

London, 9 – 10 October 2015

Prospects for Brexit, for Grexit – and for the future of Europe

21st Plenary Meeting of the Club of Three

SUMMARY

Below, clockwise left to right:

Saturday morning discussions; Anne-Charlotte Fredenucci, Christian Sauer, Isabelle Maras Martin Herzer; Friday's meeting room, Locarno Suite; Arnaud Leparmentier

After dedicating two major events to the topic of EU-Turkey cooperation in 2014 and 2015, the Club of Three's focus once again turned to internal European affairs at this year's plenary meeting.

In these turbulent times for the region, with a migrant crisis of unprecedented proportions, persistent problems in the Eurozone and uncertainty over Britain's future in the EU, the meeting provided a timely opportunity to assess Europe's direction of travel and to take stock of the Franco-British-German relationship.

The scale and seriousness of these challenges was all too apparent during the discussion that was held at the Foreign and Commonwealth Office (FCO) in London on 9 and 10 October. Participants from France, the UK and Germany included business leaders, politicians, diplomats and media figures.

The first part of the meeting took place in the Locarno Suite where the Locarno Treaty was signed in 1925. This international agreement still bears relevance today because it represents a high-water mark of cooperation between the Three, paving the way for Germany's return to the community of nations after the First World War.

There was a strong emphasis on the negotiations over Britain's membership of the EU. During the Friday afternoon, a senior FCO official set out the UK government's position on this issue. In the evening, participants exchanged perspectives on the migrant crisis over dinner at Lancaster House. On the following day, the discussions focused on the Eurozone and Europe's influence in the world.

The meeting showed that there were differences between British and Franco-German of the negotiations. Views on



AGENDA

Friday 9 October

**Discussion with senior FCO official, chaired
by Lord Powell of Bayswater**

**SESSION I - BRITAIN'S EU NEGOTIATION: PAVING THE
WAY FOR A BETTER EUROPE FOR ALL?**

Chair: **Joachim Bitterlich**
Keynote Speakers: **Peter Kellner**
Michael Stürmer
Jean-Michel Steg

DINNER - DISCUSSION ON EUROPE'S MIGRANT CRISIS

Chair: **Philip Stephens**
Keynote Speakers: **Norbert Röttgen**
Pierre Lellouche
Andrew Mitchell MP

Saturday 10 October

**SESSION II - CORE EUROPE: CAN THE EUROZONE
FOSTER GROWTH?**

Chair: **Charles de Croisset**
Keynote Speakers: **Lord Turner of Ecchinswell**
Thomas Buberl
Arnaud Leparmentier

**SESSION III - EUROPE IN THE WORLD: CAN WE
PUNCH OUR WEIGHT?**

Chair: **Marwan Lahoud**
Keynote Speakers: **Sir Malcolm Rifkind**
ThomaMatussek
Dominique Moisi

Meeting partners:

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how to handle the migrant influx from the Middle East also varied, sometimes quite significantly. The future of the Schengen regime in the context of this crisis faced serious questions. However, participants agreed on the urgent need for the creation, if possible, of buffer zones to protect refugees in Syria.

On economic matters, concerns were expressed over the Eurozone's ability to reform itself and to return to a prosperous path. The expansion of the EU Single Market to cover services, as well as trade agreements with major partners including the US, were seen as promising avenues that should be actively pursued.

Locarno Suite: Paul Kahn
and David Frost (below);
Bottom: Norbert Röttgen
and Marie-Hélène Labbé



FRIDAY AFTERNOON SESSION

The senior FCO official began his speech by stressing that the trilateral format of the Club of Three remained very important today. He noted that France, the UK and Germany could work more together publicly in areas such as defence for example.

Main negotiation topics

When outlining the UK government's position on re-negotiating the terms of Britain's membership of the European Union, the official explained that the objective was to show the British people that the EU could be reformed successfully. He then listed examples of what the UK would like to see across four main areas of negotiation:

- Competitiveness: increasing EU ambition on trade, expanding the Single Market in digital goods and services; and better regulation.
- Sovereignty: giving national parliaments increased power in the EU legislative process; clarifying that 'ever closer union' is not for the UK.
- Welfare: addressing the 'pull factor' of the UK's benefit system.
- Economic governance: ensuring that the relationship between the Member States that are in the Eurozone and those that are not works for all.

Some of the participants stressed the need for a deal that was legally binding and irreversible.

