in 2012 amounted to US$736 billion.[16] Approximately half of this originated outside the EU, with 28.8% coming from USA and a further 4.4% from Japan. Some foreign firms that invested in the UK might reconsider their location decision following an exit from the EU and indeed those currently considering locating in the UK may be discouraged from doing so given the uncertainty surrounding the decision to remain a member of the EU. This could have significant negative consequences for the UK, but it may also lead to some relocation of FDI to remaining EU Member States including Ireland.

As is the case with merchandise and services trade, the impact of a UK exit on FDI is dependent on the nature of the trade agreement that is ultimately put in place. If the UK manages to negotiate unfettered access without any restriction then the impact on FDI is likely to be small. If, on the other hand, access to the EU market is in some way

restricted, this is likely to result in disinvestment in the UK and investment diversion. Research has shown that EU membership increases FDI from outside the EU by 27% and also substantially increases FDI stocks between EU Member States (62%), while FDI to countries with a free trade agreement with the EU is 18% lower.[17] Thus, exit from the EU could result in a 27% drop in FDI stocks from non-EU Member States in the UK, which, using data for 2012, would amount to approximately US$200 billion. Firms may want to relocate in other EU Member States. Some of these firms might prefer to be located in an English speaking EU Member State, which would constitute an opportunity for Ireland. However, it is very unlikely that Ireland could attract car-makers or similar types of activities.

Some UK firms might also be keen to have a foothold in the EU, increasing FDI from the UK in the EU. It is thus likely that Ireland would pick up at least a share of the relocating FDI commensurate with existing FDI patterns. On the basis of OECD data, 3.3% of FDI in the EU from outside the EU is located in Ireland. This would imply that Ireland could attract some US$6.6 billion of additional FDI, raising the stock of total FDI in Ireland by 2%. Of course, Irish firms have also invested in the UK, and in 2012 the stock of these investments amounted to US$22 billion. An exit of the UK from the EU is likely to reduce the value of that investment, which would come at a cost to Irish firms.

Summary and conclusions

This chapter has considered how the withdrawal of the UK from the EU might impact key economic areas, namely trade, energy and foreign direct investment. In doing so it has attempted to quantify these effects, which was achieved using estimates from the literature, under the assumption that the UK will not retain the same free access to the EU market but will be allowed access to the EU market under a free trade agreement similar to those already in place between the EU and other countries. Such an outcome may well turn out to be the worst-case scenario, which implies that the likely effect may be considerably smaller. Furthermore, the estimates used to calculate the impacts are derived using statistical methods and thus subject to statistical variation. Given these caveats, the calculations should therefore not be taken as exact impacts, but rather as rough indications of the possible worst outcome.

The analysis suggests that, with respect to trade, there is likely to be a very substantial negative effect of an exit of the UK from the EU. This applies to both merchandise and

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[15] Eimear Leahy, Conor Devitt, Seán Lyons and Richard Tol, 'The Cost of Natural Gas Shortages in Ireland', *Energy Policy*, Vol 46, pp.153-169, 2012.
[16] Based on OECD statistics.

[17] Gary Clyde Hufbauer and Jeffrey J. Schott, *op.cit.*

services trade. Importantly, while this impact is quite sizeable for Ireland it is considerably larger for the UK. This suggests that a decision to leave the EU is unlikely to lead to any economic gains for the UK.

A UK exit from the EU would have a negative impact on energy security in Ireland, which can be mitigated through additional investment, for example in gas storage facilities or interconnection with France, which come at a significant cost. However, a UK exit would also make Ireland more remote from the Internal Energy Market in the EU, connection to which is expected to raise energy costs in Ireland. Thus, a UK exit may have a positive effect on Ireland at least in the short-term.

The UK has a substantial stock of FDI from outside the EU, some of which will be sensitive to the nature of the trade relationship with the EU. It is therefore likely that at least some FDI will relocate. This could benefit Ireland, particularly in relation to US investment, which appears to prefer English-speaking countries with strong cultural ties to the US as destination countries. Of course, a UK withdrawal may reduce the attractiveness of the EU market for FDI due to the reduction in size, which was not considered in the calculations.

The ultimate impact is going to be determined by the nature of the agreements between the EU and the UK. While retaining the *status quo* with respect to access to markets would minimise the economic impact of a UK exit, political considerations make such an outcome unlikely. If the EU were to allow a Member State to leave the Union and enter into a relationship with the EU that did not impose some costs on the former Member State, then the basis for Union would be significantly undermined. This puts the EU into a difficult position and with that Ireland, which will be more significantly impacted than any other Member State.

11. An Irish Business Perspective

John McGrane

Introduction

The imminent determination of relationships between and among Ireland, the United Kingdom and the European Union will influence Ireland's economic policy outcomes and business investment environment for decades. The extent of Irish business connectivity to the United Kingdom is such that a potential UK exit from the EU is a risk to investment and employment in Ireland, to an extent that could potentially undermine its traditional commitment to the EU.

This chapter sets out the relevance to the Irish business sector of a potential UK exit from the EU and considers industry's likely responses to its impacts.[1] It considers the relationship of Irish business with both Europe and Britain and the risks now arising for business amid increasing uncertainty. It describes how Ireland's business stakeholders are empathetic to the UK's call for reform while making plans both to mitigate Ireland's risk and maximise its opportunity. It sets out the issues, options and implications for business in Ireland of potentially wholesale change in the fundamental factors that have shaped the Irish business landscape for the past 50 years.

The Irish business environment

The importance of the EU

Ireland's economic success and market sustainability, apart from any wider socio-political concerns, are highly dependent on open, unconstrained trade access to a large-scale market many times its own size: the EU. Europe is the world's largest trading bloc with

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[1] Research for this chapter included interviews with several leaders of sectors impacted by a potential UK exit from the EU, spanning the public and private sectors in Ireland and the UK, indigenous businesses, foreign direct investors, trade unions and farming organisations.

GDP of over €13.5 trillion[2] and a market of some 500 million consumers. The Single Market is at the very core of Europe's definition as a political and social entity. Building a Common Market was second only to (and essential to enabling) a peaceful co-existence in Europe after World War II as a founding priority of the European Communities. Forming, as it did, the basis for the modern Irish economy, membership of the European Union reduced the historic over-dependence of Irish business on the UK market; it significantly improved the scale and quality of Ireland's indigenous market; and it introduced a generation of Irish-based businesses, indigenous and foreign-owned, to one of the world's largest market opportunities.

Ireland benefits commercially from committed EU membership on three key accounts. The EU gives it a market outlet for surplus natural resources in sectors such as food and agriculture (and, potentially, renewable energy) and stable inputs of other resources. It affords it a flexible labour supply and attracts foreign direct investment, most importantly from the USA, to choose Ireland as an investment base for trading into Europe's extensive market, featuring a common currency and free movement of capital, goods, services and labour.

The importance of the UK

Ireland also has a uniquely concentrated trade relationship with the United Kingdom. The UK accounts for €12 billion of Ireland's annual exports of goods and €17 billion of services, aggregating to 16% of total exports as well as €26 billion or 19% of imports.[3] Combined trade between the UK and Ireland supports over 400,000 jobs in the two economies, half of them in Ireland. The stock of foreign direct investment into Ireland from the UK is worth €34 billion while investment from Ireland in the UK is worth €47 billion. The UK is Ireland's largest single destination for service exports (including some 50% of Irish financial services exports). In the agri-food sector (which accounts for 10% of Irish exports and 10% of Irish employment), some 42% of Irish food and drink exports are bought by the UK as compared to 32% exported to other EU countries.[4] Free access to the UK market is especially important to indigenous Irish businesses, which sell 43% of their exports to the UK, whereas foreign direct investment companies in Ireland sell only 12% of their exports to the UK.[5]

So too is the UK dependent on its relationships with Irish business for the competitiveness of its industries and their supply chains. The trading linkages between Ireland and the UK span almost every sector of the two economies. There is virtually no product and few services produced on either island that could not be sold on the other. Indeed, both countries' enterprise development agencies actively encourage indigenous SMEs to grow into their neighbouring market. While the UK and Ireland effectively operate in numerous sectors[6] as one market (with mostly the same language, the same technical and labour standards and the same legal system), there are significant variations.

Having effectively established a local-islands Single Market for items such as food and labour, open access to this joint market for businesses in either jurisdiction has become the norm to such a degree that any potential rowing-back of this position poses serious threats to both islands. Open access to Irish food imports makes an important contribution to the UK's food security needs. Similarly, Ireland's energy security depends on the continuity of supplies from the UK at prices that support the competitiveness of Irish industry. Absent some unspecified 'special arrangement' to sustain established two-way free trade (with unimpeded movement of goods, services, labour and capital) between Ireland and the UK, a UK exit from the Single Market environment poses major risks to business in both Britain and Ireland. With half of all Irish jobs engaged in sectors openly traded with the United Kingdom, the strategic importance of retaining free trade between the two islands is undeniable.

The risks to Irish business of a UK exit

Irish business has a legitimate concern for the future of Britain's relationship with Europe due to its unique economic and trade links with both the UK and the EU. A changing UK in a changing EU will have commercial implications for Ireland proportionally well beyond the implications of those changes for any other Member State (noting also the very substantial commercial risks to the UK itself, which further exacerbate the supply chain risks for Ireland). For the first time in 40 years, and after a period of long-term growth, Irish business is confronting the risk that the stability of the three-way market relationship between Ireland, Britain and the EU will fundamentally change.

While individual business leaders and entrepreneurs (as well as their customers, suppliers and staff) will have their personal views amid local or regional political considerations, the concerns of Irish business as a whole are the same as those which concern their peers in other market economies:

[2] Eurostat, GDP at current prices, 2013.
[3] UN-COMTRADE database and CSO data.
[4] Based on data from Bord Bia.
[5] CSO Census of Industrial Production, 2012.

[6] For example: finance, food, education, healthcare, construction.

- Free access to liberalised markets;
- A pro-business policy and social climate;
- A stable and cohesive long-term strategic outlook;
- Conditions conducive to long-term growth;
- An absence of excessively expensive central administration;
- The production of competitive risk-weighted net returns on investment compared to alternative global locations.

Whereas those factors were previously implicit in EU membership for businesses in both Ireland and Britain, the need for a fresh appraisal of potential outcomes and options now arises.

Given so many real-world variables, it is impossible to predict the net change for employment in Ireland of a UK exit from the EU. However, while there are important sectoral variations in likely impacts, there is no part of Ireland's trading economy that is not threatened by adverse effects from a UK exit. Ireland depends on the open two-way trading environment it currently enjoys with both the UK and the rest of the EU in order to sustain adequate countrywide employment and incomes. Ireland's strategic dependency on foreign direct investment for employment creation, as compared with the German *Mittelstand* indigenous enterprise model, for instance, may leave Ireland especially exposed if it fails to protect free trade access to all of Europe including the UK.

The high exposure to the UK among indigenous Irish exporting firms (some 43% of whose exports go to the UK[7]) leaves relatively smaller employers very exposed to a UK exit from the Single Market and to the higher costs of doing business that would result from any new restrictions on trade. Thus owner-managers, employees and their representative trades unions can be expected to become increasingly concerned at the prospect of their largest export market becoming less freely accessible in a Fully-out scenario. As a result, pro-EU sentiment may be less likely to be articulated in Ireland in the coming years than fears about the adverse impact on Irish life of a UK exit.

The outlook for FDI in Ireland can be analysed in a number of different ways. On one hand, the fact that Ireland's FDI companies rely on the UK for just 12% of their exports[8] suggests that this sector will be more resilient if the UK exits and indeed may see net migration to Ireland of FDI business from the UK. On the other hand, the recent introduction of the 'Patent Box' incentives for investment in Britain is a stark reminder of the mobile nature of FDI. If the UK responds to separation from the European Union

by increasing incentives to attract investment by global firms, it could affect Ireland's relative attraction to this sector.[9]

Amid these multiple contrasting forces for change over the next five years, the most consistent base of agreement is that business stakeholders will want to maintain the established trading market between the UK and Ireland, markets that are most alike, most fluent with their respective cultures, most amenable to each other's ways of doing business and with most at stake in each other's trade strategy and security.

Options for Irish business

Ireland-based business stakeholders would wish for a future UK to be Fully-in the EU. However, both indigenous Irish business and potential FDI investors into Ireland already identify the UK as, at best, Half-in the future EU and slowly but increasingly recognise the risk that the UK may move to Half-out or leave the EU altogether. The key issue for Irish business arising from any widening of the gap between the UK and the EU is the risk of new barriers to trade and resource mobility being erected between Ireland and its largest European trading partner.

Business faces two possible courses of action: to try to shape the discussion or to deploy contingency actions. Irish businesses with a high dependency on Britain will already be assessing the contingency option of increasing their in-Britain presence (not a difficult task, but obviously more challenging for smaller businesses) to get ahead of any potential barriers in a post-exit scenario. Equally, some significant financial services businesses in London are known to be planning to increase their Irish operations as a safeguard against any potential barrier to export of services from the UK.[10]

Contingency options such as changing where a business is located are, however, disruptive, potentially inefficient and not practical in all cases. It is clearly better for Ireland that it should contribute proactively to the debate on the consequences of a UK exit and to designing the potential post-exit framework that would be necessary to preserve Ireland's interests.

While there has been limited debate among Irish business on the issue to date, that is likely to change in the run-up to any referendum vote. Indeed, the 2009 Lisbon

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[7] CSO Census of Industrial Production, 2012
[8] *Ibid.*

[9] Already, Ireland has responded by proposing its own 'Knowledge Development Box' regime with a proposed tax rate of 5%, subject to consultation and approval.
[10] As widely covered by media, 17-18 August 2014, referencing three major financial institutions.

referendum in Ireland shows the likely scenario – business said little in public until the late stages of the campaign, but its strongly pro-EU statements were then to become an important contributor to the final margin of victory for the pro-European vote. Among the Irish business voices on that occasion were notably several prominent FDI businesses. An imminent prospect of a serious undermining of Ireland's largest trading relationship can be expected to activate significantly more business stakeholder voices and, more likely, at an earlier stage in the journey towards an EU referendum in the UK.

Given the country's commitment to the wider benefits of EU membership, it is assumed that there is no scenario in which Irish business will ultimately favour replicating a UK decision to exit. However, Irish and British businesses have a shared interest in a more open, competitive Europe, better equipped to face the next wave of global challenges. Both the Irish Business and Employers Confederation (Ibec) and its UK counterpart, the Confederation of British Industries (CBI), argue for a strong forward-looking and competitive Europe with the UK as a core member. This makes Ireland well placed to make a proactive contribution to the debate on the future shape of the EU and Britain's place therein.

Industry across the two islands recognises that there is not a choice between trade with Europe and with the rest of the world, but rather the need for trade and investment in both. Both business communities want the EU to urgently deliver more of the benefits it can achieve, such as a number of free trade deals currently under negotiation. Free trade deals already signed with nearly 50 partners give Irish firms access to $18 trillion worth of markets around the globe.[11] Ibec argues that the EU must be more open and competitive, building a Single Market fit for the 21st century including a genuine Single Market for services and the completion of a Digital Single Market to reduce barriers to e-commerce and, in turn, boost trade and investment.[12] Irish business also wants change in the EU's regulatory approach to drive European competitiveness and reducing red tape for SMEs. Ibec has called for a moratorium on regulation where there is a strong argument for decisions to be taken by Member States themselves, particularly in employment and lifestyle regulation.[13]

Ibec has, however, cautioned its members to prudently place an each-way bet. Its position is to ensure that Irish interests are protected, whatever the outcome of the UK's dialogue with Europe.[14] That entails both collaborating and competing. On one

hand, Ireland must work with the UK and like-minded partners in Europe to ensure that efforts to reform the EU are successful. At the same time, Ibec urges aggressively competing to ensure that the UK does not steal a march to Ireland's disadvantage. This means positioning Ireland for commercial strength, whether the UK exits the EU or not, by outperforming the UK's attractiveness to FDI, not only through corporation tax but through personal tax reduction as well as continued cost competitiveness.

The business questions awaiting answers

Given the trading relations between Ireland and the UK, the imposition of barriers to (or from) the UK market would have significant implications. Therefore, Irish businesses will seek assurances on questions that are, as yet, unanswerable:

- If the United Kingdom leaves the EU, will some 'special relationship' be formed between the UK and the EU that will give effectively unchanged access to EU markets to UK industry, such as through a framework of bilateral trade agreements?

- Will Ireland be granted a 'special arrangement' in a UK-out scenario that enables Ireland and Britain to trade as if nothing had changed, and how could this be implemented satisfactorily for all concerned?

  This will likely require new bilateral agreements on free movement of goods, services, capital and labour, coupled with necessary anti-abuse controls.

- Even if the United Kingdom remains within the EU, what will be the impact of greater devolution within the UK on Irish competitiveness?

  Scotland, Wales and Northern Ireland will each seek to independently attract a greater share of mobile business investment to their local region. Ireland, therefore, has significant interest in the prospect of greater devolution within the UK. A reshaping of the internal regional finances of the UK variously makes the regions less or more likely to pose a sustainable competitive threat to Irish business through tax incentives and local market supports (or their withdrawal). Further, while the uncertain future of the UK (as outlined in Chapter 5) may benefit Ireland's FDI in the short term, it is unhealthy for the development and maintenance of long-term business relationships.

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[11] Danny McCoy, 'In or out? What Britain's vote means for business in Ireland', address by Ibec CEO Danny McCoy, 27 November 2013.
[12] Ibid.
[13] Ibid.
[14] Ibid.

