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# The Best Laid Plans

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Britain's Presidency of the Council of the European Union

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## Notre Europe

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The association also organises meetings, conferences and seminars in association with other institutions or partners. Proceedings are written in order to disseminate the main arguments raised during the event.

# Foreword

When *Notre Europe* embarked on this study, which forms part of a henceforth consolidated series of reflections on the ambitions of successive Presidencies, nothing suggested that the British Presidency would make much of a splash. The signals coming out of London gave the impression that pragmatism was the order of the day. Public mistrust appeared to preclude any major initiatives; it appeared that efforts would be channelled into issues on which tangible results could be expected, such as the environment and development cooperation, and that best use would be made of one of the UK's traditional strengths, namely its high-quality civil service.

A few months on, and the outlook has changed dramatically. On the back of an audacious gamble, Prime Minister Tony Blair succeeded where his Labour predecessors had failed, and the electorate delivered him a third term of office. The rejection of the draft constitution by France and the Netherlands has undermined the 'constitutional' process, to which the British government had only previously paid lip service, and has at the same time ruled out the scenario of a referendum that all of the opinion polls were saying would be extremely dangerous exercise. Now with that rare commodity in politics, time, Tony Blair has seen unexpected room for manoeuvre open up before his eyes.

Trouble has piled up elsewhere, however. The situation in Iran and Iraq has led the Union to question the role it wishes to play on the international stage. The breakdown of talks on the Financial Perspective has also demonstrated how difficult it is for the 25 to agree on shared ambitions and on how to achieve those ambitions. The frustrations and concerns that came to the surface during the referendum campaigns called for a measured response, and the same is also true of the issue of the Union's borders, which the opening of negotiations with Turkey is set to push onto the agenda.

The evidence suggests that the forthcoming half-year will not simply be a case of 'business as usual'. One of the achievements of the authors of this study was to react quickly to this radical change in the backdrop to the UK Presidency. The study has been revamped accordingly, and the authors have given us a number of pointers to provide us with a better understanding of the issues on the table, in a period that promises to be full of uncertainty. The evidence suggests, as they rightly point out, that it is too late for a machine as complex as the EU to change course. The Union must, rather, meet unexpected challenges head on. The way in which London chooses to address those challenges might go some way to determining its place in Europe, and perhaps even the Union's future.

Notre Europe

# Table of contents

Introduction	1
1 The context	3
<hr/>	
2 The Presidency	7
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2.1 UK priorities	7
2.1.1 Climate change and sustainable development	7
2.1.2 Africa and development	9
2.2 Routine matters	10
2.2.1 Agriculture and fisheries	10
2.2.2 Building capabilities : Defence and security policy	11
2.2.3 Illegal migration	11
2.3 Problem issues	12
2.3.1 Renegotiation of the Constitutional Treaty	12
2.3.2 Enlargement	13
2.3.3 Economic reform and the Lisbon Agenda	14
2.3.4 Financial perspective	18
2.3.5 China and Iran	21
2.4 The working of the Presidency	21
3 Prospects for the Presidency	23
<hr/>	
Bibliography	26

# Introduction<sup>1</sup>

On 1 July 2005, the United Kingdom will assume the Presidency of the Council of the European Union. It does so at a time of almost unprecedented turmoil and uncertainty. Emphatic rejections of the constitutional treaty in referendums in France and The Netherlands have plunged the Union into what promises to be a period of sustained soul-searching, which in turn will radically alter the context within which the Presidency takes place. The rejection of the constitutional treaty by two of the Union's founding members will require urgent action on the part of the European Council, which next meets on June 16, with the confusion highly unlikely to be resolved before the start of July. The implications of the French and Dutch No votes for the UK Presidency are threefold.

First, the Union's economic reform agenda has taken on a new significance. Evidence from both referenda indicates that French and Dutch voters were preoccupied with economic issues during the respective campaigns. Frustration at low levels of growth, coupled with fears that increased competition from workers from Eastern Europe could exacerbate already high levels of unemployment permeated the debates. The fact that such issues apparently played such an important part in producing the negative outcomes means there is now an increasing clear division in the Union between those member states who believe in the need for further economic reform, such as Britain, Poland and Italy, and those who believe the Union needs to safeguard Europe's 'social model', such as France, Germany and Spain.

Second, the UK will take the chair without the constraints imposed by an upcoming referendum. With the treaty almost certain to be shelved, the likelihood of a UK referendum - that virtually all polling evidence suggested the Government would lose - is now remote. This has removed much pressure from Tony Blair, who was facing calls to step down as Labour Party leader if he were to lose a popular vote on the treaty.. More importantly - though perhaps less perceptibly - the Prime Minister now feels he can press for further economic reform in the EU without fear of being accused of attacking 'Europe' by supporters of the treaty who had criticised the Government for its negative line on economic policy in the Union. The two No votes -paradoxically - appear to have convinced the British government to speak out clearly on the need for significant economic reform. Immediately after the results were published, Blair was quick to assume the mantle of European statesman, arguing that the rejection of the treaty was due in part to "profound questions" as to the state of the European economy.

