

Club of Three: 'A Franco-British-German leadership network for a strategic Europe 2013-2014'

Working session

INTRODUCTION

The outcome of the elections to the European Parliament on 21 May 2014 exposed the deep disconnect which has developed between Europe's citizens and the European Union. Voter participation was substantially below 50 per cent, and almost a third of the newly elected Parliamentarians belong to Eurosceptic parties on the right or the left, including several which had campaigned on populist, often xenophobic platforms. It is against this background of voter apathy and alienation that the Institute for Strategic Dialogue organised the Working Session of the Club of Three to assess the implications of the election results and review the case for institutional reform and economic cooperation as a way forward for the EU to secure public understanding and support and safeguard its future. The Working Group met within a week of the European elections on May 28, 2014 and was hosted by the French Ambassador, Bernard Emié, at his London residence. The conference dinner was

held at the Athenaeum Club. There were two dinner speakers: Sir Edward Garnier MP, and Philipp Mißfelder, Member of the German Bundestag.

The meeting was divided into three sessions. The first was designed as a *post mortem* of the election campaign and its result. The second session surveyed the potential for reform and a redesign of the European institutions. The final session addressed the EU's economic, financial and energy strategies. Participants included regular members of the Club of Three, business leaders, bankers, diplomats, academics, and journalists from Germany, France and UK. But there were also a number of high level participants, new to the Club of Three, who made important contributions to the discussions. The meeting was generously supported by the Robert Bosch Stiftung, with additional support from the French Embassy in London.



Right, clockwise left to right:
Lord Mandelson and Patricia
Barbizet; Dr Pierre Keller,
Dr Daniela Schwarzer, Charles
de Croisset; H.E. Dr Peter Ammon
and Marguerite Berard-Andrieu.

AGENDA

Wednesday 28 May

Welcome and introductory remarks

H. E. Bernard Emié, French Ambassador to the United Kingdom of Great Britain and Northern Ireland

Lord Weidenfeld, President, Institute for Strategic Dialogue

Markus Lux, Deputy Head of Department, "International Relations – Europe and its Neighbours", Robert Bosch Stiftung

Session I:

DIFFERENT PARLIAMENT, DIFFERENT EUROPE? EUROPE'S BIG VOTE: A POST-MORTEM

Chair: **Lord Powell of Bayswater**

Speakers: **Bruno Le Maire**

Prof Dr Michael Stürmer

Session II:

REDESIGNING EUROPE'S INSTITUTIONS: DO WE NEED MORE EUROPE OR LESS EUROPE?

Chair: **Charles de Croisset**

Speakers: **Sir Robert Cooper**

Dr Daniela Schwarzer

Lord Mandelson

Session III:

GETTING BACK TO GROWTH

Chair: **Gerry Grimstone**

Speakers: **Sabine Lautenschläger**

Dr Laurence Boone

Dinner

The Athenaeum, 107 Pall Mall, London, SW1Y 5ER

Speakers: **Sir Edward Garnier**

Philipp Mißfelder MdB

SUMMARY OF DISCUSSIONS

'Muddling through' may still be the only available option. Given the way decision-making in the EU traditionally works, it is tempting to grasp that conclusion. But it may not be the most politically inspiring one. This contradiction coloured much of the exchanges during the meeting. The European Union needs bold reform, but proposals for further integration do not garner much support. Concern to protect national sovereignty has become more potent. Therefore, it seems that the EU should focus on down-sizing and streamlining its institutions while delivering more on jobs, economic prosperity and energy security. It was argued that the EU should become 'a Europe of Limits' and of genuine democratic accountability. But even if such expectations can be satisfied – and most participants questioned this – the European elections have to be seen in a wider context. The outcome is symptomatic of the alienation felt by millions of people in this age of globalisation. The EU is caught in the middle of the clash between an economic system of global horizons and individual expectations of economic security

Below, top: Anne-Elisabeth Moutet and Charles de Croisset.
Bottom: Club of Three Working Session.



