

A new sort of Europe, a new sort of World?

19th Plenary Meeting of the Club of Three

SUMMARY

The European Union has been severely tested by political, economic and financial pressures that developed in the wake of the 2008 banking crisis. This year's Plenary conference in London focused on fault lines and changing relationships within the European Union and also looked at the effectiveness of Europe's voice in the wider world. The meeting was hosted by the British Foreign and Commonwealth Office and was held in the FCO's Locarno Suite. Participants from Germany, France and the UK included business leaders, politicians, diplomats and media executives. It was opened by the Chancellor of the Exchequer, the Rt Hon George Osborne MP, who delivered a keynote address. The conference dinner was held in the FCO's Durbar Court and was addressed by the

Minister for Europe, the Rt Hon David Lidington MP. The discussions followed Club of Three traditions and were held in an informal and confidential setting.

Europe must retain its competitiveness and promote prosperity. Those imperatives were stressed throughout the meeting. There was no way of avoiding the widespread unease and uncertainty over the EU's ability to meet the challenge. But nobody questioned the EU's determination to survive and 'muddle through.' It was generally agreed that the EU, while retaining its absolute commitment to the Single European Market, is increasingly moving towards a multi-tier institution with the Eurozone and its emerging Banking Union acting as a catalyst for far-reaching change affecting the entire membership. The urgency of addressing Europe's democratic deficit and securing political consent for EU decisions was widely recognised. The need to overcome the North-South gap in the EU was accepted; though some questioned whether Greece and Cyprus should remain in the Eurozone. The effectiveness of the EU's use of soft power and Europe's influence on the world stage was examined and found wanting. The survival of Europe's welfare system was questioned. The proposed financial transaction tax was condemned outright. Germany, as the key player in the EU, was urged to overhaul its EU policies after the autumn election. The exchanges also reflected great unease over the EU's ability to satisfy British demands for revision of its membership conditions, even though the UK's desire to remain in the EU and to play a leading role in EU-US free trade negotiations was reaffirmed.

Above, clockwise left to right:
Sir John Grant (*BG Group*); Sir Nigel Sheinwald (*Shell*) and Prof Dr Michael Stürmer (*Die Welt*); The Rt Hon David Lidington MP (*UK Minister for Europe*) and Lord Turner of Ecchinswell (*Institute for New Economic Thinking; ISD*); The Rt Hon George Osborne MP (*Chancellor of the Exchequer*) and Lord Weidenfeld of Chelsea (*Weidenfeld and Nicholson; ISD*)



AGENDA

Friday 17 May

Welcome from Lord Weidenfeld of Chelsea

Keynote address and discussion:

The Rt Hon George Osborne MP, Chancellor of the Exchequer

Session I:

FINANCIAL EUROPE: WHITHER THE EUROZONE,
AND WHAT ROLE FOR THE 'OUTS'?

Chair: Lord Simon of Highbury

Speakers: Anshu Jain

Charles de Croisset

Lord Turner of Ecchinswell

Dinner:

"WHERE ARE WE THREE?"/
A US-EU FREE TRADE AREA?

Keynote speaker:

The Rt Hon David Lidington MP, UK Minister for Europe

Saturday 18 May

Session II:

INSTITUTIONAL EUROPE: CAN THE
MULTI-TIER APPROACH WORK?

Chair: Prof. Dr. Michael Stürmer

Speakers: Sylvie Kauffmann

Sir Nigel Sheinwald

Prof. Dr. Friedbert Pflüger

Session III:

EUROPE AND THE WORLD:
WHAT DO WE BRING TO THE PARTY?

Chair: Louis Schweitzer

Speakers: Lord Mandelson

Dr. Dominique Moïsi

Prof. Dr. Roland Berger

Informal buffet lunch

FINANCIAL EUROPE – WHITHER THE EUROZONE; AND WHAT ROLE FOR THE 'OUTS'?