Third, the turmoil surrounding the rejection of the constitutional treaty risks complicating still further an already contentious Union agenda. Fraught negotiations on the Services Directive and debates over the Financial Perspective for the Union for the period 2007-2013 threaten to

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<sup>1</sup> The authors would like to express their gratitude to all those politicians, officials and commentators who gave generously of their time to discuss the issues raised in this paper. Particular thanks are due to those who took the time to read and comment upon earlier drafts.

become deeply acrimonious as Paris seeks to defend the 'social model' the French electorate felt was being threatened by the constitutional treaty. This at a time when the Union is engaged in its largest military operation to date (in Bosnia), when a resolution must be found to the uncertainty surrounding the possible lifting of the arms embargo on China, and when frenzied efforts continue to resolve the long-running dispute about Iran's nuclear ambitions.

Another striking aspect of the build up to UK's presidency is how little has been made public about what Britain hopes to achieve during its time in the chair. Anticipating a Presidency of the European Council is problematic at the best of times, given that the agenda is as much a matter of luck as much as of judgement, hinging as it does on the ability of the outgoing Presidency to resolve contentious issues (Ludlow 1998: 338). Hence the caution on the part of the incoming British presidency in promoting its agenda during the tenure of its predecessor. Wary of being accused of disrupting or pre-empting any of the negotiations currently taking place in the Council, the Government has shied away from making all but the most cursory of announcements about its programme. Its silence was compounded by the proximity of the May 5 general election to the start of Britain's period in office, which rendered Whitehall unwilling, and in some cases unable, to comment on the Government's planned agenda. Tradition dictates that during a general election campaign government policy is considered to be in 'stasis' and neutral civil servants are reluctant to speculate on the its future direction. Thus while planning for the Presidency continued inside the Foreign and Commonwealth Office and Cabinet Office, the only documents UK government departments felt able to highlight in relation to the UK Presidency were the Multi-annual Strategic Programme, the Luxembourg-UK Operational Programme and the February 2005 Government White Paper 'Prospects for the EU in 2005'.<sup>2</sup>

Nonetheless, this paper illustrates that, while the British Government had hoped to adopt a decidedly – and in some senses uncharacteristically – low key approach to the Presidency, this plan has been severely compromised by the rejections of the constitutional treaty. While London was intent on focussing on low key issues where success was relatively assured, it has been forced onto a more proactive footing. Thus, while the lead up to Britain's time in the chair could be considered low-key, and plans for the Presidency itself indicated a desire to maintain this style (with 'workmanlike' being the phrase of choice used to describe it by officials), the UK's plans have been rudely disrupted by the voters in France and The Netherlands.

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<sup>2</sup> See Multi-annual Strategic Programme of the Council, 2004-2006, prepared by the six presidencies – Ireland, Netherlands, Luxembourg, United Kingdom, Austria and Finland, Council of the European Union, 8 December 2003, 15896/83, available; Operational Programme of the Council for 2005 submitted by the Luxembourg and United Kingdom Presidencies, Council of the European Union, 22 December 2004, 16299/04; and 'Prospects for the EU in 2005', Government White Paper, February 2005.

## I - The Context

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Under the Premiership of Tony Blair, the British debate on relations with the EU has been characterised by equal measures of continuity and change. In terms of the latter, it is striking to note the degree to which early assessments of the Government's EU policies were obsessed by the issue of possible entry into the euro (George 1998). Eight years on, such talk seems fanciful. What appeared as the great political project to be espoused by Britain's most pro-European Labour Prime Minister has effectively been shelved. Gordon Brown, speaking to the annual conference of the British Chambers of Commerce, less than a month before the election, reaffirmed that the infamous five tests would have to be unequivocally met prior to British entry into the euro (Financial Times, 25 April 2005).<sup>3</sup> Soon thereafter, the Prime Minister himself confirmed that it 'doesn't look very likely' that Britain could enter euro before he stood down as Prime Minister (Financial Times, 28 April 2005).<sup>4</sup>

On the other hand, whilst the Labour administration has brought about a change in the tone with which London deals with its EU partners, its substantive policy and institutional preferences have remained largely consistent with those pursued by the Conservative Government of John Major. On economic policy, the emphasis on economic reform, on flexibility, and on limiting EU regulation has remained in place (albeit with slight shifts over issues like the social chapter occurring at the margins). On defence, whilst Blair went further than any Conservative administration could or would in accepting the need for a European Security and Defence Policy (ESDP), his insistence on ensuring the primacy of NATO was completely consistent with the priorities of his political opponents. On institutions, London has maintained a general suspicion of any moves designed to enhance the power or prestige of the supranational institutions, whilst fiercely resisting the adoption of Qualified Majority Voting in sensitive areas such as taxation.

