

# EU-27 WATCH

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## On the project

Due to the new treaty provisions of the Lisbon Treaty and the economic crises the enlarged EU of 27 member states is on the search for a new modus operandi while also continuing membership talks with candidate countries. The EU-27 Watch project is mapping out discourses on these and more issues in European policies all over Europe. Research institutes from all 27 member states and the four candidate countries give overviews on the discourses in their respective countries.

The reports focus on a **reporting period from December 2009 until May 2010**. This survey was conducted on the basis of a questionnaire that has been elaborated in March and April 2010. Most of the 31 reports were delivered in May 2010. This issue and all previous issues are available on the EU-27 Watch website: [www.EU-27Watch.org](http://www.EU-27Watch.org).

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**United Kingdom****Britain and the Eurozone: on the outside looking in**

Alison Sutherland\*

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British public and political reactions to the crisis of the Eurozone arising from the indebtedness of the single currency's member states have been almost uniformly negative.<sup>1</sup> The crisis itself is widely seen as justifying Britain's decision to remain outside the single currency and as definitely having the potential to destroy the Eurozone. The following analysis from the British perspective of the differing elements of the Eurozone's crisis and its possible resolution must be set against a political context in which Britain is extremely unlikely to join the single European currency for many years to come, if ever; in which there is now little public support in the United Kingdom for British membership of the Euro; and in which what support there may have been a year ago for British membership of the Euro has been greatly reduced by the Eurozone's continuing crisis.

*Greek sovereign debt*

At the time of writing in late May 2010, it is generally believed in the United Kingdom that Greece is now protected against the imminent threat of debt default, but that this threat may well return in the medium term, particularly if other countries in the Eurozone, such as Spain and Portugal, find themselves confronted with similar problems to those of Greece in regard to their public indebtedness. A number of commentators in the United Kingdom believe that in the longer term the Greek government will inevitably be forced to restructure its sovereign debt. There is in addition to this pessimistic expectation a widespread perception in this country that the governments of the Eurozone have only taken action over the past six months when forced to do so by global markets, reacting to events rather than shaping them. The ill-coordinated response of the Eurozone to the Greek debt crisis is generally seen in the United Kingdom as reflecting serious faults in the governance of the single European currency. Some criticism is directed particularly at the German Chancellor, Angela Merkel, for her supposed uncertain handling of the crisis.<sup>2</sup> Other commentators stress what they see as the systemic weaknesses of the Eurozone's governance arrangements.<sup>3</sup>

*The Stability and Growth Pact*

It is generally accepted by British commentators that the Stability and Growth Pact needs reinforcement in such a way as to ensure that its provisions are better observed in future.<sup>4</sup> There is however considerable parallel concern that a more rigorous application of the elements of the Pact relating to governmental deficits may, in the specific economic circumstances of the next decade, restrain the economic growth necessary to help the countries of the Eurozone escape from their underlying economic difficulties. This concern is sometimes linked to a familiar criticism of the whole basis of European monetary union, the criticism that the economies of the European Union are so diverse in their degree and type of development that any "one size fits all" policy within the Eurozone must inevitably produce sub-optimal results.

*Coordination of economic policies*

The crisis of the Eurozone provoked by high levels of indebtedness among its member states has reinforced an already widespread belief in the United Kingdom that the Eurozone was set up with inadequate structures of governance.<sup>5</sup> These structures have seemed able neither to prevent the burgeoning crisis, nor to react effectively to it once it had emerged. Nor does the Eurozone yet seem capable of developing an overall strategy to prevent the necessary reduction of governmental debt among its member states over the coming years from acting as an intolerable brake upon economic growth.

Against this analytical background, opinion is divided within the United Kingdom as to whether the Eurozone will be able to develop what is widely accepted in this country as a desirable goal, namely the better, specifically growth-related, coordination of economic policies. Some British commentators doubt the willingness of the Eurozone countries, particularly Germany, to engage in such coordination. Others believe that the real prospect of the destruction of the Eurozone, evoked by among others

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\* Federal Trust for Education and Research.

Merkel, will persuade European leaders to remedy the structural deficiencies of the Eurozone in such a way as to seek a better balance between economic reform, economic growth and sound government finances.

It is worth noting that neither the greater coordination of national economic policies within the Eurozone, nor its absence, will make it more likely that the United Kingdom should join the Eurozone. The absence of this coordination would provide an economic rationale for this country's remaining outside the Eurozone. Its presence would provide a political, sovereignty-protecting rationale for the same policy.