KEYNOTE ADDRESS AND SESSION I

The UK wants to safeguard the Single European market, strengthen it and extend it to energy and digital services. It favours consolidation in key industrial sectors such as aerospace and looks for swift progress towards an EU-US free trade agreement. It has consistently supported EU enlargement. Far from being obstructionist, the UK wants to help steer the EU to be a prosperous, outward looking power with notable influence on the international stage. Britain is optimistic that this vision is widely shared in the EU and that there is a desire for reform to better equip it to that end. However this pro-Europe approach is tempered by a series of major UK concerns over issues such as the EU's rule of free movement of people throughout the area which has led to a controversial flow of immigration into the UK. In Britain, this is a politically toxic issue. Yet for most other EU countries free movement is seen as a fundamental non-negotiable feature of membership. Britain also

Below, top: The Rt Hon George Osborne MP
(Chancellor of the Exchequer)

Bottom, left: Anshu Jain (Deutsche Bank)

Bottom, right: Lord Mandelson (Global Counsel LLP),
Michael Maclay (Montrose Associates & ISD)



fears for the integrity of the Single Market, and even more so for the future of the City of London if decisions affecting its dominant role in the financial sector are taken by Eurozone Ministers – or by the emerging European Banking Union – at meetings where the UK as a permanent non-Euro country, has no representation. The UK has no objection to the Euro institutions; but will not join them. However the likelihood of becoming the victim of decisions over which it has no power raises fundamental questions for Britain's membership.

Britain is already reconciled – and indeed supports – the concept of a European Union operating in different combinations. But it must also be able to safeguard its interests and be able to defend itself against critics who complain of fatal loss of sovereignty and blame Brussels for some of the UK's economic difficulties. Several speakers noted that the British government cannot ignore its domestic public opinion, all the more so as David Cameron's Conservative Party, if re-elected to power is already committed to a referendum in 2017. It was also suggested that the UK's partners might be flexible if British concerns can be addressed in the context of a more general series of EU repairs and reforms. But it would be a very different matter if the UK also sought to repatriate a series of powers and negotiate a new settlement for itself. Several participants warned that Britain would fail if it sought terms that require constitutional changes under the EU Treaties.

Participants noted that Europe's economic performance is stagnant and compares badly with its competitors. Projected growth in America and Asia is in stark contrast to the prospects for Europe over the next decade. Stimulating investment, improving services and focusing on creativity and new technology are crucial for Europe's future. However the main focus during this session was on the Eurozone as a game changer for the EU. Its existence has inevitably led to a two-tier European Union. Is it also leading to a two-speed EU? One participant blamed the Euro for creating divisiveness and undermining the EU's cohesion. Others asserted that Eurozone governance has been poor. Hope is invested in the European Banking Union to strengthen the Eurozone and ensure the Euro's



Left, top: Sasha Havlicek (ISD) and Dr August Hanning (ISD)
Left, bottom: Lord Kerr of Kinlochard (Scottish Power)