within small accessible horizons. The dearth of outstanding leaders makes it all the more difficult to map a way out of the morass. These are the arguments that surfaced during the discussions of the Working Group meeting. The *post mortem* on the election was gloomy. Much of the vote reflected national domestic concerns, especially immigration and economic and welfare policies with the EU used as scapegoat rather than as prime target. Several speakers concluded that this calls for domestic solutions rather than action at EU level where significant results can only be secured by more integration - a proposition that the Eurosceptic will not accept. UKIP's success in the UK has reinforced the debate over the UK's continued membership of the EU. Even more significantly, the *Front National's* victory in France has unbalanced the core Franco-German relationship within the EU and carries deep implications for the EU's future direction.

The question of institutional reform, tackled in the second session, focused on the selection of the President of the EU Commission, the competence of the Commission and the legitimacy of the European Parliament. With only a couple of exceptions, the participants argued that the Lisbon Treaty was ambiguous and that the European Parliament did not have the authority to elect the President of the Commission. The democratic accountability and even legitimacy of the European Parliament was questioned and it was argued that National Parliaments should be directly represented in the European Parliament. After an informal vote was taken, there was a 17-10 majority calling for a change in the way the European Parliament is selected. A second, informal vote produced unanimity for the proposition that the European Commission should be down-sized. There was a large majority - 25-9 - for the extension of variable geometry to become a more central feature of the EU, enabling clusters of EU members to work together on specific matters that do not necessarily command the support of the entire membership.

Without closer integration of the Eurozone, Europe risks falling into a Japan-like 20-year lingering depression, declared one of the participants. Even if this overstated the danger, others warned against excessive faith in the ECB



and spoke of distinct limits to what the bank can do to stimulate economic activity in Europe and promote growth and job creation. Europe's economy needs structural reform. But whether a common EU strategy for growth is feasible - or is even desirable - remains an open question. Energy supply in the EU has to be resolved around the need for energy security, competitiveness and environmental sustainability. Fracking poses a difficult challenge: it has the potential to create jobs and to strengthen energy security. But it also throws up environmental issues that are more difficult for some EU countries than for others. The EU remains short of an energy strategy that clearly defines national and EU competence.

If the European elections have indeed become a genuine wake-up call for Europe's elites, then the best to be hoped, concluded one participant, is that out of chaos a decisive leadership will emerge and a new and better order constructed.

In their after-dinner speeches, speakers and participants debated the selection process of the EU Commission President. While some insisted that the Lisbon Treaty fully entitled the European Parliament to select Jean-Claude Juncker, the Parliament's Centre Right *Spitzenkandidat* to become Commission President, others warned against such a move, and asserted that the EU had at best six months to find accommodation with the British voter and maintain the UK's political consent for EU membership.

Top: Bernard Spitz, Lord Simon, Sir Nigel Sheinwald and Dr Daniela Schwarzer.
Above, left: Alexandra Henderson, Sasha Havlicek and Gerry Grimstone.
Above, right: Dr Pierre Keller, Bruno Le Maire and Lord Powell.

DISCUSSION IN DETAIL

SESSION I: DIFFERENT PARLIAMENT, DIFFERENT EUROPE? EUROPE'S BIG VOTE: A POST MORTEM

'The people have spoken: the bastards!' That summed up the reflex reaction of European governments to the European Parliamentary elections. But this has quickly given way to sober analysis. Speakers during this session all agreed that there had been plenty of warnings during the election campaign that voters would turn away from establishment parties. Much of the outcome can be interpreted as a protest vote – often less against the EU than against immigration, against high unemployment and other domestic political factors. But in the EU context, it was self-evident that voters had also spoken up against further EU integration. If the victory of the *Front National* in France came as a shock to the outside world, in France itself it came as less of a surprise. It was a protest vote reflecting popular disenchantment with both the government and the main opposition parties. Voters wanted to kick the government, said one participant. Even though the *Front National* campaigned on the theme of

quitting the EU, several others agreed that the EU in France, as elsewhere, was a mere sideshow in the election. Its significance for the EU, however, was stressed, and it was agreed that the election results weakened not only President Hollande on his domestic territory, but also the Franco-German Alliance, one of the central pillars of the Eurozone as well as of the European Union. The UK, outside the Eurozone, and with its strong Eurosceptic public seemed in no position to compensate for French weakness, while German power in the EU appeared as more dominant. One speaker reminded the group that President Mitterrand was fond of declaring that 'more Europe is more power for France'. Now, it seemed more accurate to claim that 'more Europe [meant] more Germany and less France.'