- What will be the long-term consequence for Ireland of having its major European trading partner, Britain, remaining outside the fixed exchange rate currency regime to which it is itself committed?

Membership of the Eurozone is an important component of Ireland's trade, investment and economic strategy but the scale of Ireland's exposure to future sterling fluctuations will remain a concern for investment. That said, industry on all sides is long accustomed to using currency-risk hedging instruments; with the result that this may be more easily managed than some of the other risks.

- Will the land border between Ireland and the UK remain open? How are potential barriers to free movement of capital, goods and labour to be enforced?

A re-imposition of the land border between the Republic of Ireland and Northern Ireland not only presents major political concerns, North and South, but suggests potentially serious challenges for the management of immigration, security and goods transport. Ireland could find itself effectively locked out on the wrong side of a new European wall, seriously impeding genuinely free movement of people and goods into, through and out of the economy.

- What is to become of the historic pledge of wide-ranging cooperation between Ireland and the UK given by their two leaders in 2012?

This cooperation is due to span financial services, construction, life sciences, education, tourism, food etc., supported by first-time Joint Trade Missions and co-marketing abroad of selected industries from the two islands. A reversal of such collaboration would be illogical, disruptive and disappointing but cannot be ruled out.

- What will be the updated relationship between Europe and North America, in circumstances where a mooted new Transatlantic Trade and Investment Partnership (TTIP) is widely (if not universally) regarded as desirable but remains as yet far from a done deal?

Achievement of a successful TTIP is important to Ireland's future FDI and export prospects, but a TTIP without the UK as a full partner would be a contradiction in terms.

Key points for Irish business

While such questions await answers, the protracted debate on the UK's relationship with Europe is already highlighting a number of key points for Irish business leaders and policy-makers.

Soft supports for Ireland-UK trade

While much remains to be done to give real effect to the political commitment between Britain and Ireland for closer economic collaboration, progress is being made (for example in joint visa issuance and co-marketing of selected sectors abroad). Decoupling Ireland from the UK market is not credible in any scenario, given the scale and depth of established linkages. Only larger Irish businesses have the resources necessary both to secure local in-market presence in the UK and to diversify their markets further afield. Accordingly, the established work of both governments to encourage SMEs to develop business in the other's market and to stimulate inter-island commercial collaboration is important and will, if anything, need to be increased.

Continued harmonisation of the trading environment between the UK and Ireland recognises the pragmatic closeness of business relationships in the two markets. However, a reminder of the risks to harmonisation is the collapse of a mooted energy market agreement between the UK and Ireland during 2014.

Balancing Ireland's UK and EU orientations

There is a fine line to be walked by Irish business to ensure that empathy for British business sentiment is not taken to mean antipathy towards Europe (nor vice versa). In any event, industry sectors will act rationally, not ideologically, to protect their most important trading partnerships. Despite some common concerns, the issues faced by the two business communities differ somewhat, for example Irish business is not impacted to the same extent by anti-European and anti-immigration sentiment from staff and customers.

Britain and Ireland remain substantial competitors even within sectors which feature new collaborations, including food, financial services, tourism and science. Their relative competitiveness is affected by differing VAT and corporation tax rates, local authority charges and personal taxation. Furthermore, in an increasingly devolved United

Kingdom, intra-islands competition to attract investment to favoured locations will increase rather than decrease.

Britain's push for competitiveness

In contrast with the notion of a post-EU UK as economically beached, the Conservative Government has stated a commitment to making the UK the most tax-competitive investment location in the world. Even though the highly-attractive 'Patent Box' 10% tax regime (lately reactively replicated by Ireland's proposed 'Knowledge Development Box') is under EU scrutiny, its focus on incentivising industry to risk its capital in research partnerships with regional universities and to convert successful research into local job creation shows a degree of positive imagination that might serve the EU well to follow. No other threat to Ireland's corporate tax regime has come so close to stealing its competitive edge and it is therefore no surprise that Ireland has sought to introduce its own initiative in response.

Ireland has already seen the departure back to London of some UK Plc head offices, which had only recently arrived, and the re-shoring to the UK of substantial corporate intellectual property. This will undoubtedly prompt Irish business to assess the relative offerings of Dublin and London should the UK leave the EU. Unsurprisingly, Irish political pronouncements have echoed the UK's calls for a Europe which is "big on the big things and small on the small things"[15] and fully supportive of "liberating European business from over-regulation and red tape".[16]

Zero-sum outcome?

Ireland already extracts clear benefits in FDI terms from being the main English-speaking, euro-denominated EU member. Its gateway position, good demographics, established FDI clusters and competitive tax regime give it considerable strengths in terms of maintaining and expanding existing markets within the EU. At the same time, business sees that no other geographical area in the world is making such progress in relationship-building and supporting a general pro-business mentality than the Ireland-Britain zone. Hence, even in the doomsday scenario of a new regime of

border trade tariffs between the UK and the rest of the EU, it is thought likely by many that a 'special arrangement' would be made to facilitate open trade between Ireland and the UK.

Even if this presumption is wrong, Ireland would hope to offset indigenous business losses by continuing to command the preferred attention of a great deal of non-EU FDI and potentially also capturing fresh investment from UK businesses (potentially outweighing the emerging threat of a freshly tax-competitive UK). If right, Ireland could end up with the best of all worlds in both an FDI context and for its indigenous employers.

Ireland's competitiveness

Ireland has moved considerably forward from the earlier years of its EU membership and its dependency on EU structural and sectoral funding. Irish business has used its original EU supports to transform a geographically marginal, subsidy-dependent and sub-efficient economy with a dominant single trading partner (the UK) into a significantly more self-sufficient, diversified and self-determining economy and nation. Helped by a competitive tax regime, Irish business have leveraged the supports provided by the EU to create not only significant employment (and not just in traditional sectors) but leading global businesses. In food, Irish companies comprise the world's third-largest frozen baker (Arysta), its second-largest mozzarella cheese-maker (Glanbia), and its largest producer of ingredients and nutritionals (Kerry Group). There are also leading Irish businesses in construction (CRH), in paper and packaging (Smurfit Kappa) and in technology and life sciences (nine of the world's top ten technology companies have major operations in Ireland, as have nine of the world's top ten pharmaceutical manufacturers).

These businesses compete internationally on their own merits without subsidy dependence. They are characterised by global presence and rely on fully open markets for their goods, services, people and capital. Undoubtedly, any fear that their Irish operations might be constrained from free access to the UK market will jeopardise additional investment until certainty is restored.

Europe's global competitiveness

An increasingly globalised Irish business sector can be expected to become more, not less, vocal on what it sees as a Europe that risks losing advantage to other market blocs and opportunities. Some within the business community already worry that the essential

[15] Charles Flanagan, 'Ireland, Britain and Europe', opening remarks by Minister Flanagan at European Council on Foreign Relations, 14 November 2014, www.dfa.ie, accessed 10 December 2014, quoting European Commission President, Jean-Claude Juncker.
[16] Charles Flanagan, 'Ireland, Britain and Europe', opening remarks by Minister Flanagan at European Council on Foreign Relations, 14 November 2014, www.dfa.ie, accessed 10 December 2014.

economic governance of the EU is not tenable in terms of policing consistency or enforcing fiscal and productivity adjustments. They are concerned about a Europe of increasingly polarising extremism on both Right and Left and some even wonder if the EU has the structures necessary for broad, shareable growth.[17]

At this time, some business leaders also perceive Europe as facing a major economic crisis because it has grown increasingly uncompetitive. Irish business shares the UK desire for better-agreed rules consistently applied. Voices from both the British and Irish business communities question the equity of an EU regime that makes it permissible for a German or French firm to acquire a British energy utility, but not the opposite. Some business interests are also frustrated by what they see as the EU's uncompetitive energy costs regime and a structural inability to effect change in efficiencies and work practices at pace despite the demands of a rapidly changing world.

Consequently, those businesses perceive a risk that more global firms will move their discretionary centre of gravity away from the EU because of Europe's disimproving demographics, still incomplete Single Market, labour market rigidities and an unaffordable welfare system. In a rare alignment of interests trending against the EU establishment, labour is also growing suspicious of the trade deal that Europe may agree with the United States and farm producers may conclude that pro-EU sentiment is producing diminishing returns.

Impact of devolution

Ireland's business concern for a homogenous Union includes the preference for a homogenous UK. It is anticipated that the UK, following the Scottish vote to reject independence, will feature greater regional powers. Ireland will remain both an important trading partner and a vibrant competitor of all four constituents of the current UK. While a deconstructing UK would make Ireland's own investment weighting relatively stronger, Ireland has a greater need for a strong UK within a strong EU. The uncertain position of our most immediate neighbour, Northern Ireland, in an increasingly devolved United Kingdom adds further urgency to the need for a planned approach to future trading relationships within these islands.

TTIP

The Transatlantic Trade and Investment Partnership (TTIP)[18] offers businesses and the European economy a real opportunity to break out of a flat-lined growth outlook and threatened deflation. With the EU and the USA together accounting for 50% of world GDP in value and one-third of all trade flows, a successful TTIP could add hundreds of billions to the value of EU-US[19] trade with enormous positive consequences for overall employment, living standards and sustainable growth. It would result in a combined EU-US market of some 850 million people, with Ireland and Britain at its intersection in time and culture.

In this context, preservation of strong trade linkages between Britain and Ireland is clearly in our mutual interest. Although there are many sectoral interests to be resolved in order to complete the TTIP, business in Ireland, the UK and across Europe looks at the current state of the EU debate and calls for a more outward-looking vision to create and to fairly distribute the rewards of growth. Significantly, the UK is one of the strongest advocates of TTIP in the EU and may have scope to expedite the completion of the deal.

An each-way bet

In practice, business tends to bet each way and in many cases Irish business either already has operations in both the UK and Ireland or regards itself as being able to establish them at short notice, in need. This pragmatism extends to a steadily growing *de facto* collaboration between the state business support agencies of the two islands, born of the peace process but sustained by the success process.

In such circumstances, the business voices of both islands have understandably positioned a careful message that Ireland and Britain need a strong, competitive Europe and Europe needs a strong Britain. In reality, numerous modern businesses acknowledge they would not even have come into existence without the platform of a Single Market and other EU initiatives. No large business on either island realistically foresees a complete detachment of the UK from the EU. Business instead tends towards the belief that the UK has simply no choice but to make 'Europe' work.

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[17] Shareable growth is defined as consumers with disposable income and the confidence to spend it, and corporations with the risk appetite to invest in adequately predictable environments conducive to business success.

[18] The conclusion of which might, interestingly, coincide with the timing of a potential UK in/out referendum.
[19] Karel De Gucht, *Transatlantic Trade and Investment Partnership (TTIP) – Solving the Regulatory Puzzle*, speech to the annual conference of the Aspen Institute, Prague, 10 October 2013, europa.eu, accessed 3 March 2015.

Further, as the increasingly anti-exit messaging of the Confederation of British Industry and others makes clear, if the threat of a full UK isolation from the EU becomes genuinely real (i.e. not only the return of David Cameron as Prime Minister in 2015 and an 'Out' vote in the subsequent EU referendum, but also a failure to agree follow-on trade arrangements between the UK and the EU), businesses will undoubtedly speak up both directly and also through their employees, customers and suppliers.

Conclusion

The risks to Irish business remain real and are already influencing investment decisions in Ireland, both among indigenous and foreign-owned enterprises. Irish business wants to ensure that the UK remains a core member of the EU and that it continues to enjoy the extensive benefits of unimpeded trade, movement of people and other flows between this island, all of Britain and the rest of the EU. Irish business is neither anti-EU by being pro-UK nor anti-UK by being pro-EU. Ireland naturally wants to have what it signed up for: free market access into both a strong UK and a strong Europe. Indeed, well-collaborated Irish-British positions in the EU could push for the reforms necessary to benefit Europe, its Members States, its people and the currently unemployed 10%[20] of its citizens.

Irish and British business share many similar concerns about the direction of the EU and have a common concern for external competitiveness and growth. Ireland has much to consider and protect amid forthcoming developments within the UK and between the UK and Europe but also potentially has scope to gain, including the possibility of a win-win outcome – freedom to trade with Britain and preferred-choice status for FDI. It will be important that Irish business contributes actively to the forthcoming debate to highlight the importance of their relationships with both Britain and Europe for jobs, investment and growth and towards devising a forward operating model that can ensure all of Europe's prosperity in a global market.

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12. A Trade Union Perspective

Blair Horan

Introduction

This chapter seeks to examine key elements of the UK's relationship with the European Union from a trade union perspective and, in particular, to consider the prospects for a renegotiation of the UK's EU membership.

Social policy

A good place to begin this account of the trade union perspective on the UK is the treaty agreed at Maastricht in December 1991. John Major, who had succeeded Margaret Thatcher as Prime Minister, secured an opt-out on Economic and Monetary Union, and agreement that the other Member States would include new social policy competences in a separate Social Policy Protocol that would not apply to the UK. It was a successful outcome for the new Prime Minister who went on, against expectations, to win the general election the following April. In June 1992, the Danes rejected the Maastricht Treaty in a referendum and as a result consideration by the House of Commons of the proposed new treaty was postponed by the Government.[1]

Margaret Thatcher campaigned against ratification, indicating she would never have signed it.[2] The Labour Party supported the treaty but was opposed to the Social Chapter opt-out and, with 44 Tory rebels, the final Commons vote in July 1993 was passed by 38 MPs.

The opt-out from the Social Chapter did not turn out to be as watertight as the Conservative Government had intended because the European Commission began to take a creative view of the scope for directives on social policy under Article 118a of the Single European Act covering the health and safety of workers, which provided for Qualified Majority Voting to be applied. Directives on working time, pregnant workers and other

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matters were proposed by the Commission under this legal base. The Major Government had recourse to the European Court of Justice to challenge the Commission on the use of Article 118a as the legal base for the Working Time Directive. The Court supported the Commission's decision and pointed out that the World Health Organisation (WHO) definition of health covered physical, mental and social wellbeing.[3]

Labour: A positive approach

In the general election of May 1997, a New Labour Party Government was elected with Tony Blair as Prime Minister and, while it was committed to a more positive approach to Europe, it did not abandon the traditional UK preference for intergovernmental structures. Its general election manifesto had set out that "our vision of Europe is an alliance of independent nations choosing to cooperate to achieve the goals they cannot achieve alone."[4]

The new Government was immediately faced with the task of concluding the on-going negotiations in the Intergovernmental Conference, established by the Madrid Council in June 1995 and which was to lead to the Amsterdam Treaty. It agreed to the Social Policy Protocol being incorporated into the main Treaty, with the result that it became applicable to the United Kingdom. However, the UK continued the opt-out approach in respect of asylum, visa, and immigration policy, along with civil and family law. Competences in relation to police and judicial cooperation in criminal matters remained under an intergovernmental pillar, which required unanimity, so it was unnecessary for the UK to seek an opt-out for those competences.[5]

The Labour government also adopted a more positive attitude to joining the euro, but had committed to a referendum on it in their election manifesto, to avoid it becoming an issue in the election campaign. The Chancellor of the Exchequer, Gordon Brown, set out five economic tests for joining the euro in 1997, which were not met in Labour's first term. Labour also supported the Constitution for Europe, which was agreed by the European Convention in June 2005, and promised a referendum. However, the text was rejected in referendums in France and the Netherlands with the result that the ratification process was suspended and a period of reflection agreed by the European Council. Eventually, in June 2007, the European Council reached a political agreement on how to proceed, which led to the signing of the Treaty of Lisbon on 13 December 2007.

Most trade unions and European trade union confederations believed that ratification of the Lisbon Treaty would strengthen their ability to vindicate enhanced rights enshrined in EU law. The Treaty gave full legal effect to the EU Charter of Fundamental Rights in respect of anything that came within the competency of the EU law, giving a wide range of human and civil rights – including workplace rights and the right to collective bargaining and collective action – the same legal status as existing EU laws and treaties governing internal trade and the free market.[6]

Under the Lisbon Treaty, the UK secured a protocol that clarified the application of the Charter of Fundamental Rights and how it should be interpreted. Ireland had initially indicated that it would seek a similar option but did not pursue it when it became a matter of controversy with strong objections from Irish trade unions in the context of the second referendum on ratification of the Treaty.

As Prime Minister, Tony Blair took a more positive approach to Europe but he never succeeded in changing attitudes set during the Thatcher years, in part because the focus was exclusively on the UK's interests and the original values of European integration did not feature.[7] Meanwhile, just as the Labour Party in opposition had turned against Europe in the 1980s and vigorously opposed the Single Europe Act 1986, after the Maastricht Treaty the Conservative Party took a strong Eurosceptic stance and swung decisively against Europe, opposing in turn the Amsterdam, Nice and Lisbon Treaties along with the draft Constitution for Europe.

The Conservatives in power

David Cameron became leader of the Conservative Party in 2006 and, while initially he signaled a break with the Eurosceptic approach taken by the party during its years in opposition, he committed to taking it out of the European People's Party (EPP) in the European Parliament and did so after the European Parliament election in 2009. Having failed to win an overall majority in the 2010 general election, David Cameron became Prime Minister after forming a Coalition Government with the Liberal Democrats. The Programme for Government in relation to Europe, agreed by the Coalition, focused on a referendum on any future transfer of competence to the EU. Conservative Ministers made it clear that the United Kingdom would never join the euro, William Hague describing it as a burning building with no exits.[8]

[3] European Court of Justice, *Judgement in United Kingdom v. Council case*, 1996.
[4] 'New Labour because Britain deserves better', *Labour Party manifesto*, 1997
[5] Stephen Wall, *A Stranger in Europe: Britain and the EU from Thatcher to Blair*, Oxford: Oxford University Press, 2008.