Finally, the state of the debate in the UK over EU membership remains much as it has always been. As Philip Stephens put it some six years ago, whilst the 'government has re-engaged,...the people sulk on the sidelines....Europe still seems more of a threat than an opportunity to many people in Britain' (Stephens 2001: 67). There are many possible explanations for this state of affairs, ranging from claims that Britain's position in relation to the Union is structurally different from that of its partners (in terms of the special relationship

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<sup>3</sup> The tests are: sustainable convergence between the UK and the euro zone; sufficient flexibility in the UK economy to cope with membership; improving conditions for UK investment; a positive impact on the UK's financial service sector; the promotion of sustained employment growth.

<sup>4</sup> Up to the general election, Blair had been categorical in his insistence that he would stand down as leader of the Labour Party and UK prime minister at a time of his choosing and after he had served a full third term (anywhere up to Spring 2010). Yet the reduction in Labour's majority in the 2005 general election has led some to question whether he will choose to go earlier, with Blair himself arguing for an 'orderly transition' at 'a time of his choosing' at the first meeting of the Parliamentary Labour Party after the election, in response to calls from left-wingers in the party for him to go before next summer's local elections.

with the US, or the nature of the British economy), to the insidious role of the tabloid press in poisoning any discussion of European integration.

Whatever the merits of such claims, the abject state of popular debate is also attributable to the nature of the political rhetoric to which the British people are subjected. On the side of the Conservatives, it is the spectre of the European superstate that dominates. Perhaps the clearest statement of policy towards the Union and its new constitutional treaty was made by former party leader Ian Duncan Smith, in a keynote address in Prague:

A constitution for the EU which would mean that no individual nation would be able to alter the highest laws by which it is governed. It would put the making of these laws beyond nations. Surrendering them to supranational and unaccountable institutions and remote European judges. This constitution will change the European Union from being the biggest partnership of democracies in the world, to the biggest bureaucracy in the world. To an increasingly centralised and unaccountable political union. From a special kind of body created by the treaty commitments of signatory democracies to a state, with its own legal personality. In short: a unique power, with its own constitution and supremacy over our national laws. For too long the supranationalist agenda of the Old European mindset has been masked. That time is past. What was once concealed is now revealed. There is no hiding what stares us in the face. A constitution that would lead inescapably to ever more power being transferred to Brussels. A blueprint for a United States of Europe in all but name (Duncan Smith, 2003).

That this is the language in which the Conservative Party has chosen to debate the treaty is perhaps hardly surprising. Of more interest for our purposes has been the strategy adopted by the Government. Britain has in Tony Blair a leader who, in the words of Philip Stephens, perhaps his most acute observer, 'once saw his place in history as the Prime Minister who put an end to half a century of agonised ambivalence about Britain's European destiny' (Financial Times, 21 June 2004). Regularly throughout his tenure of office, the Prime Minister has stated his intention to tackle anti-European prejudice head on, and sell the positive case for deeper British involvement in the Union. In a speech in Birmingham in November 2001 he stated baldly that '[w]e will not have influence if we only ever see Europe as in opposition to Britain and become back-markers for further co-operation, always arguing thus far but no further' (Blair 2001). In the early summer of 2003, the Prime Minister, flanked by his Chancellor, announced a decision to send out Ministers aggressively to promote a 'positive pro-European consensus'. Perhaps most strikingly, in announcing his decision to hold a referendum on the constitutional treaty to the House of Commons, Blair insisted that he intended the campaign to be about far more than the treaty text itself:

'[t]he question will be on the Treaty. But the implications go far wider. It is time to resolve once and for all whether this country, Britain, wants to be at the centre and heart of European decision-making or not; time to decide whether our destiny lies as a leading partner and ally of Europe or on its margins'.

(Blair 2004).



All the fine rhetoric, however, has yielded little in the way of delivery. One Minister stated of the 2003 initiative that it 'looks like another five-minute wonder' (The Independent, 21 June 2003). By November 2003, the same Chancellor who had declared his intention to promote a pro-European consensus penned an article that was astonishing as much for its placement in the eurosceptic Daily Telegraph (5 November 2003) and the title under which it was reported ('Brown the sceptic blasts EU federalism') as it was for its content. The Chancellor lectured the rest of the Union on the need for them to follow the British economic example. The style of his intervention has become a familiar one, with Brussels officials commenting on his proclivity to launch broadsides against his colleagues prior to ECOFIN meetings.