Irrespective of the strategic balance in Europe, most speakers concluded that reform of the EU's institutions had become urgent. But reforms would have to be achieved within the existing treaties without risking the European-wide referendums that a treaty change would require. Given the limitations, decisive leadership is essential, but there were no immediate solutions to fill the void. Much of the discussion during this session revolved around the selection of the new President of the EU Commission. A couple of speakers who had initially supported the idea of *Spitzenkandidaten* said they had changed their minds. It was generally agreed that this was not an issue that had come up widely enough in the election campaign to make an impact on the voting, and that this made a strong argument against allowing Mr Juncker's name to go forward automatically on the basis of the claims of the majority grouping in the new European Parliament.

There was agreement that EU reform must be seen within the much wider perspective of globalisation and its adverse impact on Europe's post-war model of the welfare state and the economic and social security that it was designed to guarantee. The election outcome reflected as much a sense of helplessness against the forces of globalisation as a comment on the EU's failures. There was consensus that these are challenges for national governments more than for the EU. Ways forward include the completion of the single European market, as well as the

LIST OF ATTENDEES

Peter **AMMON** German Ambassador to the United Kingdom of Great Britain and Northern Ireland | Patricia **BARBIZET** Groupe Artémis | Marguerite **BERARD-ANDRIEU** BPCE | Cyril **BLONDEL** French Embassy to the United Kingdom | Thomas **BUBERL** Axa Germany | Laurence **BOONE** Bank of America Merrill Lynch | Robert **COOPER** Formerly EEAS & ISD | Charles **de CROISSET** Goldman Sachs International | Howard **DAVIES** Phoenix Insurance Group | Bernard **EMIÉ** French Ambassador to the United Kingdom of Great Britain and Northern Ireland | Etienne **GERNELLE** Le Point | Charles **GRANT** Centre for European Reform | Sir Ronald **GRIERSON** Formerly General Electric Company & ISD | Gerry **GRIMSTONE** TheCityUK & Standard Life | Sasha **HAVLICEK** ISD | Alexandra **HENDERSON** ISD | Peter **JUNGEN** Peter Jungen Holding GmbH | Pierre **KELLER** Formerly Lombard, Odier & Cie & ISD | Matthew **KIRK** Vodafone | Stefan **KORDASCH** German Embassy to the United Kingdom of Great Britain and Northern Ireland | Sabine **LAUTENSCHLÄGER** European Central Bank | Bruno **LE MAIRE** Assemblée Nationale | Markus **LUX** Robert Bosch Stiftung | Michael **MACLAY** Montrose Associates & ISD | Lord **MANDELSON** Global Counsel LLP | Philipp **MIBFELDER** Bundestag | Anne-Elisabeth **MOUTET** Daily and Sunday Telegraph | Baroness **NEVILLE-ROLFE** EuroCommerce | Hella **PICK** Formerly The Guardian & ISD | Lord **POWELL** of Bayswater House of Lords | Andreas **PROTHMANN** German Embassy to the United Kingdom of Great Britain and Northern Ireland | Baroness **RAWLINGS** House of Lords & ISD | Antoine **ROSTAND** Schlumberger Business Consulting | Kerstin **SCHULZ** Robert Bosch Stiftung | Daniela **SCHWARZER** German Marshall Fund of the United States | Nigel **SHEINWALD** Shell | Lord **SIMON** of Highbury GDF Suez & ISD | Bernard **SPITZ** French Insurance Federation | Philip **STEPHENS** Financial Times | Michael **STÜRMER** Die Welt | Lord **TURNER** of Ecchinswell Institute for New Economic Thinking & ISD | Lord **WEIDENFELD** of Chelsea Weidenfeld & Nicolson & ISD



implementation of the European Banking Union as an effective instrument to promote economic integration. But as one participant summed it up: nothing that the EU can do will unleash Europe-wide prosperity and become transformational.