[6] The Charter Group, *Lisbon and Your Rights at Work*, Dublin: The Charter Group, 2009.
[7] Oliver Daddow, 'Margaret Thatcher, Tony Blair and the Eurosceptic Tradition in Britain', *British Journal of Politics and International Relations*, Vol.15, 2013.
[8] William Hague, speech by Foreign Secretary, Manchester, 5 October 2011.

On 27 January 2013, David Cameron, as leader of the Conservative Party, outlined the major departure on European policy, which he had flagged throughout 2012, when he set out five principles for a reformed European Union that he would negotiate if re-elected Prime Minister in 2015 and that the outcome of these negotiations would be put to an in/out referendum in 2017.[9] The five principles set out were: competitiveness; flexibility; subsidiarity; democratic accountability and fairness.

In a separate speech in March 2013, David Cameron made immigration from within the EU a part of his renegotiation strategy.[10] The strategy of the Conservative Party is in large part based on the expectation that a new treaty will be required to address the flaws in the governance of the euro and that this will give the UK the leverage to renegotiate its own new relationship with the EU.

Balance of Competences review

In July 2012 the United Kingdom Government launched a review of the balance of competences between the United Kingdom and the European Union, across all the areas of exclusive, shared and supporting competences in an exercise to identify if the current balance was appropriate. A total of 32 reports were issued between 2012 and 2014. Based on the evidence presented through submissions and seminars and through reviews of relevant literature by the Departments concerned, the conclusion reached in the majority of reports issued to date is that the balance of competence is broadly right.

The two areas that have proved most contentious in the reviews to date are social and employment policy and the free movement of persons. While trade unions and some other groups supported the current level of competence on social and employment legislation, a broad range of business interests and Eurosceptic campaign groups proposed that it should be a national competence, or alternatively that the UK should have an opt-out. In practice, this seeks a restoration of the opt-out on social policy secured under the Maastricht Treaty but reversed by the Labour Government in 1997.

The employment directives that are now most in contention are the Working Time Directive, with an objection to the working hours of hospital doctors being regulated by Brussels, and the Agency Workers Directive, which sets minimum terms of employment for agency workers on the grounds that the pattern of part- time work in the UK is different to that for other Member States. On the other hand, the trade union viewpoint is that the social dimension has been an important competence of the Community and the Single Market from the beginning and that it is essential to have minimum standards of employment to prevent social dumping.

The balance of competences review exercise does not demonstrate a compelling case for the repatriation of treaty competences back to national level and, at best, outlines areas where a stricter application of the principle of subsidiarity could result in more issues being decided at national level. The areas of social and employment law and freedom movement of persons have generated the most demands for major changes from contributors to the process. However, both these areas are central provisions of the Treaty and have been so from the beginning and the proposed changes are still contested politically in the UK.

In the case of freedom of movement, it is likely that there will be changes in relation to non-economic migrants, as has already been decided by the Court of Justice (CJEU) in the recent Dano case.[11] However, the real issue in the UK is the number of workers exercising free movement and there is no indication that measures can be agreed to restrict this fundamental aspect of the Treaty. The UK was one of the strongest proponents of EU enlargement, which was partly a deliberate decision to weaken the case for deeper integration. The UK now risks a degree of alienation from some of the eastern European states, which were supporters of the UK's liberal approach to free trade, due to the extremely negative approach it has taken on free movement.

The European Commission publishes annual reports on the application of the principles of subsidiarity and proportionality and, in its report for 2012,[12] it listed 34 legislative acts that were the subject of reasoned opinions by national parliaments. The House of Commons raised issues in relation to the right of workers to take collective action, questioning the legal basis for action on the issue given that the "right to strike" is a national competence, but also the proportionality test in the Commission proposal raised objections because no such test, which could potentially place a restriction on the legality of strike action, applies in many Member States. The Commission replied that the existing position was that the Court of Justice had issued rulings impacting on collective action and that it would continue to do so.

[9] David Cameron, EU speech at Bloomberg, 23 January 2013.
[10] David Cameron, speech on Immigration, 28 November 2014, blogs.spectator.co.uk, accessed 10 February 2015.

[11] European Court of Justice, *Judgement in Dano Case*, 2013.
[12] European Commission, *REFIT: Results and Next Steps*, Brussels, October 2013.

The trade union position

Among the organisations that support continued UK membership of the EU are the Trade Union Congress (TUC), the Confederation of British Industry (CBI), and the pro-European think tank, the Centre for European Reform (CER). They are all, however, critical of aspects of European Union policies or competence. The CBI supports the case for the repatriation of social and employment law, and the CER is critical of EU activities on regulation and in other areas.

The TUC set out its position on Europe in a statement in September 2013, making clear that it sees the promise of a referendum by the Prime Minister after a renegotiation of the terms of membership as a divisive attempt to "scrap vital employment rights from Europe." It also said that the uncertainty around the UK's relationship with Europe could jeopardise investment and jobs. It noted that support for the European Union among voters and trade unions was not unconditional.[13] In a speech to the Institute for International and European Affairs in Dublin on 25 October 2013, the General Secretary of the TUC, Frances O'Grady, called for more emphasis on Social Europe and supported the call by the European Trade Union Confederation (ETUC) for a new Marshall Plan for Europe to renew the continent's infrastructure, decarbonise economies and get people back to work.[14]

In their submission to the Single Market review of competences, the TUC emphasised that the social and economic dimensions of the EU must go hand in hand, and stated that, in order to maintain citizen support for the EU, the social dimension must be strengthened and maintained. In relation to the view that regulation was inherently bad, the TUC disputed this, claiming that setting high and consistent standards can encourage competition on the basis of innovation and productivity rather than cost-cutting and poor quality provision. The TUC supported the free movement for work provisions in 2004 and was critical of the decision to apply restrictions on Romanian and Bulgarian workers in 2007. It considered intra-EU migration to be of benefit to the UK economy and argued that restrictions would only lead to illegal working with consequent mistreatment of migrant workers and undercutting of terms and conditions.

In their submission to the review on free movement, they referenced studies which pointed out that immigrants to the UK from eastern Europe made a net contribution to public finances, as they were more likely than UK nationals to be in employment, paid more in taxes and were less likely to use public services.[15]

A Report by the CBI on the United Kingdom's relationship with the EU supports the call for a reformed EU and an opt-out on social and employment law, but also clearly set out the benefits to the UK of EU membership and the negative economic consequences of a withdrawal. The report is also critical of the manner in which the cost of regulations are presented by some groups, pointing out that much of the cost of the Working Time Directive relates to paid holidays, which would have to be provided anyway. It clearly states that leaving the EU is not an option.[16]

The Centre for European Reform (CER) is the principal pro-European think tank in the UK, though it also supports the need for reforms in certain areas. Its report questions the case made by Eurosceptic groups that the burden of regulation from the EU is excessive and points out that the OECD studies show that UK product market regulation is the second lowest in the EU and that, in respect of labour market regulation, the UK is only slightly more restrictive than the US or Canada, less than Australia, and much less than continental EU states. The claims, therefore, that an exit from the EU can lead to gains in growth or jobs by not having to apply EU regulations on products and employment law, does not stand up to scrutiny.[17]

The conclusion to be drawn from the reports and submissions set out by the social partners and the CER think tank is that there is no suitable alternative to EU membership for the UK that could deliver the same economic growth, trade and job prospects. The claim that the burden of EU regulation is holding the back UK trade is not borne out by the evidence and the TUC considers that the real agenda of the Conservative Party is an ideological one, to roll back the progress the EU has delivered in the social and employment area.

The Commission REFIT programme

There has been extensive ongoing work by the European Commission for some time now to reassess EU regulation which will, at least in part, address some of the issues raised by the UK. Since 2008 in particular, the Regulatory Fitness and Performance Programme (REFIT) has reviewed the vast range of regulations under the acquis communautaire

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[13] Trade Union Congress, *General Council Statement on Europe*, September 2014.
[14] Frances O'Grady, 'Revitalising Social Europe', speech to the IIEA, 25 October 2013, www.iiea.com, accessed 27 August 2014.

[15] Foreign and Commonwealth Office, *Review of the Balance of Competences between the United Kingdom and the European Union*, 2014.
[16] Confederation of British Industry, *Our Global Future: The Business Vision for a Reformed EU*, 2014.
[17] Centre for European Reform, *The Economic Consequences of Leaving the EU*, June 2014.

with specific reference to their impact on SMEs and micro-enterprises. This has resulted in very significant changes with the overall level of administrative red tape reduced by over 25% and a total of 5,590 Acts repealed.[18] This review has also led to the Commission withdrawing new proposals for legislation in line with the principle of subsidiarity. In the European Council conclusions over the past two years, there is repeated reference to the need to lighten the regulatory burden on SMEs and, where possible, to exempt micro-enterprises while also taking account of the need for the proper protection of consumers and employees.

The continuing debate

In the social and employment area, the Conservatives are seeking the restoration of the Social Chapter opt-out secured by John Major under the Maastricht Treaty, which was then removed by the Labour Government in 1997. The Working Time Directive, which arose from the Single European Act, is a particular bone of contention but the position set out by groups such as the Fresh Start Project seeks to have all social policy competences, including some on equal treatment, under the Treaty of Rome to be repatriated.

The main argument is that social and employment law has no connection with the Single Market and that Member States should be allowed to compete based on different social models. There is no basis for this contention since, from the beginning, the Common Market had a social dimension based on French insistence that some harmonisation of social policies was necessary to prevent social dumping and unfair competition. The preamble to the Treaty of Rome affirmed, "as the essential objective of their efforts the constant improvement of the living and working conditions of their peoples". The Treaty also had a Social Policy Title 111 in which the Member States agreed "upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained."[19]

With the Single European Act in 1986 and the establishment of the Single Market in 1992, it was established that social regulations must apply to all firms engaged in the Single Market in order to have a level playing field. Firms that do not trade across borders may still compete in their domestic market with firms from other Member States. The social dimension was also intended to improve workers' rights and was seen as a step in the creation of a social market economy that has general acceptance in Europe among the main political groupings of conservatives, liberals and social democrats. However, the

free market economic philosophy of the UK Conservatives since Thatcher's premiership refuses to accept that concept of a social market economy.

The equal pay provisions in the Treaty of Rome were inserted partly to prevent Member States seeking competitive advantage by paying women less, but the European Court of Justice made clear that it was also part of the social objectives of the Community in its seminal Defrenne Judgement in 1975, when it said that:

> …this provision (Article 141) forms part of the social objectives of the Community, which is not merely an economic union but is at the same time intended by common action to ensure social progress, and seek constant improvement of the living and working conditions of their peoples….This double aim which is at once economic and social shows that the principle of equal pay forms part of the foundations of the Community.[20]

Prospects

In any negotiation, it is unlikely that further UK opt-outs on social and employment policy will be conceded and the most that the UK can expect is some changes under the REFIT programme. The latest report from the Commission on the impact of REFIT in the area of social and employment law lists seven policy areas where directives are being examined. The review makes specific reference to the obligation in Treaty Article 153(2)b to avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of SMEs.[21] There is reference to proposals to consolidate a number of directives in the area of information and consultation of workers and more than 20 directives on health and safety are under review. The directives on part time and fixed term work, which were agreed by the social partners, are being reviewed in consultation with them and in reality any changes would have to find consensus.

The renegotiation strategy of the Conservative party, should it arise after the 2015 general election, is a major gamble on the UK's membership of the EU. In many respects it currently has a privileged position in its relationship with Europe. The opt-in and opt-out arrangements allow the UK to pick and choose its relationship across all the areas of freedom, security and justice while the opt-out on the single currency allows sterling

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[18] European Commission, 2013, *op.cit.*
[19] *Treaty of Rome*, 1957.

[20] European Court of Justice, *Judgement in Defrenne/Sabena case*, 1975.
[21] European Commission, *Annual Report on Subsidiarity 2012*, 2014.

to float on the currency markets with full UK access to the Single Market and Customs Union. The Eurosceptic demand for further repatriation of powers in the economic and social spheres along with greater control by national parliaments through subsidiarity, is in reality an attempt to reinsert national vetoes and roll back the moves to Qualified Majority Voting and expanded EU competences. It is a renewed wish for the free trade relationship always desired but never conceded.

Prime Minister Cameron was careful in his five principles to leave much scope for progress in the on-going discussions on the issues in question at the European Council. The free movement demands that have almost overtaken the original five principles make progress in a renegotiation next to impossible. The UK can make progress in the areas of the completion of the Single Market, more free trade agreements with other countries, an opt-out from 'ever-closer union' and less regulation. It will also achieve progress on equal treatment for euro 'ins' and 'outs', along with flexibility on energy policy and an enhanced role for national parliaments. Progress will also be likely on measures to prevent 'benefit tourism' and more flexibility for SMEs and micro-enterprises on social and employment policy. However, there is little prospect of treaty change, repatriation of social and employment policy, red cards for parliaments or curtailment of free movement based on discrimination against workers on social and tax advantages.

It seems that the initial approach by Prime Minister Cameron mirrored the Wilson strategy of 1974-75 but the decision to increase demands as UKIP focused on free movement has all but ruled out a similar successful outcome.

The Irish context

A decision by the UK to leave the EU would unquestionably have very serious implications for Ireland. Leading figures in the Irish trade union movement have already recognised the consequences of a possible British exit from the European Union. Speaking to a Dublin seminar during the Irish Presidency of the Council of the EU in February 2013, the General Secretary of the Irish Congress of Trade Unions (ICTU), David Begg, reflected on "the threat posed to Ireland" by Brexit. Such a development would constitute a "critical juncture" for Ireland in economic and political terms.[22] Furthermore, a referendum campaign in 2017 would pose a particular challenge – in terms of policy and public debate – to the Irish trade union movement, which is organised on a 32-county basis.

However, that does not mean that Ireland should support a UK renegotiation at any price, or allow the UK to secure *à la carte* membership. The potential impact on jobs and trade for Ireland were the UK to gain a competitive advantage through a 'deregulated economy' following a renegotiation could be significant. It is unlikely that the UK could negotiate special arrangements and the reality is that the future prosperity of the EU and the well-being of its citizens are inextricably linked to Europe remaining a social market economy. The UK arguments for repatriation of competences in the areas of social and employment rights, health and safety, and welfare provision have no validity because social policy was an integral part of the Community from the beginning.

The trade union movement in Ireland and indeed across Europe has always attached great importance to the social dimension of the European project and would argue strongly that at this critical juncture, where citizen's faith in the European model has suffered due to the severity of the economic crisis, it is more and not less Social Europe that is required. The General Secretary of Ireland's largest public sector union, Shay Cody, expresses concern that pro-EU sentiment in some areas of the British trade union movement has weakened since the time of Jacques Delors. Furthermore, in his view, a real danger from an Irish perspective would be that the UK, if it left the EU, would engage in social dumping in an attempt to rebuild the economy and survive.

The UK always had a preference for a free trade relationship with Europe and that is the option that the Conservative Party is again seeking to secure. That was never the case for Ireland, where membership of a Customs Union with a Common Agricultural Policy (CAP) was the key to economic prosperity and an end to economic reliance on the UK. After over 40 years of EU membership, that reality of different interests remains, with Irish agriculture and associated industries now set for significant expansion.

A vote in a UK referendum on EU membership that saw England voting to leave and Scotland to remain would have major implications for Ireland. Tom Healy, Director of the ICTU-linked Nevin Economic Research Institute, writing on the Scottish independence referendum in August 2014, argued that "one of the big economic unknowns is how a referendum result in Scotland next month will interact with an outcome in a UK-wide (with or without Scotland) vote on the European Union in 2017" and made reference to a range of scenarios advanced by Paul Gillespie in an IIEA research paper, "Each of the… scenarios is likely to have significant long-term economic and political implications for both Northern Ireland and the Republic of Ireland."[23]

[22] David Begg, address to Irish EU Presidency Seminar, 22 February 2013.

[23] Tom Healy, 'The Economics of Aye or Nay', *Nevin Economic Research Institute blog*, www.nerinstitute.net, 1 August 2014.

Conclusion

The trade union movement throughout Europe has from the outset been broadly enthusiastic about the integration process because of the inclusion of the social dimension in the overall aims of the EU. In the UK, the movement has been generally supportive since Jacques Delors spelled out a vision of Social Europe at the TUC in the early 1980s and it remains so to this day. There would be little enthusiasm for giving up the social protections afforded by EU legislation.

As indicated above, in the event of a British withdrawal the primary concern of the Irish trade union movement would be to prevent social dumping. That is a concern it will share with the European movement as a whole, not only to prevent unfair competition but also to forestall an unwelcome precedent and prevent a race to the bottom. It can be taken that it will cooperate with any pan-European moves to protect the acquis.

UK withdrawal from the EU would pose a particular problem as the movement is one of the few organisations with an all-Ireland membership. For all these reasons, developments in the UK will remain high on the trade union agenda.

13. The Impact on Northern Ireland

Overcoming internal problems – Facing external realities

John Bradley

Introduction

Expectations were high at the time of negotiation of the Belfast Agreement in 1998. There were hopes that the successful conclusion of the Agreement would provide the political institutions to bring about a new era of economic prosperity, perhaps recapturing the dynamism and wealth of the period at the end of the 19th and start of the 20th centuries, when the economy of the region that became Northern Ireland in 1920, centred on Belfast, was an innovative industrial powerhouse of global significance. It was envisaged that, post-Agreement, a Northern Ireland at peace with itself would then be able to participate more fully in the increasing business-based prosperity of the rest of the UK and Ireland, as well as in the rapidly integrating and soon to be enlarged EU.[1] The general hope was that it could become a 'normal' region of the UK and draw benefit from the opportunities offered by the Single Market of the expanding European Union. The fact that both the UK and Ireland were members of the European Union and had very close trading and other links should have been central to any vision for the future of Northern Ireland.