Continental doubts

Several French and German participants expressed their strong desire for the UK to remain in the EU and indicated a willingness to look constructively at the British proposals. There were questions however about how far any differences between the UK and other Member States could be bridged by political will.

It was hoped that agreement with other EU Member States could be reached at the December European Council. This timetable was seen as ambitious by participants from France and Germany. They looked forward to the UK spelling out their demands on paper.

Some participants from France and Germany observed that the UK renegotiation was competing for attention on the continent with other issues such as the Euro crisis and Syrian refugees.



Left: Sir Malcolm Rifkind (speaking) and Alain Rauscher
Right: Jacqueline Hénard



A number of participants suggested linking UK demands to a broader European agenda of reforms including plans to boost competitiveness and growth for example.

Participants then explored the different factors that were likely to influence voting intentions among the British public ahead of the referendum on Britain's membership of the EU.

One of them noted that opinion polls had constantly fluctuated over the past five years. For the first time, those wanting to remain in the EU had enjoyed a steady advantage since January 2015, with about 45% in favour against 35-37% in the Brexit camp.

But opinion had shifted once more in September. Polls showed that Brexit supporters had a two point lead (40% against 38% for the 'In' camp) as fears of mass migration were high among the public. This corresponded to a time when problems in Calais had reached a climax.

Lessons from Scotland

Some participants pointed out that, when faced with a significant decision which involved an element of risk, voters tended to opt for the status quo. But EU advocates were warned about the danger of complacency.

Participants from continental Europe advised the UK government to make a positive case for continued EU membership while addressing the arguments put forward by Eurosceptics. One of the British participants in favour of staying in the EU agreed that it would be a mistake to dismiss critics because some of their views were legitimate.

There was agreement across the board that the EU had many flaws and that it had become much less attractive than in the past to large parts of the European population. One of the strengths of the pro-EU case would be to focus on success stories such as the Single Market and the significant economic benefits that a further expansion would bring.

This message could be very effective if it was delivered by powerful voices from the business community. Through their workforce, one of the participants said that European companies operating in the UK such as Airbus had the potential to build strong local support within entire communities depending on their manufacturing activities, which depend in turn on the Single Market.

Top left: Ann Cormack

Top right: Joachim Bitterlich and Peter Kellner

DINNER DEBATE ON THE MIGRANT CRISIS

A significant divide between France and Germany over the handling of the migrant crisis was palpable during the discussion that followed over dinner at Lancaster House. One of the German participants spoke up forcefully for Chancellor Merkel's open-door policy on refugees, pointing out that there was no alternative but to allow them to stay in Europe.

But the view from a senior French participant was radically different: Germany was making the crisis worse by signalling that refugees were welcome. Border controls were therefore all the more necessary in order to keep the migrant influx in check. Schengen was already in danger of collapse.

Several participants from Britain agreed with the need to prevent mass migration to Europe. Their main concern was that this crisis of unprecedented scale would otherwise very soon put European societies under extreme pressure.

Although France and the UK had eventually announced joint measures to de-escalate tensions in Calais, there was a lack of political will at EU level.



Left to right: Norbert Röttgen, Thomas Buberl, Anne-Charlotte Fredenucci and Michael Maclay