LIST OF ATTENDEES

Dr Rudolf **ADAM** German Embassy, London | Jean-Louis **BEFFA** Lazard Asia Financial Advisory | Prof Dr Roland **BERGER** Roland Berger Strategy Consultants & ISD | Dr Thomas **BUBERL** Axa Germany | Charles de **CRUISSET** Goldman Sachs International | Mick **DAVIS** X2 Resources Limited | Stuart **FIERTZ** Cheyne Capital Management & ISD | Scott **FREIDHEIM** Investcorp International Ltd. | Dr Thomas **GAULY** Gauly, Dittrich van de Weyer AG | Etienne **GERNELLE** Le Point | Charles **GRANT** Centre for European Reform | Sir John **GRANT** BG Group | Martin **GREEN** Financier & Philanthropist | Jacob **GRIERSON** McDermott Will & Emery | Sir Ronald **GRIERSON** Formerly General Electric Company & ISD | Pia **HAHN MAROCCO** Osborne & Partners | Dr August **HANNING** Formerly Federal Ministry of the Interior; Bundesnachrichtendienst & ISD | Sasha **HAVLICEK** ISD | Anshu **JAIN** Deutsche Bank | Peter **JUNGEN** Peter Jungen Holding GmbH | Sylvie **KAUFFMANN** Le Monde | Michael **KEELEY** C12 Capital Management | Dr Pierre **KELLER** Formerly Lombard, Odier & Cie & ISD | Lord **KERR** of Kinlochard Scottish Power | Baroness **KINGSMILL** E.ON SE | Dr Eberhard von **KOERBER** Eberhard von Koerber Ltd | Angus **LAPSLEY** Cabinet Office | Michael **MACLAY** Montrose Associates & ISD | Lord **MANDELSON** Global Counsel LLP | Simon **MANLEY** FCO | Gilles de **MARGERIE** Ricol Lasteyrie | Sophie-Caroline de **MARGERIE** Conseil d'Etat | H.E. Thomas **MATUSEK** Alfred Herrhausen Gesellschaft | The Rt Hon Andrew **MITCHELL** MP Member of Parliament for Sutton Coldfield | Dr Dominique **MOISI** French Institute for International Relations | Mónica de **ORIO** Círculo de Empresarios | Ian **OSBORNE** Osborne & Partners | Prof Dr Friedbert **PFLÜGER** European Centre for Energy and Resource Security, King's College London | Hella **PICK** Formerly The Guardian & ISD | Lord **POWELL** of Bayswater House of Lords | Baroness **RAWLINGS** House of Lords & ISD | Prof Dr Joachim **ROGALL** Robert Bosch Stiftung | Antoine **ROSTAND** Schlumberger Business Consulting | Louis **SCHWEITZER** French Foreign Affairs Council & ISD | Sir Nigel **SHEINWALD** Shell | Lord **SIMON** of Highbury GDF Suez & ISD | Bernard **SPITZ** French Insurance Federation | Philip **STEPHENS** Financial Times | Prof Dr Michael **STÜRMER** Die Welt | Lord **TURNER** of Ecchinswell Institute for New Economic Thinking & ISD | Lord **WEIDENFELD** of Chelsea Weidenfeld & Nicolson & ISD | Serge **WEINBERG** Sanofi | The Rt Hon Shaun **WOODWARD** MP Member of Parliament for St Helens South and Whiston

survival. To that end, the Banking Union needs to have central supervisory authority. But diminishing public support for greater centralisation means that only minimal steps are feasible. Any move that involves early treaty change and requires referendum endorsement in member states would carry high risk. In place of a ‘Big Bang’ the broad direction of Eurozone travel will be patchy, slow and incomplete.

A further variety of points advanced included:

- ▶ The European Central Bank’s policies bought time for the Eurozone. This has been squandered and the Eurozone is failing to develop credible policies for growth.
- ▶ The financial transaction tax is a device to punish bankers, and must not be implemented.
- ▶ It is crucial for the prosperity of the City of London for the UK to remain in the EU. But it is equally crucial for Europe to have the benefit of the City of London.
- ▶ Unemployment in Europe is a time bomb with unforeseeable consequences.
- ▶ Eurozone woes are triggering extremism. The outlook for the 2014 elections to the European Parliament is not good.
- ▶ Greece and Cyprus should be enabled to leave the Eurozone. Their economies are small enough to do this without undermining the Eurozone.
- ▶ The Eurozone owes its survival to Germany. After the German elections the country needs to initiate a fundamental review of the Eurozone’s future directions.
- ▶ The UK is the only EU member that contemplates exit. The dream of ‘ever-closer Union’ remains a valid goal for all the other members.

Below, left: The Durbar Court
Below, right: Charles de Croisset (*Goldman Sachs International*), Sophie-Caroline de Margerie (*Conseil d’Etat*) and Antoine Rostand (*Schlumberger Business Consulting*)



‘WHERE ARE WE THREE?’/ A US-EU FREE TRADE AREA?

DINNER

The emphasis of the dinner discussion was on the credibility of Britain’s commitment to the concept of an outward-looking European Union demonstrably working to promote growth and prosperity for the whole of Europe. It is this goal which guides the UK’s calls for reform in the EU, and which also explains the UK’s enthusiasm for an EU-US free trade agreement. Subsequently, it was stressed that membership remains in Britain’s national interest for economic as well as political and strategic reasons. The benefits of the Single European market are well recognised, and unfettered access to it remains a key condition for the UK membership. The UK also looks to progress towards a common market in energy and in digital services. Joint foreign policy initiatives help to strengthen Britain’s world standing. But EU countries must be put on notice that the UK cannot tolerate decisions that undermine the City’s dominant position. Speakers also warned that public confidence in the EU was eroding not just in the UK but was spreading throughout Europe. The democratic deficit must be addressed urgently and national parliaments drawn in to give the EU greater legitimacy. Speakers also urged that public understanding and support demand a much more concerted effort to explain the benefits of membership to electorates. Britain was also advised against over-reliance on Germany. It needs to build broader alliances with France and other EU countries.