However, the damage done to the economy of Northern Ireland during the 30 years of violence that broke out in 1968, and the legacy of political mistrust that it left in its wake, appear to have been greatly underestimated at the time of the Agreement. As the drama and tension of the Agreement negotiations faded, the complex and challenging

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[1] For example, *Strategy 2010* was issued by the Department of Economic Development in 1998 and anticipated a rapid return to robust growth and development once the new political administration was in place. However, the policy analysis and economic strategy was inadequate and flawed and failed to take into account the extent to which the Northern economy had declined and the political pre-conditions that would be needed for recovery (see John Bradley and Douglas Hamilton, 'Making policy in Northern Ireland', in *Administration*, Vol. 47, No. 3, 1999, pp.32-50.)

modalities of delivering change, openness and recovery became only too apparent, both to insider policy-makers as well as to outside observers.

The political and economic challenges facing Northern Ireland today are both external (such as the possibility of a radically altered UK-EU relationship and greater devolution for Scotland), and internal (such as implementing UK-mandated budget cut-backs, local government reorganisation, welfare reform and the design of a successful private enterprise development strategy). In addition, there are the enduring challenges of restoring inter-community harmony and of addressing the troubled legacy of history. However, from an Irish perspective on a changing UK in a changing EU, these inter-community and historical challenges appear to be purely internal and relatively independent of any likely outcomes of wider UK-EU and Scottish devolution issues. It will be very difficult to address the wider external and internal socio-economic policy challenges facing Northern Ireland successfully unless and until these enduring inter-community problems are resolved. This reality is reflected in the recently negotiated Stormont House Agreement, where wider inter-community issues take up about 12 pages of the 14-page main text.[2]

As we focus on the likely consequences for Northern Ireland of a changing UK-EU relationship, with knock-on consequences for Ireland, and the process of further devolution of UK regions, it is useful to distinguish three separate but closely interrelated time periods. Any hasty rush to focus on the immediate future that neglects the past would be unwise since the ability of Northern Ireland policy-makers to react to changing circumstances, maximising any benefits and mitigating any possible costs, is heavily constrained by the legacy of developments that occurred in the past.

The first period covers the years from 1968 to 1998, which saw the decline of the Northern Ireland economy during the 'troubles' and resulted in a very distorted structure at the time of the Belfast Agreement. A three-tier economy emerged during these years of strife, made up of a very small manufacturing sector that continued to survive against the odds in specialised niches; a large market services sector (mainly consumer services); and a public sector that was relatively much larger as a share of the regional economy than comparable sectors in the other UK regions. Financial subventions received from the UK government served to pay for public services directly and to sustain buoyancy in consumer services both directly and indirectly. Absent the financial subventions, the economy would have been devastated in much the same way as states in the Balkans were during the 1990s, regions where no such external support was available.

As private sector activity and investment, particularly in manufacturing, imploded in Northern Ireland with the onset of the 'troubles', a process further exacerbated by the OPEC-1 global recession of 1973-75, the broad state sector (i.e., central government, local government, other public services and a wide range of state assistance to producers and consumers) expanded and a semblance of economic normality was preserved.[3] As the size of the private sector shrank, there was an offsetting expansion of the public sector and much of the cost was borne by London. Only the very small size of Northern Ireland relative to the UK as a whole – about 2% of the UK economy – prevented a serious debate emerging within the UK concerning the burden on the UK taxpayer. The UK government could carry this burden with ease because the costs were shared across the much larger and more prosperous UK as a whole. In contrast, as the newly united Germany faced into the costs of integrating and modernising the former GDR from the early 1990s, the relatively large size of the poor eastern regions imposed huge adjustment costs on the more prosperous western regions.

The second period covers the economic progress made during the 16 years since the Belfast Agreement. In ways that were not anticipated, the economic devastation caused by 30 years of violence proved difficult to reverse due to a series of complicated challenges. First, the power-sharing arrangements negotiated within the Belfast Agreement took a long time to establish and to begin to function in a stable and constructive way. Second, although large-scale inter-community violence effectively ceased, the 'troubles' left in their wake a poisonous legacy of continuing low-level inter-community violence as well as a fear and mistrust that made it difficult to identify and implement economic policies that could best revive the economy and address the problems of regional economic 'black spots'. Third, although the Belfast Agreement had set up cross-border bodies with socio-economic and business remits, these bodies were relatively weak and can best be seen as confidence building actions rather than bodies mandated to seek out and implement any of the major policy shifts that were urgently needed within Northern Ireland. Fourth, the external environment of the Northern Ireland economy was shifting and this presented a new set of policy challenges that added to the more obvious internal ones.

While the Belfast Agreement was concluded in a period of prosperity in the EU and, in particular, during a period of very strong (if ultimately unsustainable) growth in Ireland, ten years later Ireland, the UK and the rest of the world were hit by the worst financial and economic crisis since the Great Depression of the 1930s. It was unfortunate that the first ten years of post-Agreement global prosperity, halcyon years that ought to have

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[2] See Northern Ireland Office, *The Stormont House Agrement*, 23 December 2014, for the main text, where the core areas of agreement are presented. The financial annex merely sets out administrative budgetary issues relevant to the Finance and Welfare pages of the main text.

[3] During the early years of the 'troubles', it can be shown that the average standard of living in Northern Ireland was higher than in Ireland. Only in more recent years did convergence take place.

provided a strong impetus to promote rapid recovery and change in Northern Ireland, were largely wasted since the political will to reform the Northern Ireland state and economy in any radical fashion was lacking. Unlike the case of Scotland, a UK region where the devolved government systematically put in place policies that were specifically designed to address Scottish challenges within the UK and the wider EU, there was little or no political or economic strategic thinking or action in Northern Ireland policy-making circles. Careful examination of the recently concluded Stormont House Agreement, to be further discussed below, suggests that the focus is still on short-term policy issues, with an exaggerated expectation for the longer-term benefits that a lower rate of corporation tax may bring.

Having sketched the wider historical context and the context of the recent past, we turn to the future challenges that now confront Northern Ireland policy-makers and businesses.[4] There are likely to be many differing opinions as to the nature or rank order of these challenges, but we would identify and order them as follows:

- The challenges of internal policy reform in an era where other regions of the UK seek and acquire greater local policy autonomy. In the case of Scotland, where the September 2014 referendum on independence was narrowly but decisively defeated in a 55.3%-44.7% vote, the areas of policy autonomy are scheduled to be extended in the near future. In addition, it is likely that greater devolved powers will be given to other UK regions, thus increasing the urgency for policy reform within Northern Ireland.

- The challenges of the enduring dominance of the strong economic and business links with the rest of the UK at a time when the UK deviates increasingly from EU policy norms. The debate on Scottish independence showed just how difficult it is for a region of the UK – even one as relatively large and politically coherent as Scotland – to maximise local policy autonomy and put in place measures that address the specific needs of the local economy rather than the wider, very different and more global needs of the prosperous economies of the English southern regions. The challenges facing Northern Ireland, a much smaller, weaker and more peripheral economy than Scotland, are likely to be even more daunting

- The challenges of building on the economic and business links with Ireland, its second largest trading partner after the rest of the UK, at a time

when Northern Ireland may find itself caught between a rock and a hard place. On the one hand, its largest economic and trading partner – the rest of the UK – is likely to deviate increasingly from EU policy norms and may even decide to leave the EU after the proposed referendum scheduled for after the next UK general election. On the other hand, its second largest trading partner – Ireland – is likely to adhere to an ever deepening link with the core Eurozone states, a development that presents its own challenges to Irish policy-makers but presents just as serious challenges to Northern Ireland policy-makers and strategists in the context of possible UK decisions on EU membership.

The challenges of internal policy reform

In the public debate on regional devolution within the UK, and specifically in the course of the debate on Scottish independence, the claim usually made for centralisation within a large unitary state like the UK is that there are big economies of scale and scope that generate benefits for constituent regions ('Better Together'). But what the Scottish debate, and to a lesser extent the debate in Wales, have uncovered is that even while remaining within a unitary state with at least some degree of devolved regional governance, the most successful regional economies are those where the local policy-makers make maximum constructive use of any local autonomy.

In the case of Scotland, this led to a demand for full independence, where the case in favour was documented by the Scottish Government with compelling and rigorous analysis of social and economic benefits.[5] Sitting back and permitting central government to run their affairs, or neglecting the kind of strategic 'scanning' carried out by forward looking policy-makers, seldom produces best results for regions. In the case of Northern Ireland, the inability or unwillingness to resolve inter-community problems appears to have deflected the attention of policy-makers away from pressing internal economic and business policy reform agendas. Inter-community friction and political mistrust between the two main parties in the power-sharing Executive have crowded out many pressing policy debates and delayed actions that are vital if the looming internal and external challenges to Northern Ireland are to be addressed properly. The problems that were addressed during the protracted negotiations that eventually led to the Stormont House Agreement were driven more by intra-Northern Ireland tensions than by tensions between the UK and Northern Ireland.

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[4] For further and deeper information on the post-Agreement economy of Northern Ireland, refer to John Bradley and Michael Best, *Cross-Border Economic Renewal: Rethinking Regional Policy in Ireland*, Armagh: The Centre for Cross-Border Studies, March 2012, www.crossborder.ie, accessed 18 February 2015.

[5] The Scottish Government, *Scotland's Future: Your Guide to an Independent Scotland*, 26 November 2013, scotgov.publishingthefuture.info, accessed 18 February 2015.

It would be difficult to overstate the lack of progress in strategic socio-economic policy-making in Northern Ireland for more than a decade after the signing of the Belfast Agreement. In contrast, it is sobering to compare and contrast the evolution of internal policy-making in Scotland with the general lack of internal preparation and serious debate about similar strategic challenges facing Northern Ireland. The recently negotiated Stormont House Agreement produced some progress and is to be welcomed. However, with one exception, the financial and economic policy measures agreed are mainly targeted at the internal political need to protect the population of Northern Ireland from the rigours of UK-wide fiscal retrenchment rather than on guiding the economy towards faster, sustainable, private-sector led growth. The exception is the proposal to permit Northern Ireland to impose its own rate of corporation tax, mainly to offset what is seen as the unfair advantage of the low rate that applies in Ireland and its important role in attracting foreign direct investment.

Knowledge that the future growth and success of the Northern Ireland economy will always be heavily dependent on its external trading links should not conceal the fact that these trading links are only likely to deliver prosperity and development if the internal economic governance of the region is focused, efficient and effective. Three inter-related economic issues should be at the heart this internal debate. First, there is an urgent need to design a medium-term development strategy that would facilitate 'withdrawal' from subvention dependence in parallel with the rise of a renovated, dynamic and export-oriented private sector economy. Second, there is the need to have a proper understanding of the current productive structure of the Northern Ireland economy and of its existing and likely future trading and investment links. Third, there is the need to carve out an internal enterprise strategy that addresses the competitive challenges posed by Ireland, by increasingly autonomous Scotland and Wales, and by a range of other smaller EU Member States.

These three issues are closely interrelated. With respect to the subvention, while there is general agreement that the Northern Ireland public finances are in deficit, there is disagreement as to the exact size of the deficit. This is mainly due to the fact there are no comprehensive regional accounts in the UK, with the exception of Scotland.[6] In anticipation of independence, the Scottish government invested considerable resources into refining and improving economic statistics, both at the Scottish 'national' level and

at the level of the Scottish regions. Ideally, any system of regional public finance would take into account regional tax revenues as well as regional expenditure. But the Barnett formula, used to allocate public expenditure from the UK centre to the UK regions, is focused purely on changes in public expenditure, starting from a base in the late 1970s when it was first used. In the late 1970s the Northern Ireland economy was seriously in deficit, in the sense that the public expenditure mandated by the Barnett formula, plus a wide range of other public expenditure categories that lay outside the coverage of Barnett, was greatly in excess of the tax revenue raised within Northern Ireland or attributable to Northern Ireland sources.

For the fiscal year 2011-12, the latest for which official data appear to be available, the estimated fiscal balance in Northern Ireland was a deficit of £9.6 billion, a slight reduction on the revised 2010-11 estimate of the deficit of £10 billion. This net fiscal balance or 'fiscal deficit' was equivalent to £5,311 per head, a figure considerably higher than the UK average figure of £2,133 per head. As a percentage of the 2011-12 Gross Value Added (GVA), the fiscal deficit was 33.1%, again higher than the UK equivalent of 10.1%.[7] This kind of regional deficit has persisted since the late 1970s and shows little sign of shrinking in the immediate future. Unlike in a sovereign state, where a public sector deficit of over 30% of GDP would precipitate a major crisis of funding and would require immediate and drastic action, regional deficits of this magnitude could potentially continue indefinitely, so long as the nation state, and the other surplus regions in particular, were willing to fund it. However, the Stormont House Agreement sets out a process that aims to reduce dependency and provides some tools that may revive export-oriented manufacturing and services, i.e. the option of having a lower rate of corporation tax in Northern Ireland. However, this would also have to include many other developmental measures in order to form a credible enterprise renewal strategy that would permit the economy of Northern Ireland to shift from dependency to self-sustaining autonomy.

Change in the relationship of the UK to the EU and any alteration in the nature of devolved government in Scotland and other UK regions will cut across all three of these issues: dependency, restructuring and enterprise strategy. For example, any eventual UK decision on its relationship with the EU will be at least partially determined by how UK policy-makers and the UK business sector consider the UK economy might perform

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[6] Comprehensive regional accounts, such as published by federal states like Germany and the USA, treat regions as if they were sovereign states and track all public and private flows within each region and between regions. With such accounts it is possible to find out whether a region is running a public sector deficit (spending more than it raises in revenue) or a surplus (spending less than it raises in revenue). In federal states the 'surplus' regions help finance activity in the 'deficit' regions through transfers from the centre to the deficit regions.

[7] See Northern Ireland Department of Finance and Personnel, *Northern Ireland Net Fiscal Balance Report 2011-12*, March 2014, www.dfpni.gov.uk, accessed 18 February 2015. GVA stands for Gross Value Added, which approximates to regional GDP. The assumptions necessary to arrive at these estimates can be disputed.

outside the EU compared to how it currently performs inside.[8] Such considerations are likely to assign a very low weight to the views of Northern Ireland policy-makers and the specific needs of the Northern business community. Compared to the many strengths of the UK economy as a whole, the economy of Northern Ireland is currently extremely weak and heavily dependent on financial subvention from London.

The decade following the Belfast Agreement was characterised by excessive optimism on the part of Northern policy-makers that the ravages of three decades of violence and destruction of much of the Northern productive sector could be repaired quickly. There was much talk of a 'peace dividend'. Investment would flow in. The underlying entrepreneurial culture of Northern Ireland would bounce back. And generous reconstruction finance would be forthcoming from the UK treasury, from Europe and from America.

The reality was that, as a result of three decades of violence, the Northern Ireland economy had become utterly dependent on the public sector, and even the private business sector had become addicted to subsidies and grants to keep them going. Some inward investment did come, but it became clear that foreign investors took a more jaundiced view of conditions in Northern Ireland, where the increasing polarisation of communities into separate areas caused serious difficulties for the operation of the labour market. Nor was there much effective interest by Northern policy-makers in understanding how peace was affecting the various sub-regions of Northern Ireland in very different ways.[9]

The devolution of corporate tax rates contained in the Stormont House Agreement will facilitate enterprise renewal in Northern Ireland. However, it was granted subject to two conditions:

- The Northern Ireland block grant will be adjusted to reflect the corporation tax revenues foregone by the UK government due to both direct and behavioural effects; and

- The powers will only be granted from April 2017, subject to the Executive demonstrating that its finances are on a sustainable footing for the long term, including successfully implementing measures in this agreement and subsequent reform measures.

The first condition suggests that, should Northern Ireland attract a large inflow of foreign or rest-of-UK investment attributable to the lower rate of corporation tax, the block grant would be cut by an amount at least equal to total associated profits multiplied by the UK-Northern Ireland corporate tax rate differential. The second condition makes tax devolution dependent on the successful implementation of UK-mandated budgetary austerity and may cause political difficulties as the cuts are imposed on an economy still heavily dependent of public expenditure. Furthermore, if tax autonomy is given to other UK regions, the benefits to Northern Ireland would very likely be much attenuated.

The overall consequences for Northern Ireland are serious, since sluggish growth tends to exacerbate inter-community tensions. But the consequences for Ireland are also serious since, unlike Irish trade with the rest of the world, the subset of North-South trade is dominated by smaller, indigenous Irish firms which use Northern Ireland as their first step into export markets and which are more labour intensive than the multinational firms involved in global exporting. Any disruption to such trade would have negative consequences for Irish and Northern Irish employment that are far bigger than the share of such trade in overall trade might suggest. We return to this issue below when we consider what we term 'Northern Ireland's Irish problem'.

Northern Ireland's UK problem

The situation of Northern Ireland within the UK has many similarities with the situation of Ireland within the EU. In both cases, the smaller entity surrenders a degree of local economic and business policy autonomy in order to benefit from access to and integration with a much larger external market. In the case of Northern Ireland, about 50% of its manufacturing output is sold to the rest of the UK (as 'external' sales) and a further 30% is exported (i.e. sold outside the UK). Of these exports, Ireland's share is approximately the same as the total share of the rest of the EU (some 10% each).