LIST OF ATTENDEES

Peter **AMMON** German Ambassador to the United Kingdom | David **AZÉMA** Bank of America Merrill Lynch | Sylvie **BERMANN** French Ambassador to the United Kingdom | Joachim **BITTERLICH** ESCP Paris Business School and formerly German Ambassador to the North Atlantic Council and Spain | Hans-Hartwig **BLOMEIER** Konrad-Adenauer-Stiftung | Jochen **BUCHSTEINER** FAZ | Thomas **BUBERL** AXA Germany | Sir Robert **COOPER** Formerly of the European External Action Service and the European Commission | Philippe **COQ** Airbus Group | Ann **CORMACK** Rolls Royce | Charles **DE CROISSET** Goldman Sachs International | Andrew **FRASER** Mitsubishi Corporation | Anne-Charlotte **FREDENUCCI** Deroure Group | David **FROST** Scotch Whisky Association and formerly UK Ambassador to Denmark | Sir John **GRANT** Formerly UK Permanent Representative to the EU | Dominic **GRIEVE MP** Conservative MP for Beaconsfield | August **HANNING** ISD and formerly Federal Ministry of the Interior and the BND | Rebecca **HARDING** Delta Economics | Sasha **HAVLICEK** ISD | Jacqueline **HÉNARD** CNC Communications | Martin **HERZER** European University Institute | Paul **KAHN** Airbus Group | Peter **KELLNER** YouGov | Marie-Hélène **LABBÉ** Sorbonne University | Marwan **LAHOUD** Airbus Group | Pierre **LELLOUCHE** Les Républicains Member of the Assemblée Nationale | Arnaud **LEPARMENTIER** Le Monde | Michael **MACLAY** Club of Three and Montrose Associates | Isabelle **MARAS** Genshagen Foundation | Eman-Martin **VIGNERTE** Robert Bosch UK Holdings Ltd | Peter **MATHER** BP | Thomas **MATUSSEK** Alfred Herrhausen Gesellschaft and formerly German Ambassador to the United Kingdom | Andrew **MITCHELL MP** Conservative MP for Sutton Coldfield | Hella **PICK** ISD | Jonathan **POWELL** Inter Mediate | Lord **POWELL** of Bayswater Rolls Royce and formerly foreign affairs adviser to Margaret Thatcher and John Major | Alain **RAUSCHER** Antin Infrastructure Partners | Sir Malcolm **RIFKIND** formerly Chair of the Intelligence and Security Committee of Parliament and UK Foreign Secretary | Norbert **RÖTTGEN** Foreign Affairs Committee of the Bundestag | Christian **SAUER** Franklin Law Firm and Alumni Association of the German-French Dialog for the Future | Erhard **SCHIPPOREIT** SAP SE, Frankfurt Stock Exchange | Bernard **SPITZ** Fédération Française des Sociétés d'Assurances (FFSA) and MEDEF | Jean-Michel **STEG** Greenhill | Philip **STEPHENS** Financial Times | Michael **STÜRMER** Die Welt | Lord **TURNER** of Ecchinswell Institute for New Economic Thinking | Peter **WATKINS** UK Ministry of Defence (MoD)

Member States would not be able to find an effective response until they agreed to share responsibility for refugees. And many of them were still of the opinion that they were not accountable for the situation, as the fierce opposition to EU quotas from Central and Eastern European Countries had shown.

One participant who had benefited from the Kindertransport bringing Jewish children from Germany and central Europe to the UK in the late 1930s suggested that Europe should not lose its moral compass in the way it talked about refugees.

Those present were also unable to agree on the root causes of the crisis. According to a participant from Germany, it was a consequence of globalisation and the disappearance of national borders. But others pointed to the failure of military interventions in Libya and Syria to bring stability to the region, as well as demographic pressures on the African continent. A senior British participant identified the problem as really lying 'upstream' with the failure of France and Germany to live up to their undertakings at Gleneagles to spend 0.7% of GDP on development assistance. The UK was drawing on this to provide relief in camps on the borders of Syria which was better than refugees crossing the Mediterranean. As to the underlying problem in Syria, the time had come to speak to Vladimir Putin.

Another participant argued that the only viable option for Europe was to follow a dual approach: to welcome refugees while at the same time working towards a political settlement in Syria. Many agreed that buffer zones were urgently needed in the country to protect refugees, although this would be impossible without Russian consent. One proposal was to place these safe areas under UN supervision with troops from countries such as Egypt, Jordan or Indonesia on the ground and no-fly zones enforced by NATO.

SESSION II

CORE EUROPE: CAN THE EUROZONE FOSTER GROWTH?

Although it had enjoyed a fragile recovery, dark clouds continued to hang over the Eurozone. Unemployment remained high in countries such as France, the Greek debt crisis still threatened to bring down the monetary union and growth in emerging markets was starting to slow down.

Against this worrying outlook, questions were raised about the EU's ability to make the structural reforms that are necessary to address weaknesses in the Eurozone architecture. The European Central Bank's commitment to do "whatever it takes" to save the Euro had reassured the markets.

Below: Andrew Mitchell and Pierre Lellouche (**bottom**) during dinner in the Music Room, Lancaster House



But tough political decisions also had to be taken by European leaders, and this meant agreeing on a fully fledged governance system capable of coping with major macro-economic shocks hitting the single currency. After years of constructive ambiguity, the Eurozone was now facing a stark choice: integrate or disintegrate.

A participant from Germany suggested four actions in order to put the Eurozone back on track:

- Further financial and fiscal integration
- Expand the EU Single Market
- More investment in research and development
- Reduce structural unemployment

There was agreement that further integration was the only way forward for the Eurozone. This would require the creation of a fiscal union with harmonised budgets and a common debt repayment fund, one of the participants noted. However, a move of this kind would depend on a deal between France and Germany. The latter had already indicated that it could support the idea of a Eurozone budget. But in order to go further France would have to show that it was a reliable partner that could be trusted on economic reforms.