US readiness to negotiate a free trade deal with Brussels is a massive opportunity, which must be seized rapidly. It would be the world's biggest trade deal and would benefit the economies on both sides of the Atlantic. Eliminating tariffs would add billions to both economies. But it is also vital to negotiate greater coherence in regulatory systems and other non-tariff barriers. There are difficult hurdles ahead. But the achievement of the free trade deal would be worth the effort: binding together the EU and US in a common economic and political goal is a prize worth major effort. Moreover it would greatly strengthen the case for the UK's continued membership of the EU.

achieve its purpose of stabilising the currency, commits its members to a federal path? With the European Parliament discredited, how can the EU secure greater legitimacy? Does the EU still have a *raison d'être*? This session threw up more questions than answers and was primarily significant for recognising the multiplicity of challenges facing the EU. It led one of the speakers to assert that people excel in highlighting what is wrong; yet all too rarely speak about what is good about the EU.

Above, left to right: David Lidington (*UK Minister for Europe*); Jean-Louis Beffa (*Lazard Asia Financial Advisory*); Philip Stevens (*Financial Times*); H.E. Thomas Matussek (*Alfred Herrhausen Society*)

Below, left to right: H.E. Thomas Matussek (*Alfred Herrhausen Society*), Michael Maclay (*Montrose Associates & ISD*), Louis Schweitzer (*French Foreign Affairs Council*), Etienne Gernelle (*Le Point*), Sophie-Caroline de Margerie (*Conseil d'Etat*)

Two principal issues, involving some measure of institutional change and demanding urgent attention were identified:

INSTITUTIONAL EUROPE – CAN THE MULTI-TIER APPROACH WORK?

SESSION II

The multi-tier approach is already a fact of EU life – only look at Schengen, energy, defence and security, foreign policy initiatives. This process is bound to intensify. But whether such institutional flexibility can help to resolve the EU's problems is another matter. Can the aim of economic growth and prosperity be reconciled with maintenance of the welfare system in EU member states? Is the EU suffering from lack of leadership and outstanding personalities, or from an absence of new ideas and a narrative capable of capturing the popular imagination? Can the integrity of the Single European market be reconciled with a free trade agreement with the US, or indeed with similar trade agreements with other key regions? Will the Eurozone survive after national electorates grasp that the new European Banking Union, if it is to

- ▶ Safeguards to ensure the integrity of the Single European market in a multi-tier European Union containing Eurozone 'in's and 'out's.
- ▶ Measures to reverse the democratic deficit and regain public support for the EU.





Top, left: Mónica de Oriol (*Círculo de Empresarios*)
Top, right: Bernard Spitz (*French Insurance Federation*) and Lord Simon of Highbury (*GDF Suez & ISD*)
Middle, left: Mick Davis (*X2 Resources Limited*)
Middle, right: Lord Weidenfeld of Chelsea (*Weidenfeld & Nicholson; ISD*)
Bottom: Lord Mandelson (*Global Counsel LLP*) and Louis Schweitzer (*French Foreign Affairs Council*)

The EU has the political will to search for compromise solutions. But the exchanges confirmed that there were red lines beyond which compromise to accommodate Britain may become impossible. Several speakers complained that Britain’s ‘special needs’ complicated the way forward and argued that the UK would have to reconcile itself to exclusion from some vital decision-making if it remains outside the Eurozone.

The lack of democratic legitimacy is self-evident. One cynic asked whether the people are just regarded ‘as a nuisance’. Though there was no suggestion to abolish the European Parliament, it was described as a disaster-zone. There were no proposals for reforming it. Solutions would have to be sought through closer involvement of national parliaments. One option could be for national parliaments to set up permanent missions in Brussels with extensive powers of scrutiny.