Data for imports into Northern Ireland are not collected, but what evidence there is suggests that the rest of the UK is the main supplier and the share is at least as high as the 50% export share. Such a high dependence on a single trading partner (the rest of the UK) broadly resembles the situation that pertained in Ireland up to the 1970s,

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[8] Of course, many non-economic considerations and inward-looking views of British nationalists will also play a part in any in/out referendum. However, we focus on the economic aspects since these are more likely to dominate the debate as the date of any EU referendum approaches. To a considerable extent, the debate on Scottish independence was based on economic issues and emotional appeals to nationalism played little part.
[9] For example, sub-regional economic and business data of the kind needed to guide regional policy-making are almost completely absent in Northern Ireland (see Bradley and Best, op. cit.). The contrast with the situation in Scotland is startling, where there has been massive investment in gathering and processing data on the Scottish regions and a very active regional policy is implemented.

before foreign direct investment came to dominate and to restructure Irish industry and diversify its export base (see Figure 1 below).

Figure 1: UK Share of Irish Imports and Exports: 1920-2010[10]

The heavy dependence of Northern Ireland on the rest of the UK market would appear to imply that it is protected to a degree from any disruption brought about by changes in the UK's relationship with the EU Single Market. The direct exposure to EU markets, including to Irish markets, only amounts to some 20% of manufactured output. This is slightly larger than Ireland's export exposure to the UK as a whole. But this situation is not necessarily one of strength. For example, Ireland is a major trading partner of the UK, to an extent far out of proportion to their relative sizes. Indeed, this has been the source of some negative internal comment in the UK. Elliot and Atkinson remarked that:

> The United Kingdom exports as much to Ireland, one of the few countries in Western Europe in a more parlous state, as it does to China, India, Brazil and Russia put together.[11]

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[10] John Bradley, 'The island economy: Ireland before and after the Belfast Agreement', in John Coakley and Liam O'Dowd (eds.), *Crossing the Border: New relationships between Northern Ireland and the Republic of Ireland*, Dublin: Irish Academic Press, 2006, p.67.
[11] Larry Elliott and Dan Atkinson, *Going South: Why Britain Will Have A Third World Economy By 2014*, London: Palgrave/MacMillan, 2012, p.58.

However important its current trade links with the rest of the UK, for Northern Ireland the main opportunities for export growth will come from its ability to penetrate the larger and more dynamic markets of the rest of the world, primarily those of the rest of the EU.

The best situation for Northern Ireland would be for the UK to stay within the EU so that the existing close UK links would continue to act as a pathway to the larger EU and world markets. However, should the UK further dilute its EU membership, driven by the assumption that its current undoubted economic strengths will endure outside the EU, the weakness of Northern Ireland's external trading economy compared to the stronger trading economy of the rest of the UK is likely to be cruelly exposed. Such considerations do not appear to be debated actively within the Northern Ireland policy-making establishment. Within Europe, Northern Ireland is doubly disadvantaged. It is part of the most Europhobic member of the EU, and suffers neglect as a result of London's unwillingness to integrate proactively into new and evolving European Institutions. And it has little or no influence in UK debates on Europe as a result of being too far down the food chain in the corridors of power in Westminster, even if it were minded to exercise an independent regional voice. For example, the Stormont House Agreement is silent on EU matters and they appear not to have featured in the negotiations.

Northern Ireland's Irish problem

With respect to its social and economic relations with Northern Ireland, Ireland is not just any other EU Member State. The importance of Northern Ireland's trading and investment relations with Ireland mirror the similar importance of Ireland's trading and investment relations with the UK (including Northern Ireland). For example, small manufacturing and service firms on both sides of the border are able to trade in ways that would be more difficult if they were not geographically contiguous, relatively culturally homogeneous, and operating in an economic 'borderless' policy environment. Such firms are mostly indigenous (rather than foreign-owned) and tend to be far more labour intensive than larger, internationally trading firms. Although opinions differ, it is generally accepted that North-South trading links have increased and deepened since the Belfast Agreement, and form an important, if under-appreciated element of both economies. Consequently, any disruption of such North-South links caused by changing UK-EU relations could have serious consequences.

In order to prepare for any changes in the relationship of the UK with the EU, and to anticipate the likely consequences of any future changes in the Scottish-UK relationship, some of the issues that urgently need to be put on the North-South institutional table include:

- An integrated economic development strategy for the island that will reduce or even remove the policy fault lines that currently hinder industrial renewal in the North, and address the excessive dependence on foreign direct investment in the South. The fact that Northern policy-makers are actively pursuing a demand to have a low Irish-type rate of corporation tax is a positive indication that industrial development on this island needs to be addressed in a more integrated way. However, the two relevant proposals contained in the Stormont House Agreement that relate to North-South and 'island' issues (i.e. the regeneration of the north-west region and the possible extension and reform of North-South bodies) are more in the nature of aspirations than concrete policy decisions and are unlikely to attract positive and enthusiastic cross-community support

- More specifically, attention is needed to address the peripheral state of the economy of the cross-border region, which is particularly disadvantaged by the historical legacy of the border. Far from being a minor issue, this is at the very core of the goal to renew the island economy in a mutually beneficial way. It is disturbing that when one tries to make a case for a cross-border development strategy, one is usually greeted by old, tired jokes about smuggling. The reality is that both sides of the border region suffered after partition, while the rest of the island went its separate ways. Until Irish and Northern Irish policy-makers bring themselves to address this historical legacy of distortion and disadvantage openly, honestly and effectively, cross-border bodies will continue to be symbolic and weak.

Summary and conclusions

One can envisage two extreme futures for Northern Ireland within the context of a changing UK-EU relationship. The first would be 'more of the same': continued dependence, only marginal changes, agendas crowded by the mistrust, recrimination, and divisiveness of history. In this scenario, the driving force in the North would be what the UK government decides. Little else would matter. This drift would be accompanied by official rhetoric that simultaneously claims that the North has a dynamic economy, and at the same time that it lags badly behind almost all other UK regions.

The second would involve new and imaginative North-South synergies and would take place in a resurgence of this island that would make huge demands on both North and South if it were to come about. It would be built on internal self-confidence and high

trust. It would try to capture the synergies that the island economy undoubtedly has, but which history has never managed to capture. It would break with a zero-sum game attitude, where Belfast's gain has to be Dublin's loss. It would demand a hard-nosed but strategic approach, where the North must face honestly into making a break with dependency and the South must recognise that its shiny Celtic Tiger development model – narrowly based on a small range of technology sectors – is perilously insecure. Both regions of the island urgently need to prepare to deal with external changes that are likely to disrupt current relationships on the island.

The real fear is that the North will remain 'stuck in the middle' (to use Michael Porter's term from competitive strategy). Comfortable dependency may seem attractive to Northern Ireland in the short to medium-term, but has risks of a political and social kind that are likely to prevent the emergence of any will to change. But trying to break free in a way that creates a new dynamism in the North may be seen as running even greater risks, even if it were politically feasible. It is more probable that efforts will be made to pursue both strategies simultaneously, with dependency dominating the emergence of any North-South synergies. History suggests this is unlikely to succeed and will leave both regions vulnerable to changes with which they are not prepared to deal.

The lessons from Europe are indeed relevant to the situation in Ireland. But the more one reflects on the various positions taken by the political parties in Northern Ireland, and by those in Ireland, the more one is convinced that the real lessons of European co-operation have been misunderstood. For example, when he met the then Taoiseach, Bertie Ahern, in September 2004, Dr. Paisley, the then First Minister, said:

> We are working towards a settlement for all the people of Northern Ireland, and in doing so we wish to build a relationship with our neighbour that is practically based rather than politically motivated.[12]

But the abiding lesson of Europe is surely that co-operation has always been both practically based and politically motivated. One cannot separate the two. After the Second World War, the political need to make European civil war a thing of the past and to promote recovery was achieved through decisions of very practical consequence. In Europe, the political and the practical sit side by side, albeit not always comfortably. It is illustrated by the interview conducted by Andy Pollak with the Leader of the DUP, First Minister Peter Robinson, and published in the *Journal of Cross-Border Studies in*

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[12] Dr. Ian Paisley, statement after meeting with Bertie Ahern, Dublin, 30 September 2004.

Ireland.[13] When asked if he favoured the extension of North-South co-operation, Mr. Robinson replied:

> My antenna go up if people start talking about…co-operation having to be at a structural and formal level. When people want to formalise it in that way, it speaks to me of an attempt to change the constitutional relationship between Northern Ireland and the Irish Republic – that it is part of a process to lead you towards a united Ireland.

When pressed on the possibility of adding some new cross-border bodies to the Belfast Agreement ones, Mr Robinson said:

> I don't think I'll ever find myself in the position where I'm enthusiastic about adding one. It would be much better if there were more relaxed and normal kind of co-operation rather than having to do everything very officially and formally.

It seems that North-South co-operation is not to be of the European kind. It will avoid political entanglements and effective, common structures. A basic lack of trust will prevent much deepening of real and practical co-operation. The Stormont House Agreement contains little to suggest that these attitudes have changed.

It is probably asking too much to expect that Ireland and the UK will ever form as close an economic relationship as, say, the Benelux Union within the encompassing EU. The large disparity in size, for one thing, would make any Irish-British Economic Union less relevant to the UK as a whole than to Ireland, but it could be very relevant to the devolved regions of the UK. At the national level, any Irish-UK relationship can never be one of balance between equals. But the UK economy is regionally diversified and any UK detachment from full EU membership is likely to be accompanied by a greater focus on regional devolution or even autonomy within a reconfigured UK. In any such emerging regional context, the relationship with the Irish economy will become more balanced and inter-regional competition will come more into play.

Nevertheless, the serious differences between Irish and UK approaches to engagement with the EU does make such a co-ordinating framework necessary, if not essential. Were the UK a willing participant within the reformed and deepened Eurozone and part of the Schengen Area, matters of mutual UK-Irish interest could be handled within

EU Institutions if there was no enthusiasm to move towards more formal bilateral co-operation along Benelux lines. However, the kinds of moves away from closer EU integration and the desire for a narrower EU focused on the Single Market (i.e. a kind of neo-EEC that was set out in the speech made by Prime Minister Cameron on 23 January 2013) are likely to have serious, if as yet unquantifiable impacts on the Irish economy.[14] The Joint Statement of 2012 focused primarily on the benefits of present Irish-British links and the desirability of deepening them in the future. It was completely silent on the likely disruptive costs of any UK disengagement from EU institution-building and ignored possible impacts of major policy misalignments.[15]

Nation states are entitled to make policy in the light of their own national interests, even within the EU. However, there are well established mechanisms in the EU for reconciling differences and mitigating any asymmetric costs. With the prospects of the UK 'drifting towards the exit', perhaps the time has come to take a new look at Strands 2 and 3 of the Belfast Agreement and adapt them to address the emerging challenges within these islands. While both Ireland and the UK remain full members of the EU, the institutions of Strands 2 and 3 deal mainly with political and legal issues, and only marginally with diverging economic policy questions. However, any serious detachment of the UK from full membership would throw up a wide range of Irish-UK bilateral economic issues that would be specific to these islands. In such a context, Strands 2 and 3 would have to be revisited. Such an arrangement would surely be of assistance to the devolved regional governments of Scotland, Wales and Northern Ireland, whose interests may not be served by any disengagement of the UK from the European Union.

In the narrower context of the provision of public services on this island, Michael D'Arcy has already scoped out what he terms a "Prosperity Process", i.e., the task of identifying mutually beneficial opportunities for both governments to work together for the practical benefit of their citizens.[16] The quest for any wider "Prosperity Process" within and between these islands presents a much greater challenge, requiring the active engagement of public and private sectors and the acceptance that constructive engagement with the EU is a necessary condition for deepening economic and other links between us.

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[13] '"Business to be done and benefits to be gained": The views of Northern Ireland's First Minister, Peter Robinson, on North-South cooperation', *The Journal of Cross Border Studies in Ireland*, No. 4, pp.11-18, Spring 2009, www.crossborder.ie, accessed 18 February 2015.

[14] Christoph Scheurmann, the London correspondent for der Spiegel, commented: "How in heaven's name does Cameron propose to persuade the German Chancellor, the French President and all the other European leaders that he should get to pick the raisins from the cake while everyone else gets the crumbs?". 'Europe's Scaredy-Cat', *Spiegel Online International*, 23 January 2013, www.spiegel.de/international, accessed 18 February 2015.

[15] Henry McDonald, 'UK-Irish relations never better, say David Cameron and Enda Kenny', The Guardian, 12 March 2012, www.theguardian.com, accessed 18 February 2015.

[16] See www.crossborder.ie for the complete D'Arcy report.

SECTION D

IMPLICATIONS FOR BRITAIN AND EUROPE

14. Implications for the United Kingdom

Brendan Halligan

Impact on the UK's constitutional order

One of the more striking features of the internal British debate on Europe is that it is mainly confined to England without much regard for the knock-on effects on Scotland, Wales or Northern Ireland. That seems somewhat reckless, as there would be serious ramifications for Scotland's place in the UK's constitutional order and, as a direct consequence, for Northern Ireland, as well as for Wales.

The chain of causation would work out something like this. It is virtually certain that the withdrawal of the UK from the EU would precipitate demands within Scotland for a second referendum on independence, especially if the decision to withdraw had not been supported by a majority of the Scottish electorate, which seems certain. Should the outcome of the second referendum turn out in favour of independence, which seems likely, that would mean the end of the United Kingdom as a state based on the union of Scotland with England and Wales as agreed in 1707.

The successor state, consisting of England, Wales and Northern Ireland, would be seriously diminished in political stature and economic clout. From the perspective of unintended consequences, that would be the biggest negative of all deriving from the Conservatives' desire, as they see it, to restore British sovereignty. On the other hand, should independence be again rejected by the Scottish electorate then the momentum in favour of a more federalist structure for the UK would be unstoppable, with constitutional consequences that are too complex to unravel at this remove. It seems clear, however, that the UK governance system would have to be fundamentally recast in respect of legislation and policy, firstly by further distancing Scotland from England, secondly by Wales following suit and, finally, by the consequential restructuring of the Westminster parliament to provide for what has been described as 'English votes for English laws', as described in Chapter 5.

One way or the other, a change in Britain's relationship with Europe would trigger far reaching changes within the UK itself and it is clear that Scotland is key to the future.

Northern Ireland

Picking up from the analysis in the last chapter, it is clear that Northern Ireland would be affected by such developments, however they played out. Another Scottish referendum would, for example, lead to nationalist demands for something similar on the constitutional status of Northern Ireland, another way of describing a referendum on Irish unity. Were it to be refused, the result would be resentment among large sections of the nationalist community. Alternatively, were it to be granted, the outcome would be a foregone conclusion but the political repercussions of a divisive referendum campaign could be severe, in all probability leading to the break-up of the power-sharing Executive in Belfast and, hence, the re-imposition of direct rule from London.

For the British government, that would be a nightmare scenario (as it would be for the Irish government). But the situation could get much worse if Scotland were to vote for independence. That particular scenario has been examined in the Institute's two previous books on the UK for its effects on the psyche of the Unionist community and the conclusions remain valid: the Unionists' relationship with Scotland is central to their perception of the United Kingdom as a community of different but complementary cultures in which they feel both valued and secure. That sense of security would be put under threat by the break up of the UK and would drive the Unionists in on themselves, provoking a sort of *laager* mentality. The fragile accord between the two traditions created by the Belfast Agreement would be ended and with it any prospects of a power-sharing Executive for a long time to come.

In circumstances where the North reverted to once-familiar patterns, the UK's appetite for subsidising the North would come into question and if public support were to weaken, and perhaps disappear, the problems for the British government would be reminiscent of those posed by the 'Troops Out' movement in the 1970's, which, at that time, commanded strong support among sections of the Labour and Conservative parties. Irish-British relations would be put under the severest pressure since the 'troubles' first broke out in 1968.

All this suggests that the impact on Northern Ireland of a UK withdrawal from the EU would be greater than any political event since the Sunningdale Agreement of 40 years ago, which made Northern Ireland the *de facto* joint responsibility of the Irish and British governments. As a result of the developments described above, the balance of

political responsibility for affairs in Northern Ireland would swing back towards Britain. It is axiomatic that border controls would be re-introduced as a consequence of ending the free movement of persons between the UK and EU and, while this would pose many practical difficulties, the most important consequence is that it would symbolise profound change in the status of the North. Coupled with the use of two different currencies and differences in taxation and social policies, the border would cut off the nationalist community from the Republic to an extent not seen for 40 years. Old memories would be revived.

It requires little imagination to conclude that rolling back the clock would be greatly resented by nationalists and could play into strident demands for Irish unity, thereby further exacerbating communal tensions within Northern Ireland and thus within Irish-British relations generally. This latter scenario calls for particular examination, since it is one of the main preoccupations of this book.

Irish-British relations

If the UK leaves the EU, it is inevitable that Irish-British relations will revert to being bilateral in nature, although in a form different to that which prevailed in the pre-EEC period. Nevertheless, any form of bilateralism would profoundly change the broad character of the current Irish-British relationship by reducing the scope for win-win solutions, which are an integral feature of EU decision-making, and by increasing the possibilities for zero-sum outcomes, which are a feature of asymmetric bilateral relations. In short, the new relationship would have a far greater potential for confrontation than the one that has developed since 1973, to the mutual advantage of the two countries be it said. Politicians, diplomats and civil servants on both sides have evolved a style of doing business together over the past 40 years that simultaneously optimises the advantages of EU membership and maximises the benefits of bilateral cooperation. That would be put in jeopardy by a UK withdrawal from the EU and, while it is impossible to quantify, the price to be paid would be heavy.