Other points made during the session included:

- ▶ It is probable that the elections results will not lead to any substantial change in the way the EU operates on a day-to-day basis. Participants with an insider's experience of the EU stressed that it was likely business would go on 'as usual'.
- ▶ Apathy was a major factor in the election: two-thirds of the electorate failed to vote, partly because of the absence of charismatic leadership. Among those who did vote only very few knew the identity of the candidates in their constituencies. Jean-Claude Juncker's name was virtually unknown.
- ▶ Euroscepticism flourishes because people see that the EU is incapable of finding answers to mass migration and unemployment.
- ▶ Europe's elites have been far too complacent. The election result was a shock for them because they are far too out-of-touch with public opinion in the member states.
- ▶ The importance of immigration as a public concern was seriously under-estimated. National governments must reconsider their immigration policies, even though free movement of people is a basic requirement of the single EU market.
- ▶ International issues and the EU's relations with Russia, China or even the US were totally absent from the election campaign.
- ▶ Concern over national identity was an underlying issue in the election. It was most evident in France and the UK. Far too often, the EU remains an abstraction for voters, which comes second to national concerns. The EU is not perceived as a nation.

SESSION II: REDESIGNING EUROPE'S INSTITUTIONS: DO WE NEED MORE EUROPE OR LESS EUROPE?

The simple answer to the question about more or less Europe is that 'we need less Europe, but a more efficient and responsive Europe'. The May vote was widely interpreted as a vote against further integration, signalling that its citizens desire a 'Europe of Limits', or a better division of competences between the EU's institutions. This sums up the views expressed during the session. It was highlighted that any redesign of the institutions must focus on securing greater legitimacy for the European Parliament and a much clearer definition of its role and the limits of its powers. There was general agreement that the European Commission had to be streamlined. However, participants recognised the inherent difficulties in attempting to tackle entrenched interests. That is why the 'muddling through' phrase recurred during exchanges. Improvisation might be a more positive term. One speaker drew an important lesson from the way Jean Monnet approached the EU's evolution. He had no fixed design for the EU. He improvised. He simply wanted an institution that would help Europe to develop practical cooperation in solving problems that transcend national boundaries. One example quoted was the Coal and Steel community whose establishment was prompted by practical need in France and Germany to bring this sector back into the mainstream economy. Monnet did not draw up plans for a common market because he lacked the confidence that protectionism in Europe would be overcome. He wanted an EU Assembly nominated by national Parliaments rather than a directly-elected body. The Working Group was also reminded that Monnet designed

Above, left to right:

Matthew Kirk, Philip Stephens, Marguerite Berard – Andrieu and Sir Nigel Sheinwald; H.E Bernard Emié and Markus Lux; Lord Mandelson, Michael Maclay, Matthew Kirk, Dr Pierre Keller, Bruno Le Maire, Lord Powell, Prof. Dr Michael Stürmer and Peter Jungen.

the European Commission less as an executive body than as an advisory body to identify issues of common interest.

The political context in which change can be brought about in today's EU narrows the field for action, warned several speakers. Reform has to reconcile the almost impossible: rejection of further integration on the one hand and on the other, pressure for greater efficiency and rapid decision-making, less bureaucracy, more legitimacy and limits to immigration and the free movement of people across Europe. Without further integration, the EU has its hands tied in much that it sets out to do to promote growth and prosperity in Europe. Some speakers also warned that the existing relationship between the Eurozone countries and the rest of the EU was not politically sustainable, and required change.

The European Commission has become top-heavy. There are 28 Commissioners, one from each member country, and each with their defined competence, often overlapping with each other. There was agreement that this system needs to be changed by reducing the number of Commissioners and grouping them in a handful of clusters over-seeing policies such as the single market, environment and energy.