A further variety of points made included:

- ▶ The EU has a poor record of institution building. Change is best brought about by high profile leaders.
- ▶ The EU should be structured on a multi speed as well as a multi-tier architecture. This is essential to give the EU greater flexibility in adapting to the digital age.
- ▶ The EU needs to have a credible narrative and perhaps a master plan. It must decide whether the German social welfare model of capitalism or Britain’s unfettered market model can best meet global competition.
- ▶ The UK has not yet fully grasped the implication of terminating its EU membership.
- ▶ The EU would best improve its legitimacy by focusing on issues that are important to the public, such as immigration and energy. Too much focus on the Eurozone is a distraction.

EUROPE AND THE WORLD – WHAT DO WE BRING TO THE PARTY?

SESSION III

Soft power is one of Europe’s great assets. The resources it can bring to the global party include democracy, culture, knowledge, crisis management and social stability, regulatory norms and good government. But such powers are under-used. Europe has been poor at joining together to project its resources in support of its international stature. Soft power also needs to be underpinned by a strong European economy. US attitudes to Europe were cited as an illustration: President Obama stresses the importance of close links with Europe, but only if Europe succeeds in being both coherent in its external policies and also remains prosperous. Foreign policy is a leading instrument for the exercise of soft power. But there was a mixed assessment of the extent of Europe’s standing on the 21st century international stage. It was argued that Asia no longer sees Europe as a major power, that Europe has lost influence in Russia and even more so in the Middle East. Rather than ask itself how it can make an impact on external events, Europe may need to ask how it can protect itself against the force of global events. With respect to defence

and security, EU countries, far from coordinating policies, are vying with each other to reduce defence budgets. On the economic front participants asked whether Europe can continue to serve as a model to the outside world without major improvements to its infrastructure and use of information technology.

Recommendations for more effective use of soft power included:

- ▶ Intensify the effort to define common foreign policy in areas where the EU has a realistic prospect for influence. Turkey was cited as an example where Europe should seek active engagement.
- ▶ China is an all-important power: Instead of competing, work together to forge closer relations with China and keep it anchored to the international trading system.
- ▶ Recognise that the multi-tier formula can apply to foreign policy and that some foreign policy issues can best be addressed by selective groups rather than the wider EU membership.
- ▶ Reinvigorate the effort to co-ordinate defence and security policies.
- ▶ Strengthen the European economy by consolidation of industries across national boundaries coupled to deregulation, and rationalisation of the financial sector.
- ▶ Focus on climate change, cheap energy and develop a joint position on the exploitation of shale deposits.
- ▶ Never forget that the single European market is Europe's major source of economic power. It is an invaluable tool of soft power. If it is allowed to unravel, the EU 'is dead'.

CONCLUSION

This Plenary exposed many of the problems facing the European Union and explored the options for addressing them. The exchanges demonstrated that



there are two fundamental contradictions that increase the difficulty of plotting a straight path forward. One is the ambivalence surrounding Britain's membership: the UK has set itself up as the champion of a free trade agreement between the EU and US, and at the same time throws doubt on its ability to sustain EU membership without major concessions on its membership terms and firm guarantees for the City of London's pivotal role. The other contradiction concerns the Eurozone: the survival of the Euro demands a Banking Union with extensive supervisory power. Yet Eurozone countries dare not make major treaty amendments to empower the Banking Union because it risks popular rejection.

Many new ideas were put forward, but implementing them requires a great deal more probing, analysis and discussion. It was clear that everybody was committed to continuing the search for reform and change in the European Union and to find ways of energizing public support. Participants were united in their commitment to preserve the European Union: 'muddling through' will involve controversy, and perhaps even the exit of one or two members. It will require patience and inventiveness. But break-up, or defeatism, is not in the cards.

Above, top, left to right: Sylvie Kauffmann (*Le Monde*); Sir Nigel Sheinwald (*Shell*); Prof Dr Friedbert Pflüger (*King's College London*)
Above, bottom, left to right: Lord Turner of Ecchinswell (*Institute for New Economic Thinking, ISD*); Dr Eberhard von Koerber (*Eberhard von Koerber Ltd*) and Baroness Kingsmill (*E.ON SE*); Prof Dr Joachim Rogall (*Robert Bosch Stiftung*)

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