Great ingenuity would be required to reduce that price to the very minimum. One obvious response, as advanced in Chapter 9, would be to widen the use and extend the mandate of the British-Irish Council, which would then have to deal with economic policy issues in a more substantive manner than at present. The intensification of bilateral Irish-British relations could well distort the relationship of equals that has been built up between the UK and Ireland, particularly in relation to Northern Ireland. The two sides would have to confront a complex agenda, one ridden with great potential for conflict. The main issues would include:

- **Agriculture** – Continued access to the UK market on current terms would be vital for Irish agriculture and agri-business. It is not clear how this could be achieved without giving similar rights to all other EU Member States.

- **Business** – The implications for business have been spelled out in detail in Chapter 11 and indicate that there would be great cause for concern about the maintenance of a level playing field between Irish and British companies. Changes in UK social legislation under a Conservative-led Government could have negative competitive consequences for Irish business. The potential for conflict in this area is quite considerable, as also in tax, regional and exchange rate policies.

- **Free movement of persons** – As stated before, it is axiomatic that the UK's withdrawal from the EU would require the imposition of border controls between the EU and the UK, including the land border between the Republic and the North. At present, Ireland and the UK constitute a Common Travel Area and that arrangement would have to be scrapped. In that case, it would make sense for Ireland to join the Schengen Area and strengthen its participation in core Europe.

- **Social Policy** – One of the main drivers of the Conservative Party's anxiety to quit the EU is to roll back the social legislation enacted by the EU. If it succeeded in its ambitions this could result in social dumping and leading to unfair competition with the Republic. Northern Ireland would be involved in this new realignment of competitive forces.

- **Financial services** – The UK is not part of the Banking Union, although it is constrained by legislation from engaging in aggressive competition with other Member States. That restraint would be weakened, if not eliminated, were the UK to withdraw and could pose problems for the IFSC. On the other hand, Dublin would become an attractive base for London-based financial companies wishing to stay within the Eurozone and, if the loss of business turned out to be significant, then the resentment on the part of the British authorities could be sufficiently strong as to sour relations across the board.

- **Justice** – Withdrawal would reopen the justice debate in the UK and could lead to the abandonment of most, if not all, of the Justice and Home Affairs provisions adopted by the UK in November 2014. These provisions included the European Arrest Warrant. The resulting legal lacuna would

pose many difficulties that would be exacerbated by the fact that Ireland would then be the only common law country in the EU.

- **Terrorism and organised crime** – Ireland would want to maintain maximum compatibility with UK law, notably in respect of terrorism and organised crime, while honouring its EU obligations. Any problems could well be eased if the international fight against terrorism and organised crime took precedence over the more nationalist concerns expressed by Conservative Party opponents of Europe.

- **Energy** – Ireland already operates an all-island energy market with Northern Ireland and has expectations about the creation of an Irish-British single energy market as a pre-cursor to a European 'Energy Union', which would include a single market in electricity. The all-island market would presumably be allowed to continue but the broader market would be put on hold. One consequence would be to accelerate the building of electricity interconnection with France as an entry point into the single European energy market.

- **Trade** – Under the Treaties, an individual Member State cannot conclude bilateral trade agreements with third countries. This is the exclusive competence of the European Commission. Therefore, if the UK were to leave the EU, Ireland would not be permitted, under current rules, to negotiate a specific bilateral trade agreement with its neighbour. Given the potential impact of British withdrawal on its trade with the EU, including Ireland, estimated at a possible 21.6% reduction in Chapter 10, this would be a very serious issue.

These ten policy areas are hardly exhaustive but are illustrative of the potential for souring Irish-British relations should the current benign multi-layered relationship be replaced by one that was essentially bilateral. From a British perspective, it clearly has the potential to turn its closest ally into its biggest competitor across the full policy spectrum and is an example of how the law of unintended consequences could unfold to the disadvantage of Britain were it to withdraw from the EU. Replacing bilateral cooperation with competition and substituting suspicion for trust would be a huge step backwards from the relationship that has been built up over four decades. For the UK, it would be a huge price to pay given the political and economic benefits that flow from its new-found friendship with Ireland.

The consequences of a 'privileged partnership' between the UK and the EU would depend on the extent to which it succeeded in retaining the benefits of membership. In a benign scenario, the maximum might be achieved with minimum disruption to the UK's relations with individual Member States but in a malign scenario the potential for damage is considerable – and Irish-British relations would undoubtedly figure as a major casualty.

The UK and global governance

In addition to the implications for the future of the UK as a political entity and its impact on Irish-British relations, a British exit from the EU would have significant knock-on effects in respect of its role in the world. It is clear from the re-emergence of China as a global actor and the continued geographic expansion of the European Union that a tripolar world is emerging in which the US, China and the EU predominate, especially in the economic sphere. In this new world order, the UK plays a global role well beyond its weight due to its particular history over the past five centuries in which it led the industrial revolution and created a global empire. Its seat on the UN Security Council is the most obvious legacy of that history and can hardly be justified on any grounds other than happenstance.

The UK has been able to compensate to some extent for its loss of empire and economic pre-eminence by joining the European Union and becoming part of its leading group or *de facto directoire* along with France and Germany, a position which has given it a more important role than it would have otherwise enjoyed. But the loss of EU membership would put an end to this substitute role. That role would be forfeit by withdrawal from the EU with the following implications:

- **The UN and the G7** – A major loss of influence would be inevitable. The Security Council seat at the UN would be put in jeopardy. A more balanced global governance system would see India, Brazil and South Africa replacing fading European powers and becoming members of the Security Council. Such a move is inevitable.

- **The Commonwealth** – The Commonwealth is usually advanced as compensation for loss of EU membership. But the Commonwealth has long changed from the halcyon days of the early 20th century or the immediate post-war period when it still bulked large in the British mind. Nowadays, Australia and New Zealand look north to Asia, Canada looks south to the US, while Africa looks east to China. The Commonwealth is no longer a political or economic entity of any substance and is no counterweight to the EU.

- **The US** – Neither would the 'special relationship' with the US be an adequate compensation, even though the American link is advanced by some Conservative strategists as an alternative to Europe. This flies in the face of the fact that the US has always wanted Britain at the heart of the EU. It is most unlikely that the US would forge a new relationship with the UK and be seen to favour it at the expense of its other European allies. Furthermore, the so-called Asian 'pivot' will dominate US strategy for the century ahead. If anything, the UK would be of less rather than more value to the US if outside of the EU.

- **China** – At present the UK has a national and a European framework for its relations with China but outside the EU the relationship would become bilateral in the conventional sense. This would have immediate drawbacks, as in a bilateral relationship the UK would be the smaller partner by far, almost a client state in fact.

- **Sterling** – The role of sterling as a reserve currency would be compromised in line with the UK's diminished role in global economic affairs. In a tripolar world, the financial future lies with the dollar, renminbi and euro. Sterling would become a mere satellite currency with negative effects on the role of the City as an international finance centre, possibly jeopardising its attractiveness for China as a counterweight to New York and as a point of access to the EU.

- **IMF and World Bank** – For the UK, the biggest loss of economic influence would be where it matters most – within the framework established by the Bretton Woods Agreement (under the influence of Lord Keynes). The loss would become more pronounced if an alternative is constructed at the behest of China and other Asian economic powers. The UK's role would be downgraded.

- **WTO** – Giving up its influence and negotiating muscle in world trade negotiations as part of the EU team would be a particularly heavy loss. Outside the EU, the diplomatic clout of the UK would be considerably diminished in circumstances where it would have to negotiate the TTIP alone, with the US and EU as opponents in many key areas.

- **FDI** – The UK is the largest recipient of FDI in the EU and an increasingly attractive base for Chinese companies wishing to enter the European market, as is already the case for American and Japanese business. That

attractiveness would be seriously diminished by withdrawal. The long term economic effects would be negative.

- **Security and defence** – There would be the danger of reduced influence in NATO, compounded by the UK's inability to fund its nuclear deterrent and its armed forces generally.

- **Climate change** – Within the EU, the UK has been to the fore in setting Europe's ambitious targets for the reduction of carbon emissions and, by extension, global targets with the UN Conference of Parties (COP) process. That influence would be greatly weakened outside the EU, to the detriment of the global community be it said.

General summary of implications for the UK

From the above analysis, the loss of global prestige and influence are the most likely consequences of a UK exit. That is due in great measure to a profound misreading by the Conservative Party of the great thrust of geopolitical developments in the 21st century. This is not the era of nation states but the age of huge regional blocs – just as Monnet foresaw in his *Memoirs*. Withdrawal is going against the grain of history and amounts to self-imposed isolation at the very moment when English has become the global language and London a world city, a paradox hard to comprehend for outsiders.

Isolation in a global world means decline, not least because the UK has no convincing alternative to hand; Britain is no Singapore. There is uncertainty regarding the economic model to be pursued by a free-floating Britain, unanchored to any economic grouping. But if the way forward proved to be an extremist version of free market economics that would surely invite retaliation from the EU and probably the US. The WTO would become a very uncomfortable place.

But the break up of UK as currently constituted would undoubtedly be the biggest and most unwelcome of the effects set in train by a British exit from Europe. For many in the Conservative heartlands of England that would be the law of unintended consequences with a vengeance.

15. Implications for the European Union

Brendan Halligan

Setback

A British withdrawal from the EU would be the first loss of a Member State since the European project was initiated with the Treaty of Paris in 1951. As such, it would be the biggest political setback yet suffered by the Union.

Withdrawal would have huge negative impacts on the Union, political, economic and psychological. The tenets of the Schuman Declaration would be called into question in that the peoples of a major European state would have chosen a return to old fashioned nationalism as their preferred path forward and would have set an example that others might be emboldened to emulate. The integrationist thrust of 'ever-closer union', which has been inherent in the European project since its foundation, would be blunted.

On the global stage, the EU would lose mass in world affairs through the departure of its second largest Member State and the loss of its global financial centre. Its military prowess would be seriously compromised given the UK accounts for 25% of EU defence expenditure and arguably has a greater military capacity than any other Member State. Most importantly, its financial prowess would be diminished since London is the largest and most sophisticated financial centre in Europe and of growing attraction for Chinese investors. The loss of reputation in global financial markets would have to be repaired by building up comparable financial skills and institutions within the Eurozone, which would not be an easy task. It is conceivable that the damage might never be repaired.

Internal balance

From an institutional perspective, the most significant impact would be on the Union's internal political balance, which since its inception has rested on the Franco-German alliance with the UK playing a flanking role. With the UK's departure, that balance would be shifted decisively in the direction of Germany at the very moment when the influence of France is weakening and that of both Italy and Spain evaporating. Indeed, with the continued progress of Poland as a political actor on the European stage and the appointment of Donald Tusk as President of the European Council, the political centre of gravity would move eastwards to the German-Polish axis without any compensating counterweight in the south. Consequently, Germany would become even more dominant in the European Council, Parliament, Commission, Council of Ministers and the ECB.

This shift in the centre of gravity would strengthen the Eurozone as the core of the EU and would have the effect of enhancing the role of ECB in entrenching the German-led stability culture and securing an EU-wide commitment to German-style economic stability policies. Politically, the EU would become Berlin-centric with Europe's key bilateral relations being those between Germany on the one hand and the US, China and Russia on the other. The impact on the character of the EU's trading relations would be significant.

Paradoxically, the departure of Britain would result in an intensified drive towards a more federal European Union, which the Conservative Party abhors and which Germany has argued for since the advent of the euro crisis. Political Union would be on the cards with greater force than at any time since the Stuttgart Declaration in 1983. The major positive from Germany's vantage point would be that the departure of the perennial 'awkward partner' would lead to greater internal coherence within the EU, somewhat reminiscent of the original six.

The core

All this means that in the short to medium-term the Eurozone and the European Union would become one and the same thing, as the Treaties intend. In those circumstances, it is extremely unlikely that any Member State would be permitted to flaunt its obligation to join the euro when economic circumstances permitted and it would seem equally unlikely that Denmark would be allowed, or would wish, to retain its opt-out indefinitely. The latitude afforded to Sweden and the Czech Republic on euro membership would be narrowed and ultimately they would be forced by circumstances to choose between joining the Eurozone and being left out of the Union.

In short, the concept of a Eurozone separate from the EU would disappear as all Member States would use the euro and so would be bound by a common set of obligations and practices as well as being subject to the same monetary and fiscal disciplines. It follows that the concept of a 'core' Europe would become irrelevant; there would be no inner and outer circles, just the one circle shared by all.

The logic behind this conclusion is that the idea of a 'core' Europe and an outer ring or rings of non-euro Member States was predicated on the proposition that all EU states would be participating in the Single Market but that some would not be participating in the euro. Despite its complexity, the 'core Europe' model had the virtue of stability and indeed of providing a *modus vivendi* for countries whose adherence to the Union was less enthusiastic than the others. But that accommodation would be ended by a British withdrawal and the rationale for a core and outer circle would no longer hold true. Not only would the UK put itself outside the family of European states but, by doing so, it would force its former accomplices deeper into the Union, another unintended consequence of withdrawal.

For many, the most adverse effect of British withdrawal would be the loss of part of Europe's political patrimony, notably the tradition of representative democracy based on the supremacy of parliament, the rule of law and respect for human rights. The nature of the loss may be indefinable but for those trying to build a Europe based on tolerance, mutual respect and interdependence, it has taken on particular relevance in the light of developments in Ukraine and the rise of Islamic terrorism.

The bespoke solution

The loss of the UK would be so profound in its consequences and so negative in its implications for Europe that the other Member States will be forced to confront the question of whether, on balance, it is worth keeping the UK within the Union. If the answer is 'Yes' and if they decide they will do whatever it takes to help Britain stay in, to coin a phrase, then the solution will necessarily have to centre around the Single Market and will require some modification to the rules governing the freedom of movement of persons. Ideally this should be achieved by a uniform movement on border controls and on 'benefit tourism'. In the light of the fight against terrorism, it would seem very likely that such moves are on the cards and it would seem sensible to make a virtue out of necessity. Common measures against terrorism across the EU would go a long way towards placating British fears about uncontrolled borders and so put the immigration issue to rest.

On a more strategic level, the other Member States would have to construct a special role for the UK within the EU, say in security, defence and capital markets, all of which play to its historic strengths and resonate with its psyche as an international player and a military force. The stakes are so high that it is worth the effort to construct a bespoke solution for the UK.

Manifestly it is in Europe's interest that Britain should remain in the European Union. It is time to be creative and brave.

SECTION E

AN AGENDA FOR ACTION

16. The Endgame

Paul Gillespie

End of the middlegame

Britain faces a major decision over the next ten years on whether to leave or stay in the European Union. This will determine how it relates to the wider Europe of which it is an essential part – including to its closest neighbour, Ireland. After joining the European Communities in the 1970s, and deciding to remain a member in a 1975 referendum, the United Kingdom was fully involved in forming the Single Market in the 1980s. But it then decided not to join the single currency and has spent the last two decades agonising over the consequences of that choice.

Now the Eurozone is deepening to survive and is becoming the core of a more integrated EU. The middlegame is over and the endgame has been reached. The UK must choose whether to remain an EU member or exit it altogether. Its negotiating partners must choose whether to give its government such an opportunity. Finishing this game constructively requires high political and diplomatic skills. As in chess, the endgame will be played with few negotiating pieces left by political leaders who know it could end either way but must be resolved.

Weak and irresolute

The United Kingdom's external course is therefore highly uncertain. The argument made by its leaders for remaining in the EU is linked to demands that the Union be reformed to meet British complaints about over-regulation, centralisation and intrusion on its sovereignty and democracy. British business interests and trade unions underline how dependent the UK is on the European economy and how EU membership enables it to exert real political influence on global issues in partnership with other European states. That echoes the view of its closest ally, the United States, which fears the UK would be weakened geopolitically if it leaves the EU and firmly believes it is much better able to retain global influence as a member.

But these voices in favour of the EU have been weak and irresolute. Their failure is readily seen in a public opinion closely divided on the question. There is ample opportunity to sway it either way in any future referendum campaign, as polling shows most UK voters would prefer to stay in a reformed EU. But the EU's supporters encounter demands from a growing Eurosceptic lobby, amplified by a powerful media, that their country should withdraw altogether from the EU so it can benefit more freely from globalisation and not be shackled by European regulation. That is the more open case against EU membership. The more closed case is driven by a developing English nationalism linked closely to growing hostility to immigration, especially from the new central and eastern European Member States. These open and closed visions of the UK's future are struggling to determine its destiny in this political endgame.

Deep uncertainty

The internal relations between the UK's constituent nations are also deeply unsettled. The prolonged retreat from its role as a global imperial power and the erosion of affinities created by war and welfare have undermined its political and social bonds of solidarity. Growing demands for autonomy and devolution in Scotland and Wales in reaction to excessively-centralised rule from London have culminated in much stronger support for an independent Scotland. Northern Ireland is drawn in to these debates despite its distinctive conflicts.

In response, English nationalism penetrates the Conservative Party and is articulated now by competition from a stronger United Kingdom Independence Party, closely bound up with Euroscepticism. The Conservatives are preoccupied with these issues much more than English public opinion is in a social, cultural, psychological and inter-generational conflict over values. The Labour Party is similarly conflicted in Scotland, where the Scottish nationalists threaten to undermine its electoral majority. A fragmented party system threatens to usher in much more unpredictable electoral outcomes and probably more coalition or minority governments.