Below, clockwise left to right: H.E Dr Peter Ammon, Prof. Dr Michael Stürmer and Thomas Buberl; Sir Robert Cooper, Lord Mandelson and Lord Turner; Voting in Session II.



The role of the European Parliament and its apparent failure to convince voters of its claim to democratic legitimacy dominated much of the discussion. Several speakers argued that Europe's voters would be much better served by a European Parliament, whose membership was largely made up of members of National Parliaments. Alternatively, the powers of the Parliament could be scaled back, and new arrangements developed for the representation of national Parliaments in Brussels. In the absence of genuine Europe-wide parties, it was said that the European Parliament could not claim a mandate to dictate Commission or Council policies. The new Parliament, drawing on an ambiguous clause of the Lisbon treaty, insists that it has the right to nominate and decide on the identity of the European Commission's President. There was a small minority in the Working Group that agreed with this interpretation and argued that there was no justification for questioning the legitimacy of the newly elected body or its choice of Commission President. They asserted that the European Parliament is the only body that links citizens to the EU. Therefore it must survive and be accorded the rights it claims. As a counter argument, speakers claimed that the so-called *Spitzenkandidaten* were the product of backroom manoeuvres, and that the Commission President would have far greater legitimacy if elected by the Council of Ministers. They argued that the Parliament had to be prevented from interfering with the Commission or 'blackmailing' the Council. The discussion illustrated that this was not only about personality but primarily about power, about the interpretation of legitimacy and democratic accountability, and above all about who should lead the way as Brussels tries to reform itself: elected national leaders or the elected Parliament?

Other points made in the discussions included:

- ▶ Europe's elite is losing touch with reality.
- ▶ More opt-outs for EU members would be destructive. Instead, the principle of variable geometry should be applied more widely.
- ▶ The EU is too inward-looking. It needs to become a bigger player in world affairs and pay more attention to developments in Russia, China etc.
- ▶ If Britain fails to send high-quality people to the European Parliament, much of the fault lies

with the UK's party leadership which selects the candidates.

► Europe needs instruments for macro-economic management and ideally should have a common budget. But none of this is likely to happen within the foreseeable future.

► The Eurozone constitutes the core of the EU, and its members will try to set the terms of EU reform. However, interference with the operations of the Single Market may prove problematic. For instance, a Eurozone-specific secretariat could undermine the Single Market.

► It used to be commonplace in the EU to talk about two trains, one fast, the other slow but both moving towards the same destination. That is no longer true. The Eurozone train is moving towards greater stability. The Single Market train is unsure of its destination and is failing to synchronise with Eurozone train.

SESSION III: GETTING BACK TO GROWTH

The EU will only regain public trust if it succeeds in ending the era of austerity and high unemployment, and can find ways of leading all of its member countries back to growth. This understanding was already reflected throughout the earlier sessions of the Working Group, especially where issues surrounding the Eurozone and the banking sector were raised. During the final session, the exchanges returned to these themes, but also focused on the potential of the ECB to play a decisive role in boosting growth. It was claimed that the ECB is one of the rare EU institutions that functions smoothly and exercises considerable and growing influence on EU economies. But participants also recognised that there are distinct limits to what the Central Bank can achieve. There is a danger of overestimating what can be done with monetary policy. For example, the ECB will never be a panacea for the deep-seated problems of the French economy which has not had a balanced budget for 35 years. It is up to the EU countries' own economic policy-makers to take crucial decisions on structural reform, job creation, fiscal policy, completion of banking reform and all the other factors that can promote growth. Innovation should be encouraged; small



businesses given more help; education policies strengthened. One participant even warned that the EU must be stopped from causing further damage to EU economies. As during the earlier sessions, speakers insisted that most of the responsibility for restoring economic growth lies with national governments and questioned to what extent a common strategy for EU growth was feasible, since London has already swallowed much of Europe's financial sector and the EU has not been able to define a common concept for a monetary and fiscal framework. In response, it was argued that convergence was not essential and that different growth models could live side by side within the EU.