### *Europe 2020 Strategy*

There has been no significant public or political discussion of the Europe 2020 Strategy in the United Kingdom. The Europe 2020 Strategy's predecessor, the Lisbon Agenda, is regarded in this country as having been at best only moderately successful in its ambitious goals. The crisis of the Eurozone will certainly provide ammunition to those critics arguing that the Europe 2020 Strategy is unlikely to improve on the modest achievements of the Lisbon Agenda.

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<sup>1</sup> Financial Times passim in 2010, particularly W. Munchau: The Eurozone must take responsibility or it will split, Financial Times, 9 May 2010; W. Munchau: To save the Eurozone, reform its governance, Financial Times, 16 May 2010; M Wolf: Eurozone plays "beggar may neighbour", Financial Times, 18 May 2010.

<sup>2</sup> Kaletsky: It's Lehman the sequel, with Merkel as Bush, The Times, 26 May 2010.

<sup>3</sup> Redwood: The Eurosceptic case for saving the Euro, The Times, 27 May 2010.

<sup>4</sup> J. M. Aznar: Europe must reset the clock on stability and growth, Financial Times, 17 May 2010.

<sup>5</sup> T. Barber: Europe: a tent to attend to, Financial Times, 16 June 2010.

## Questionnaire for EU-27 Watch, No. 9

Reporting period December 2009 until May 2010 – Deadline for country reports 21 May

**All questions refer to the position/assessment of your country's government, opposition, political parties, civil society organisations, pressure groups, press/media, and public opinion. Please name sources wherever possible!**

### 1. Implementation of the Lisbon Treaty

On the 1 December 2009 the EU-reform ended with the entering into force of the Lisbon Treaty. However, the new treaty provisions still have to be implemented. Some procedures and conditions have to be determined. In other cases, procedures, power relations, and decision-making mechanisms will change due to the new provisions.

- How is the work of the new President of the European Council, Herman Van Rompuy, assessed in your country? Which changes to the role of the rotating council presidency are expected?
- How is the work of the new High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, assessed in your country? Please take into particular consideration both her role within the European Commission and her relationship to the Council of the European Union.
- On 25 March 2010 a "Proposal for a Council Decision establishing the organisation and functioning of the European External Action Service" was presented. How is this concept perceived in your country? Which alternatives are discussed?
- On 31 March 2010 the European Commission presented a proposal defining the rules and procedures for the European Citizens' Initiative (ECI). What are the expectations for the ECI in your country? What are the various positions concerning the rules and procedures?

### 2. Enlargement and European Neighbourhood Policy

The European Commission has given its opinion on Iceland's application for EU-membership and a decision from the Council is expected before the end of June. Croatia seems to have settled its border dispute with Slovenia. Against this background:

- Which countries does your country expect to become members of the European Union in the next enlargement round? What are the opinions in your country on the membership of these countries?
- How are the membership perspectives of those countries discussed, which are not expected to become a member in the next enlargement round?

The Eastern Partnership and the Union for the Mediterranean were the last major projects dealing with the European neighbourhood:

- How are these projects assessed in your country?

### 3. European economic policy and the financial and economic crisis

The European Council agreed on 25/26 March on the key elements of the Europe 2020 strategy, the successor of the Lisbon strategy. While not being on the formal agenda the economic and financial situation in Greece was discussed. The European Council agreed on a finance package combining bilateral loans from the eurozone and financing through the International Monetary Fund.

- How is the finance package for Greece assessed in your country? Are there any opinions on the process, how the agreement on the package was reached?
- Which lessons should be drawn from the Greek case for a reform of the Stability and Growth Pact?
- How is the idea of "a strong coordination of economic policies in Europe" perceived in your country? What concepts of an European economic governance are discussed in your country and which role do they assign to the Euro group?
- How is the Europe 2020 strategy discussed in your country? What are the priorities for the Europe 2020 strategy from your country's perspective?

### 4. Climate and energy policy

The climate conference in Copenhagen took note of the Copenhagen Accord but did not reach a binding agreement. The next conference of the parties (COP 16 & CMP 6) will take place at the end of November 2010.

- How is the Copenhagen conference assessed in your country? Please take into consideration the negotiation strategy of European Union and the results of the conference.
- Does the European Union need to change its own energy and climate policy in order to give a new impulse to the international negotiations?
- Is a global agreement within the UNFCCC the best strategy to fight climate change? If not, which alternative strategy should the European Union follow?
- What is your country's position on financing mitigation and adaptation efforts in developing countries?

### 5. Current issues and discourses in your country

Which other topics and discourses are highly salient in your country but not covered by this questionnaire?