These issues make the UK's internal political future as unsettled and uncertain as its external one. The two dimensions are linked because a vote to leave the EU would reopen Scottish demands for independence and could therefore break the UK up. Alternatively, a decision to stay in the EU could embolden efforts to transform the UK's constitutional structure by a federalising process akin to that under way in the EU. It is a dual sovereignty question awaiting resolution over the next decade. Since both Ireland and the EU will be deeply affected by the outcome, both should do their utmost to influence it and have patience to ensure it is decided in the most informed way.

They each have an agenda for action. The following chapter outlines an 'Agenda for Europe'.

17. An Agenda for Europe

Background

The early chapters outlined four scenarios to describe Britain's relationship with Europe and, in practical terms, reduced them to three: Half-in, Half-out and Fully-out. The opening scenario, that of Fully-in, was been dismissed as highly improbable for the foreseeable future. Based on the analysis of the relationship over the past half-century (Chapters 3 and 4) it was concluded that it is best described as descending to Half-out, with every prospect it could worsen further to the point where the UK would withdraw from the Union and so become Fully-out.

For these reasons, the current phase of the relationship has been described as 'the endgame', the title of this book. The expression, borrowed from chess, that most intellectual and challenging of games, suggests an inexorable movement towards a denouement, that moment when the threads of a complex narrative are drawn together and the issue is finally resolved.

Britain and Europe have arrived at that point.

At some stage over the next five years or so, the British electorate will be confronted with the choice of remaining in or withdrawing from the European Union. That moment of decision can arise in one of three ways: either under a Conservative-led Government honouring the promise already made by Prime Minister Cameron to hold an in/out referendum if re-elected; or under a Labour-led Government being forced to follow suit or conforming with the law requiring a referendum prior to parliament ratifying new treaty changes (it being assumed that further treaty changes will occur).

The actual issues on which the referendum would be fought will depend, of course, on whatever terms had been agreed beforehand between Britain and the rest of Europe.

These terms are the subject matter of this chapter.

Negotiating posture

They will be heavily influenced by the psychological disposition of both sides on entering the negotiations. In the case of Prime Minister Cameron, the British side would be intent on getting 'concessions' from the rest of Europe[1] and expressing the outcome, should there be one, as a victory for Britain ("Game, set and match" as John Major described the outcome of the Maastricht Treaty negotiations). Were the British negotiators to be led by Ed Miliband as Prime Minister, then the predisposition would be to devise terms that would allow Britain to stay in the Union. That being the case, the outcome would also be expressed as 'a victory for Britain', or perhaps in more sedate language, as 'a successful defence of British interest'.

The difference in tone between the two parties reflects a difference in attitude towards the outcome. Prime Minister Cameron has variously expressed himself as in favour of Britain remaining in the European Union or being neutral in the matter (in contrast to his "passionate" commitment to save the Union of England and Scotland). On the other hand, the attitude of the Labour leadership can be charitably described as mildly enthusiastic or, more accurately, as pragmatic. Neither will be ardent advocates of staying in, an important consideration as referendums are generally fought and won on emotion more than reason.

Either way, Britain will enter the negotiations as a *demandeur* looking for changes to the Union which would be unique in terms of benefiting Britain. The list of changes has been outlined in previous chapters but is not the complete story. Many such lists have been formulated over the past four decades and, indeed, have been modified throughout the Cameron Government as it stiffened its demands on 'Europe' in the face of UKIP pressure. No doubt, the Labour Party would have its own list were it to be at the negotiating table.

The underlying contradiction

But lists can be misleading for they usually cloak the underlying reasons for opposition to 'Europe' which have emerged in this book (and the two previous books) as cultural and psychological, born of a complicated past and bred by a complex future – a mixture of nostalgia and resentment. In politics, there are always the publicly expressed 'good' reasons for doing something and then there are 'real' reasons, usually unspoken. In terms of Britain's relationship with Europe, the words have actually been spoken, by

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[1] The 'rest of Europe' is to be taken as shorthand for describing the other Member States of the European Union.

Churchill himself as far back as the 1930s (and quoted in Chapter 3), but seldom repeated so explicitly or expressed so succinctly by mainstream politicians in the intervening years.

The real reason for the perennial problem with Europe is that what Britain wants is in itself a contradiction – to be with Europe but not of it, as Churchill put it; to be in but out at the same time; to have all the economic advantages but none of the political disadvantages; to have one's cake and to eat it as well.

That is why the list keeps changing, to the irritation and exasperation of the rest of Europe where the elites mutter that they are losing patience with its posturing and where some say, usually privately, they no longer care what an increasingly-inconsequential Britain decides; best get it over with and the sooner the better. Yet Chapter 15, dealing with the impact on the Union of a British withdrawal, concluded it is in the manifest interest of the other Member States that Britain should remain a member of the Union. Withdrawal would be a huge blow to the prestige and self-image of the Union, indeed calling its very *raison d'être* into question. If that is so, and there is every reason to believe it is, then impatience is the one luxury the rest of Europe cannot afford.

This suggests that the first item on the 'Agenda for Europe' is to get the negotiating psychology right by deciding that the goal is to keep Britain in the Union and that whatever requires to be done will be done, to borrow a phrase from Mario Draghi.

The second is to reframe the negotiations so that they are no longer a question of Britain versus the rest but one of all Member States trying to arrive at a mutually- acceptable solution to Britain's dilemma of how to reconcile being in but out of Europe at the same time.

If a conventional approach is pursued by addressing each item on the shopping list *seriatim* it will not address the fundamental problem of finding a role for Britain within Europe that meets the underlying psychological and cultural reasons for hostility or distaste for 'Europe'. That would mean reconfiguring the Union by giving it new tasks to which Britain could contribute in a manner consonant with its own perception of itself. This is crucial, and quite feasible.

It is clear from the Conclusions of the European Council in June 2014 and the programme of President Juncker that all the necessary elements exist for a workable reconfiguration. In the first place, the Council has indicated that variable geometry may be extended beyond sectoral policies to the founding principles of the Union itself. In short, it may become possible for different sorts of Unions to co-exist with

the result that in order to be a member of the European Union it will not be necessary to participate in all of them. As things stand, that is the *de facto* position; but by continuing the logic of its own Conclusions the Council could transform it into the *de jure* position.

As of now, there are two Unions: the Single Market and the Economic and Monetary Union (which encompasses the Banking Union and may give rise to a Fiscal Union). The UK is a member of the first but not of the second, which is the crux of the matter. As Economic and Monetary Union deepens further, care must be taken to make provisions to accommodate relations between the euro 'ins' and 'outs' in any new initiatives. This will become more complex as the number of 'outs' diminishes over the coming years. It is crucial, however, to avoid giving the UK and the other 'outs' the impression of being increasingly isolated.

Furthermore, President Juncker has proposed a Capital Markets Union, which the UK will probably join and if it does would be poised to take on a leadership role that could compensate to a large extent for its absence from the Eurozone. He has also proposed an Energy Union in which energy security will play a central role. If energy security, border security, intelligence sharing and cybersecurity were all bundled together in some coherent portfolio, then a Security Union would be in the making, and would be a natural fit for the UK's historical strengths and strategic interests.

The European Commission could be charged with putting a coherent structure on these competences. Under this schema the European Union would then consist of four subsidiary Unions, with a considerable degree of overlap, and with the UK in three of them.

Were this type of model to be developed, it could provide the framework for solving the border control problem, the trickiest of them all. Any decisions on restrictions would be a multilateral response to the self-evident need for collective defences against terrorism. The net result would be uniform limitations on the freedom of movement. Consequently, the Single Market would be repositioned in a far wider context than the economic and, as a consequence, the free movement of persons would become subject to the higher demands of communal safety.

It would seem on this basis that the logic underlying the 'Agenda for Europe' should be to turn the problems of the UK into the problems of the EU as a whole. And to change the context for devising solutions. This strategy would have to be devised by the European Council, the forum in which high politics is conducted and the great issues resolved. It is where the endgame will be conducted and concluded.

But the list of individual issues unfolded by Prime Minister Cameron will also have to be solved. As some of these are of a more technical nature, they will require a parallel set of negotiations, with some falling more under the Commission's mandate, such as competitiveness, employment, regulation and so on. Hence a high degree of coordination will be required between the Council and Commission in streamlining the negotiations, indeed involving the European Parliament as well as it will have to approve the various elements of the overall agreement.

The list

Whichever government emerges from the May 2015 UK general election should realise that many of the demands made by its domestic Eurosceptic critics are unacceptable to most of its EU partners. The negotiating tactics and strategies will also depend on who conducts them from the EU side and there will be a delicate political balance to be achieved, as said earlier, between the European Council and the European Commission but both institutions would be open to the expertise and influence of those Member States with a vital interest in finding a constructive way to keep the UK actively in the EU. As presented by the Conservative Party the list of issues to be addressed includes the following:

The UK no longer subject to 'ever-closer union'

This is one of David Cameron's most explicit demands. Indeed, it is the very heart of the matter.

The phrase first appeared in the preamble to the Treaty of Rome in 1957, which declared its signatories were "determined to lay the foundations of an ever-closer union among the peoples of Europe". It conjures up numerous political and academic debates on the nature, purpose and objective of European integration. For intergovernmentalists and Eurosceptics it denotes a federalist vision, which they interpret as a single state ruling a single people. But, in reality, that objective is held only by a small minority of those committed to deepening integration. Others who want to see that happen say the process is better described as multi-level governance, or talk about a federalising process of institutional change that does not require creating a single federal state to achieve its objectives.

They also point out that "peoples" is plural, not singular, and that the phrase denotes their "ever-closer union", not their merger. Nor is it used about states. It is a normative principle describing a peace-building process, not an attempt to build a superstate. This

is hardly surprising, given that it was first coined just ten years after the Second World War, but it is still misunderstood in Britain.

For their part, the other Member States assembled in the European Council of 26-27 June 2014 made a large gesture towards the UK Government's position on this matter. In section III.27 of the Conclusions it is stated: "The UK raised some concerns related to the future development of the EU. These concerns will need to be addressed".

In this context, they 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 further to stay behind. The statement can be regarded as a down payment on a future treaty change, drawing on the theory and practice of what is variously described as 'differentiated integration', 'variable geometry' and 'enhanced cooperation' in the study of European integration. Denmark's and Ireland's experiences of seeking clarifying protocols to EU Treaties as side payments for domestic political difficulties could be applied to a UK renegotiation that was to be subject to a referendum.

But this demand is the nub of the problem. The key issue from a UK perspective is to be absolved from a never-ending process of integration while from an EU perspective it is to enable the process to continue as the Member States see fit. The task would be to devise a protocol that would freeze the membership rights and obligations of the UK in the form currently incorporated in the Treaties. It would bring the endgame to a close by establishing that a Member State of the Union can stay outside the monetary union indefinitely, a position that would appeal to some other Member States, while remaining inside the Single Market. The *status quo* as it applies to the UK would be frozen in time until it chose to thaw it and subscribe to additional common policies. The value of this approach is that it would be a multilateral solution to a national problem and so satisfy honour all round.

'Variable geometry' would thus be formalised in the Treaties and Helmut Kohl's warning that the slowest ship should not determine the speed of the convoy would now be enshrined as a constitutional principle of the Union. A Nelsonian eye would have been cast on the differences that separate Britain from Europe.

However, Eurosceptic efforts to exclude the phrase as applying, in any respect, to the UK would signify withdrawal from such a pluralist norm, even in a two-tier system. It would not be possible without treaty change and even then almost certainly would not be accepted by other Member States. The multilateral solution proposed earlier would, however, overcome that difficulty.

New powers for national parliaments

That national parliaments should have more powers to scrutinise, delay or change EU legislation is a recurrent UK demand. In fact, the Lisbon Treaty already provides for enhanced scrutiny of EU legislation by national parliaments through a 'yellow card' delaying tactic. This could be strengthened without treaty change. It could reinforce COSAC, the body representing European committees of national parliaments, giving it a greater role in warning against unacceptable legislation or flagging important changes. This would help tackle existing democratic deficits and seek to link national parliaments more closely to the European Parliament.

Such new parliamentary powers would chime in with agendas for radical political reform in Ireland, the UK and other EU Member States; for example, the Joint Oireachtas Committee on European Affairs is keen to draw on experience elsewhere. This debate would play into the wider debate about a second chamber of the European Parliament in the form of a Senate representing national parliaments, although that would require treaty change.

However, to allow national parliaments – including the British one which claims absolute sovereignty – power to reverse or veto EU legislation, as demanded by British Eurosceptics, would reverse the process of integration over the past six decades, reintroduce full scale inter-governmentalism, undermine the EU legal order and contribute to its disintegration. It is a non-runner.

Freeing business from red tape and turbo-charging trade deals

The British Conservatives' hostility to excessive business regulation is shared with other centre-right parties around the EU. These parties achieved a voting majority in the 2014 European Parliament elections, thereby enabling their candidate, Jean-Claude Juncker, to become President of the European Commission, despite Prime Minister Cameron's opposition to his appointment and to the political process that led to it. President Juncker's appointment of the former liberal Dutch minister, Frans Timmermans, as his deputy with a specific mandate to reform regulation is a clear signal that the new Commission is willing to meet UK demands for reform, as is his appointment of the British Commissioner, Jonathan Hill, to the portfolio of financial services regulation and capital markets. It should be remembered that it was Lord Cockfield, Mrs. Thatcher's appointee as EU Commissioner, who designed the Single Market, to her satisfaction it should be said.

British Eurosceptics do not, however, understand the difference between a free trade zone and a single market; the latter requires institutionalised and legal means to enforce fair competitive rules, which cannot be confused with red tape. If national governments or parliaments have the power to undermine them the Single Market would disintegrate and various types of protectionism would reappear, probably in the form so eloquently described in the Cockfield White Paper. It took over 300 directives to remove them and it is hardly likely they will be undone at the behest of those who want no regulation at all, domestic or foreign.

Therefore, the extent to which 'red-tape' can be minimised is limited.

Power flowing away from Brussels

The Timmermans mandate addresses an agenda of subsidiarity and proportionality by making powers appropriate to distinct levels of government. It is supported by centre-right and centre-left parties, as well as those who say that European integration excessively centralises decision-making.

This sentiment can be mobilised constructively by those demanding EU reform and framed so that all would benefit. It could form the basis for a special convention to examine how best to arrange relations between those in the deepening Eurozone and those outside it in a two-tier system, which would be tailored to UK concerns. This would multilateralise the issue by involving other Member States rather than making it into a bilateral UK-EU negotiation.

Restricting 'benefit tourism'

The call to curb EU migrants availing of social benefits in their host countries was added to the Conservatives' demands for EU reform after the UKIP surge in 2013 and then when restrictions were lifted on migration from Romania and Bulgaria in January 2014. Welfare provision in the UK compounds the problem, since it is based more on need than individual or household contributions. The demand to curb it is widely believed to be a proxy for preventing Roma families availing of such benefits. In that sense it resonates throughout the EU; but the problem is largely UK based, requiring changes in national law.

However, were such restrictions to be extended into a legal discrimination against EU migration as such, it would violate the principle of free movement enshrined in the Single Market and be unacceptable. The next 'reform' demand makes that more apparent.

There is, however, scope for multilateral agreement on this issue.

New controls on large-scale migrations

The politics of migration has become a huge issue throughout the EU, as resurgent right-wing populist parties demand curbs on movement of non-EU workers and those from newer Member States whose free movement was until recently restricted by transition rules.

In the UK, as elsewhere in the EU, the issue is closely bound up with a new battle between open and closed societies and between associated winners and losers from globalisation. So this is a common problem. But it raises profoundly different and difficult political and social interests, including those surrounding free movement of peoples in the Single Market, the foundation stone of mobility within the EU, which is arguably its greatest achievement and contemporary justification for its citizens.

There is sympathy and potential solidarity for UK demands to review these policies, including examining possible limits on movement without guaranteed employment or time limits on settling or claiming benefits. It is a huge emergent agenda. As suggested above, the migration issue should be placed in the wider context of major security and geopolitical changes requiring a much more coherent EU response. This would play to British foreign policy and defence strengths and encourage a more collective effort to tackle these problems. Migration badly needs to be accorded a higher priority in EU policy-making.

It is likely that the growth of populist parties will keep tighter border controls on the political agenda over the next five to ten years. There will be strenuous political and economic resistance to greater closure from states and citizens committed to keeping them open. The Justice and Home Affairs agenda becomes much more salient in these circumstances. A UK government wanting to opt out of the European Arrest Warrant in the face of terrorism by foreign fighters returning from Syria may find its popularity eroding more rapidly than expected.

On the other hand, if the control of its borders for security and humanitarian purposes were to be made a policy priority of the Union as a whole, British concerns could be multilateralised, and satisfied as part of a EU-wide solution. However, if the UK approaches this agenda in a unilateral or bilateral fashion, demanding more national controls, it will lose that sympathy and solidarity and will be propelled on the road to withdrawal.

In many respects, control of UK borders is the key agenda item for the Conservatives and so needs to be solved.

Freedom from unnecessary interference by the European Court of Human Rights and the EU's Justice and Home Affairs laws

This subject is probably the most difficult of the UK demands for reform. The Treaties are, above all, legal documents and European integration is an exceedingly law-bound field. These laws deliberately constrain choices precisely to protect remaining national sovereignties. That makes tampering unilaterally or bilaterally with the legal structure a sensitive and dangerous undertaking.