The future role of the Eurozone, and at least for one speaker, the Eurozone's survival, was in the balance. It was again emphasised that without further integration the Eurozone could not act as a stabiliser or an effective agent of growth. Without more integration, the Eurozone will bust, predicted one speaker who also warned that Europe was in danger of falling victim to the kind of long-term depression from which Japan is just emerging.

Energy policy is one area where EU countries have the potential to promote investment and create employment. The challenge, said one of the participants, is for EU countries to decide whether to concentrate on exploiting their own energy resources or rely on imports from the cheapest available sources. The future of fracking in Europe illustrates the dilemma. Fracking is environmentally controversial, and its exploitation may be more costly, but it could reduce Europe's dependence on natural gas imports and in France alone it could create up to half a million new jobs.

Above, clockwise left to right: Etienne Gernelle, Sir Howard Davies and Charles de Croisset; H.E Dr Peter Ammon and Charles Grant Hella Pick and Anne-Elisabeth Moutet.

The fracking debate, it was argued, has to be seen in a broader context. The energy sector has three aspects: security, competitiveness, sustainability and environmental impact. A common energy strategy needs to determine what falls within national competence and where the competence of the European Union applies and common policies can be defined. That is a conclusion that applies to almost all the other issues that had been on the Working Group's agenda.

DINNER

Both after-dinner speakers were preoccupied by the aftermath of the European elections. But there was also some discussion about the Ukraine crisis and the new directions of Russia's foreign policy. Britain was described as a special case in its relationship to Europe. It was noticeable that in the UK, less than 70 percent of eligible voters participated in the election; while on continental Europe an average of 40 percent or more took part. The average voter in Britain has very little positive engagement with the EU. The British government cannot afford to ignore this. The Prime Minister, David Cameron has to persuade Britain's EU partners that it is worth making concessions if it wants to keep Britain inside the camp. Mr Cameron and his European counterparts have at best 6 months to reach agreements capable of persuading the British electorate to support UK membership of the EU. Those concessions would have to include giving way on Jean-Claude Juncker and allowing a more reform-minded personality to become President of the EU Commission.

Germany's governing CDU party is putting its faith in the newly-elected Parliament as an important game-changer. It was claimed that the Parliament has full legitimacy and is Europe's chosen instrument of democratic accountability.

It can claim the mandate to choose the Commission President and hold the Commission to account. The relationship between the EU's principal institutions is changing. The UK contention that the Commission President must be chosen by the elected heads of government in the European Council has lost its validity. As the European Parliament's candidate, Mr Juncker must be allowed to go forward. It was also argued that the Eurozone will only survive if its institutions are strengthened.

During the earlier Working Group discussions several speakers had expressed concern that there was too much navel-gazing over EU affairs, and that outside events were being ignored even though these affected Europe's vital interests. During the dinner there was an attempt to remedy the situation. Events in Ukraine and Mr Putin's return to old-style power politics are more important than the local problems of the EU. Russia has undermined the post-cold war order. Europe must search for agreement to adopt sanctions that can have a much more serious effect on Russia's foreign policy than the one it has so far been able to adopt.

Below, clockwise left to right: Sabine Lautenschläger, Gerry Grimstone and Dr Laurence Boone; Dr Pierre Keller, Dr Daniella Schwarzer, Charles de Croisset, Kerstin Schulz; Antoine Rostand and Baroness Rawlings; Bruno Le Maire, Lord Mandelson and Bernard Emié.



The Institute for Strategic Dialogue (ISD) is an independent think tank working with leaders in government, business, media and academia to develop multi-country responses to the major security and socio-economic challenges of our time and to enhance Europe's capacity to act effectively in the global arena. Activities include research, specialised task forces, high-level policy briefings, scholarships and cross-border networks that foster leadership and stability across Europe and its wider neighbourhood, actively bridging inter-communal, religious, socio-economic and political divides.