The slow growth in Europe was not all down to Eurozone problems. The

morose global economic context was also an important factor. Annual forecasts from the International Monetary Fund (IMF) had been disappointing for some time, a UK participant noted. Global growth was projected at 3.3% in 2015, marginally lower than in 2014 and in some countries GDP per capita remained below pre-financial crisis levels. This was due to low nominal demand and not a supply-side failure, as the global economy was still in a deflationary period resulting from the exponential growth of debt that had accumulated since the 1950s.

The outlook was not entirely bleak for Europe however. It remained very successful overseas in terms of exports and there were signs that economic reforms in Spain and Italy were starting to pay off. In France, French economy minister Emmanuel Macron was also pushing an ambitious package of reforms through parliament. It was also felt that the expansion of the Single Market and major bilateral trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP) would bring significant economic benefits.

Left: Saturday morning discussions in the Long Gallery, Lancaster House





SESSION III

EUROPE IN THE WORLD: CAN WE PUNCH OUR WEIGHT?

The final session focused on Europe's role worldwide. There was a strong sense that the region was experiencing a relative decline, with the centre of global economic power shifting towards Asia and Russia's resurgence in its eastern neighbourhood. This was exacerbated by the fact that the EU often appeared to the outside world as inward-looking and overly preoccupied by institutional problems. Several participants attributed this to a lack of political leadership in Europe. As one of them put it, this was a time of "exceptional crisis but with unexceptional leaders".

But not everybody agreed. One of the German participants pointed out that Chancellor Merkel had put her reputation on the line with her open-door policy on Syrian refugees. Another participant stressed that Member States had shown unity in their coordinated response to Vladimir Putin's actions in Ukraine, despite having strong economic ties with Russia.

Despite its economic difficulties, Europe remained an influential region. It continued to be one of the leading global players in terms of trade for example. One of the participants pointed out that European companies were very successful overseas, particularly in sectors such as energy, car manufacturing, civil aviation and luxury goods. In other areas such as telecommunications however, Europe

had lost ground to Asia in the past decade. But the current combination of low energy prices and low interest rates was seen as a unique opportunity to undertake reforms in order to boost competitiveness and to stay in the game.

The fact that a large number of migrants wanted to come to Europe also showed that it was still a very attractive region. Its democratic values and culture of openness were highly regarded across the world and European universities were among the most prestigious, drawing large numbers of overseas students to countries such as France, the UK and Germany.

Showing hard power

But soft power alone would not be sufficient to guarantee Europe's safety and prosperity in this increasingly disorderly world. It was felt that the combined power of France, the UK and Germany in areas such as defence and foreign policy should be significant enough to command respect and influence events on the international scene. But their cooperation, which had been quite loose over time, would need to have real substance rather than symbolism.

One participant suggested the creation of a formal trilateral group with a rotating presidency. Another participant stressed that France and Germany were being closely consulted as part of the UK's forthcoming defence review. Several participants stressed that other major European players had to be involved in strategic discussions

Top left (left to right): Marwan Lahoud, Thomas Matussek, Dominique Moisi

Top right: Rebecca Harding talks to colleagues over coffee

regarding defence and foreign policy.

One of them said that the successful EU diplomatic initiative on nuclear talks with Iran could serve as a template for a more coordinated European foreign policy, with the Three and the EU High Representative working closely together. When required, this core group could be extended to include other Member States or major partners such as the US.

CONCLUSIONS

The October plenary meeting highlighted the challenge that lay ahead in order to secure a package of reforms that would help to win an EU referendum in the UK, at a time when countries such as France and Germany were dealing with major crises. However, there was a willingness to look constructively at the British proposals.

The migrant crisis was a divisive issue, but the meeting showed how important it was for France, the UK and Germany and other European countries to understand each other's positions and to work in tandem to find common solutions, however difficult this may be.

Finally, although there was no silver bullet to solve Europe's multiple problems, the expansion of the Single Market was cited by many as a way of boosting its economic growth and regaining legitimacy in the eyes of the European public.



Above (top, from left to right):

Alain Rauscher,
Sir John Grant and
David Azéma

(bottom, right to left):

Charles de
Croisset, Adair
Turner, Arnaud
Leparmentier,
Anne-Charlotte
Fredenucci and
Norbert Roettgen