The demand for British exclusion or partial exclusion from the European Court of Human Rights arose at the Conservative conference in October 2014. It is often an ill-focused and ill-informed demand, given that British law is already constrained by the court (indeed the UK was one of its most prominent founding members). The European Court of Human Rights (ECHR) is a distinct court from the European Court of Justice, which adjudicates EU law. But the ECHR is now entrenched in the Lisbon Treaty, making its norms and rulings more organic for the EU. It is a complex field that has yet to be properly clarified and charted in case law and legal commentary.

The same applies to the field of Justice and Home Affairs, more properly part of the EU legal order. The UK has a comprehensive opt-out from this domain with a parallel right to opt back in to selected fields. This already gives it a huge discretionary opportunity to pick and choose. However, there are strict and understandable limits to what other Member States will allow in extending the UK further flexibility from which it might gain competitive or other advantages.

Pushing such an agenda beyond a certain point would lead towards exit.

Conclusion

The list analysed above is comprised of seven issues:

- 'Ever-closer union';
- Powers of national parliaments;

- Red-tape;
- Subsidiarity;
- 'Benefit tourism';
- Border controls; and
- The ECHR.

In assessing the likelihood of the UK getting its 'concessions', the score card is hardly encouraging from the British perspective. There is no scope for compromise on three of the key political demands. Paradoxically, there is room for manoeuvre on the fundamental demand on 'ever closer union' provided the other Member States are willing to apply variable geometry to the membership of the Union itself. On the three remaining issues, mainly relating to border controls, there is considerable potential for agreement. It is a mixed bag.

The negotiations will be dynamic and by the time a British Government comes to negotiate terms in Brussels the new priorities for the EU will be well under way. It is essential that they be further developed, bearing in mind their appeal to the UK political leadership and electorate. They were described here to make the general point that on a fair reading there is a huge amount of policy material to attract a British Government genuinely anxious to secure reforms in the EU and a policy framework more suited to its own priorities.

Both in framing its programme and in its appointments, the current Commission sent such signals to the UK and to those Member States which seek a similar approach. It is up to the Member States to make the necessary links between policies, like security and migration, or capital finance and EMU, which can attract more constructive British attention. But, as has been repeatedly argued here, that demands reciprocity on the British side. It must be expressed in a willingness to compromise and maintain the integrity of the EU's established policies rather than continually outbidding a domestic sceptical agenda incapable of being satisfied.

A leap of imagination is needed first of all by the Conservative Party to turn these initiatives to advantage should negotiations begin. That can be encouraged by like-minded states supporting the Commission initiatives at Council level and seeking smart alliances with other Member States. If, however, it proves impossible to overcome domestic hostility to UK membership it must not be for want of trying.

The scenarios developed in this report show that British leaders and voters face an endgame as they decide which way to turn. Their decision will influence the EU as well as the future of the UK itself for generations to come. But they need time to become more aware of the consequences and interests at stake.

They should be given the time. The UK and its EU partners have sufficient interests in common to ensure that whatever needs to be done to keep the UK in the EU is done. That has been the purpose of this chapter, the 'Agenda for Europe'.

The final chapter outlines the major elements of an 'Agenda for Ireland' as it faces into these high stake negotiations.

18. An Agenda for Ireland

Ireland's interests

It is in Ireland's fundamental interest that the UK remains a member of the European Union. It would be enormously damaging to Ireland if the UK leaves, not least because joint membership of the European Communities underpins the greatly improved relations between the two states over the last 40 years. It helped enable negotiations on peace in Northern Ireland. It allowed Dublin and London to improve contacts in many policy spheres which then became bilateral agreements. Their economic relations are more balanced and interdependent as a result. The two states support an open, liberal, competitive and trading Europe and a deeper Single Market. Ireland and the UK have a common language and cultural values best realised in that multilateral setting, even as they deeply diverge on popular identification with Europe and on the deepening Eurozone.

The multilateral approach within the EU has helped enormously to moderate the asymmetry of power, knowledge and perception between a small state and its large, former colonial neighbour. If the UK leaves the EU, Irish-British relations would revert to a damaging bilateralism. This would undermine the current scope for mutually beneficial solutions underwritten by joint EU membership and increase the likelihood of zero-sum outcomes less favourable for Ireland.

There would be real potential for conflict over the following crucial issues:

- The Irish border as it became an external EU border, threatening to reimpose barriers dismantled over the last generation, including border posts, passport, visa and customs checks;
- Free movement of persons between Ireland and Britain, which would be threatened by UK immigration controls;
- The defence of the Irish financial services sector from aggressive British competition outside the EU regulatory framework;
- Access for Irish agriculture and agri-business, North and South, to UK markets;

- Foreign direct investment into Ireland, which risks being undermined by unfair UK competition, and trade flows between Ireland and the UK;
- Social dumping, which would be likely from a less regulated UK labour market;
- Judicial and security cooperation between the two states, ensuring that it is not damaged as Ireland becomes the only common law country in the EU;
- Energy cooperation, which would be endangered over the medium-term if the UK withdraws from an EU energy market.

An Ireland intent on staying in the EU core would have to protect such interests and ensure they were not put at risk by a UK withdrawal. That would require maximum empathy and solidarity from Ireland's EU partners. It would be a game of high political and diplomatic stakes on all sides.

Ireland's strategy

In this endgame for Britain and Europe, Ireland can be a leader within the EU if it chooses. Its strategic objective should be to keep the UK within the EU by forceful argument, smart alliances and a multilateral strategy. The scale of the problem and the downside risks involved should convince Irish policy-makers to take on such a leadership role. But clear objectives are essential if Ireland is to take a lead in mediating between the UK's demands for reform and the EU's need to preserve the integrity of its institutions and policies. It requires a willingness on Ireland's part to play a proactive and interpretive role between the UK and its other EU partners.

This would be consistent with past practice. On three previous occasions Ireland played a key part in reconciling differences between the UK and the other Member States. During its first EC Presidency in 1975, Ireland brokered a compromise on Commonwealth preferences which enabled Prime Minister Harold Wilson to win the referendum on British EC membership that year. Later, Garret FitzGerald as Taoiseach helped Margaret Thatcher recover from being outvoted at the Milan Council in 1984 and participate fully in the Single European Act negotiations. Charles Haughey, when Taoiseach, played a similar role with John Major in December 1991 by addressing UK concerns about the federalist objectives set out in the draft Maastricht Treaty.

On this occasion, the stakes are just as high and the circumstances for an Irish intervention equally propitious. Many of Ireland's EU partners, together with leaders of the Union's Institutions, trust Ireland's *bona fides* in the search for a compromise and would accept its interpretation of UK policy. They recognise that Ireland's voice is increasingly listened to

in the UK debate not as a foreign intruder but as a concerned stakeholder with legitimate interests in the outcome. That is important because of the mounting tension between their growing impatience and irritation with the UK negotiating stance and a more slowly developing realisation in the UK that it has more to gain than lose by remaining an active Member State.

An Irish strategy should be directed, firstly, at encouraging its EU partners to offer the UK a prominent role in developing new spheres of cooperation at European level, in accordance with the 'Agenda for Europe' outlined in the preceding chapter. These would be capable of creating complementary cores of integrated action alongside the Eurozone. Security policies arising from recent geopolitical events, an EU Energy Union to address future needs and a Capital Markets Union, as proposed by President Juncker, are other excellent examples, as the previous chapter spelled out. In addition to providing imaginative solutions to common problems from which all can benefit, they offer a leading role to the UK, can be linked to the UK's own negotiating agenda in unexpected ways and provide constructive reasons to stay in rather than leave the EU.

An Irish strategy should be directed, secondly, at influencing and shaping the EU negotiations with the UK on the questions raised by the Conservatives. On each issue there is a spectrum of possible responses. An imaginative and sympathetic approach is required to encourage active British participation in a positive outcome. That would provide its government with the ammunition required to win a referendum.

Specific issues

In addition to the grand strategy outlined above, it will be essential for Ireland to have clearly defined positions in respect of its own national interests. These will come to the fore in the negotiations on the list of demands analysed in the previous chapter. The following observations are germane to the strategy of being at one with other Member States but in sympathy with the UK.

Regulation

The Timmermans agenda is fully in keeping with most Irish approaches to integration practice. The need to reduce excessive regulation and respect national autonomy chimes with much current Irish legal and political thinking. Good examples of how this can be achieved should be sought out by Irish negotiators.

Ever-closer union

The contrast between Irish and British attitudes to European integration was graphically illustrated in Eurobarometer 82, polled in Autumn 2014. It found that some 78% of Irish respondents were optimistic about the EU's future, 17% pessimistic and 5% did not know, whereas the UK figures were 49%, 42% and 9% respectively. The contrasting identifications have been explored in this book and bear on Irish and British attitudes to 'ever-closer union'. But this is not a contrast between a federally inclined people committed to a European superstate and a UK commitment to a looser union, since many different visions of the EU's future are allowed by the formula. The basic task confronting Irish negotiators will be to secure widespread support for a bespoke solution that allows the UK to remain a member of the EU but to stay outside the Eurozone while remaining inside the Single Market.

The Eurozone

Ireland has a deep interest in defining new rules for relations between euro and non-euro members because they directly affect Northern Ireland and Irish relations with Britain. Disruptive fluctuations in the euro-sterling exchange rate have generated serious problems for Irish policy-makers. But they are even more serious for cross-border trade, where the relatively small, mainly indigenous firms are less able to insulate their activities. Any further disintegration of links between the Eurozone and the UK would be highly undesirable from an Irish perspective.

This is the key relationship to be formalised on a permanent basis given that the UK will not join the euro and some other Member States seem of the same mind. It will require much institutional ingenuity to devise a formula whereby being outside the euro is compatible with being inside the EU, particularly the Single Market. As of now, no such formula exists but in this endgame phase of UK-EU relations one is urgently needed. Ireland should play a full part in drawing up such a framework.

'Benefit tourism'

Irish policy can help clarify the distinct character of UK welfare provision compared to other EU Member States. It can help define the scope and limits of national legislation. But there is a more widespread opposition to the alleged practice, including in Germany. It may be possible to find a multilateral approach capable of satisfying British concerns.

Linking migration control to common security concerns can encourage the UK to seek an EU-wide approach. It should be possible to frame a distinction between free movement for economic purposes and free movement for welfare reasons, given that the Single Market is intended to facilitate the optimal allocation of scarce resources rather than the maximisation of welfare benefits.

The ECHR

Irish policy is radically at odds with the demands from British proponents of legal sovereignty. The ECHR is accepted as a central part of Irish jurisprudence. Its human rights regime is written in to the Belfast Agreement, so that any UK withdrawal would have to be negotiated bilaterally with the Irish government as well as with the EU. The same regime is written into Scottish and Welsh devolution. In the light of these difficulties, the best negotiating framework might be for the EU to champion human rights as an antidote to repression in its near neighbourhood from Russia through the Middle East on into North Africa. This is a geopolitical problem of growing importance that feeds into the phenomenon of mass migration.

Reform of the Single Market

Like most other Member States, Ireland understands the limits of what can be achieved in reforming the Single Market and has a direct interest in seeing that its provisions regarding fair competition are not undermined. Given the nature of its manufacturing and market service sectors, dominated by mainly US multinationals that produce in Ireland in order to sell into the EU, Ireland benefited greatly from the 1992 transition to a Single Market from the former Common Market. This realisation heavily influences Irish attitudes to, and support for, the ever-deepening of the Single Market and an unwillingness to see that structure diluted in order to conclude negotiations on the TTIP. This will be a tricky area to negotiate.

Ireland's role

A genuine willingness by UK negotiators to find solutions to its problems could find sympathetic responses elsewhere in the EU, especially in Ireland. These have been identified as a complex mix of the cultural, psychological and political, which are then given concrete expression in business and economic terms. A double agenda emerges

from this interplay which has been discussed in this and the previous chapters in the form of agendas for action.

Two key issues have emerged. The first is the relationship between the Member States in the deepening Eurozone core and its outer circle of EU members, such as the UK. This must be clarified in coming years as it is the rational basis of the UK position.

The second is that the UK wants to be absolved from an endless process of integration while the EU wants the process to continue as the Member States see fit. The task would be to devise a protocol that would freeze the membership rights and obligations of the UK in the form currently incorporated in the Treaties until the UK chose to alter them. It would bring clarity and certainty by establishing that a Member State of the Union can stay outside the monetary union indefinitely, a position that would appeal to some other Member States, while remaining inside the Single Market.

That would be a multilateral solution to a national problem and so satisfy honour all round.

That would justify the Half-in approach analysed in this book as the long-term solution for UK membership of the EU. The prize is so great that it should encourage Ireland and those other Member States which value UK membership to be active and patient in pursuing a solution capable of bringing the endgame to a close. Ireland in particular must be careful not to be perceived as speaking for Britain in these negotiations. But this possibility is more than offset by the trust Ireland has earned from its EU partners as a proactive and interpretive mediator with the UK.

The Half-out scenario makes it more difficult for Ireland to play a proactive leadership role in mediating and interpreting the UK position. Irish policy-makers know the EU issue is often framed in a hostile and inaccurate way in British media and political debate, obscuring the real benefits drawn from EU membership. A more intense public discussion within the UK of the internal and external consequences of withdrawal would tap into an electorate anxious for more informed debate and becoming more aware of its own national interests.

Conclusion

It is worth waiting for that debate to happen. But if it is continually delayed, then patience will run out and goodwill become exhausted. Both these dangers should be avoided by daring and imagination on the part of Ireland working multilaterally with its EU partners.

The objective of this endgame is clear. The long-drawn-out battle between Ireland's struggle for independence and the new and more balanced interdependence with Britain should be brought to an amicable close by a new accommodation between Britain and its European neighbours, including Ireland.

Appendix

List of speakers at the IIEA

2010-2015

Eric Albert	London-based journalist with Le Monde
Prof. Tim Bale	Queen Mary University of London
Hugo Brady	Centre for European Reform
Keith Britsow	Director General, UK National Crime Agency
Douglas Carswell MP	
Rt. Hon. Charles Clarke	former Home Secretary
John Cridland	Director General, Confederation of British Industry
Lord Anthony Giddens	
Charles Grant	Director, Centre for European Reform
Rt. Hon. Damian Green MP	Minister of State for Police and Criminal Justice
Rt. Hon. Dominic Grieve QC MP	Attorney General
Lord David Hannay	
Prof. Robert Hazell CBE	University College London
William Hughes CBE	former Director, UK Serious Organised Crime Agency
Fiona Hyslop MSP	Scottish Government Cabinet Secretary for External Affairs
Sir Bill Jeffrey KCB	former Permanent Under-Secretary at the Ministry of Defence
Paul Johnston	Director for International Security Policy, Foreign and Commonwealth Office
Rt. Hon. Carwyn Jones AM	First Minister of Wales
Prof. Mary Kaldor CBE	London School of Economics
Lord John Kerr	

H.E. Sir Julian Beresford King	former British Ambassador to Ireland
Lord Roger Liddle	
Rt. Hon. David Lidington MP	Minister for Europe
Sir Nicholas Macpherson	Permanent Secretary in Her Majesty's Treasury
H.E. Bobby McDonagh	Irish Ambassador to the UK
Harvey McGrath	former Chairman, Financial Services Authority
Prof. David Marquand	Honorary Fellow, Oxford University
Rt. Hon. David Miliband	former Foreign Secretary
Almut Möller	German Council on Foreign Relations
Charles Moore	former Editor of The Daily Telegraph
H.E. Dan Mulhall	Irish Ambassador to the UK
Dr. Mary C. Murphy	University College Cork
Robin Niblett	Director, Chatham House
Baroness Detta O'Cathain OBE	
Frances O'Grady	General Secretary, Trades Union Congress
Sir David Omand	King's College London
Patrick O'Sullivan	Chairman of Old Mutual plc
Rt. Hon. Owen Paterson MP	Secretary of State for Northern Ireland
Mats Persson	Director, Open Europe
Jonathan Portes	Director, National Institute of Economic and Social Research
Angus Robertson MP	SNP Leader in Westminster
Rt. Hon. Grant Shapps MP	
Lord Robert Skidelsky	Emeritus Professor, University of Warwick
Prof. John Spencer	President, European Criminal Law Association
Sir Keir Starmer	former UK Director of Public Prosecutions
Peter Sutherland	Chairman, Goldman Sachs International
Lord Andrew Turnbull	former Secretary of the British Cabinet
Dr. Simon Usherwood	University of Surrey
Rt. Hon. Theresa Villiers MP	Secretary of State for Northern Ireland
Lord William Wallace	Deputy Leader of the House of Lords
Ian Watmore	Chief Operating Officer, UK Government's Efficiency and Reform Group

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BRITAIN AND EUROPE: THE ENDGAME

AN IRISH PERSPECTIVE

IIEA
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Sharing Ideas
Shaping Policy

Britain's fraught relationship with Europe is analysed in this study prepared by Ireland's leading think tank, the Institute of International and European Affairs (IIEA).

The third in a series that stretches back over 20 years, the authors argue that the relationship has entered the endgame. If not managed with daring and imagination, it could result in Britain exiting from the European Union, perhaps unwittingly.

The consequences are examined under a number of headings, including: the political and economic future of the United Kingdom; its options for a new external relationship with Europe; the political impact on the European Union; the implications for Ireland, with particular reference to the economy; and on the totality of Irish-British relations, with special attention to the effect on Northern Ireland.

The threat of UK withdrawal requires a unique response. This study proposes a bespoke solution by creating a Union with four cores which would enable Britain to be simultaneously both inside and outside the Union. The proposal has the great merit of dealing with political realities and of preventing a potential disaster for all concerned.

The study closes with a series of recommendations for pre-emptive action by the EU as whole and by Ireland in particular.