A similarly negative tone permeated the Government's 'defence' of the constitutional treaty. The Prime Minister himself largely steered clear of the debate on ratification, preferring to leave the task of defending the document to his Cabinet colleagues. These latter hardly adopted a position calculated to increase pro-EU sentiments in the country. Indeed, defensiveness characterised Government pronouncements on the constitutional treaty from its inception, as witnessed by the emphasis placed on Britain's 'red lines' during the Convention and IGC (Menon, 2004).<sup>5</sup> The Foreign Secretary had earlier emphasised that the Treaty weakened the European Commission (House of Commons, Hansard, 9 September 2003 column 173), a theme that was still more apparent in a speech he delivered to the Centre for European Reform:

It is clear from every word of the new Constitution that the EU is an organisation of sovereign nations, which can act only where its members have decided to do so in common. It has only those powers which the nations confer on it. And the Treaty limits the powers of the EU.... Foreign policy will remain subject to unanimity. So we will only have a common EU foreign policy if all 25 members of the EU – including of course Britain – agree (Straw 2004).

Rather than making a positive case for engagement with the EU, therefore, the Government has focused on implying that it has been successful in keeping 'Brussels' at bay. And this is when it is bothering to talk about the Union at all. The Labour Party – concentrating its efforts on winning an historic third term in office – chose not to make 'Europe' a campaign issue during the general election, believing it to be of little interest to the majority of UK voters and deeply unpopular with the largely Eurosceptic British press. The Party's general election manifesto devoted just two pages to the Union, and only then under the heading of 'International policy' (Labour Party Manifesto, 2005a:82). Moreover, European integration hardly figured during the election campaign, with no major policy announcements or speeches devoted to the subject (New York Times, April 11 2005). Indeed so anxious was the Government to keep the EU off the political agenda that Tony Blair not only declined to give a press conference after the European Council of March 2005, but also slipped out of the back of

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<sup>5</sup> The British representative on the Presidium of the Convention, Gisela Stuart, in fact publicly criticised the Convention and draft treaty (Stuart, December 2003),

the meeting, to avoid the camera crews anxious to secure photographic evidence of his attendance (Financial Times, 23 March 2005).

Reticence has also been a striking characteristic of preparations for the Presidency. Before the French and Dutch No votes, two distinct approaches were apparent, each reflecting divisions within the Labour Government about how best to approach it. Some favoured a bold approach taking forward an ambitious programme to demonstrate to the British people that the EU could work ahead of the UK's own referendum, which had been expected in the first half of 2006.<sup>6</sup> Others argued for a down-beat, low-key and 'realistic' Presidency that was carefully managed to avoid providing opponents of the Constitutional Treaty any sticks with which to beat the Government in the run up to the plebiscite. And up until the French and Dutch referendums, it seemed this latter course of action would be pursued. Indeed, not only did the Chancellor directly challenge the Minister for Europe, Denis MacShane by claiming that 'Brussels' was responsible for forty per cent of the red tape hampering British business - the latter had claimed the figure was nearer ten per cent (Financial Times, 25 April 2005) - but the removal of MacShane from office immediately after the General Election marked the ousting of one of the most consistent voices in the government in favour of a more positive tone being adopted on matters European. Reticence, therefore, was a conscious choice. As the following section illustrates, only after the French and Dutch rejections of the Treaty did London move away from a discrete and low-key approach to the presidency.

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<sup>6</sup> See comments by Roger Liddle - aide to Peter Mandelson, 'Blair urged to make EU win a priority', Financial Times, 8 March 2005.

## II – THE PRESIDENCY

The Presidency of the Council represents an enormous undertaking. Quite apart from the organisational strains it can place on even the most well-resourced national administration, at any given time today's European Union is active in countless different policy areas. Providing a full list of the sectors that will need attention under the British Presidency would be most tedious. In the following we have grouped issues under three headings: British priorities, and the policies London would like to highlight during its tenure; routine matters, most of which have carried over from the Luxembourg Presidency; and problem issues, issues which are themselves contentious within the Union and which are likely to form the basis of disagreements on the future direction of the Union after the failure to ratify the constitutional treaty.

### UK PRIORITIES

Well prior to the sound and fury created by the French and Dutch No votes, the UK identified two important legislative priorities for its presidency. And while post-ratification politics (discussed later, below) will no doubt dominate headlines during the UK presidency, London's desire to see its agenda adopted by the Union is likely to remain undiminished.

### CLIMATE CHANGE AND SUSTAINABLE DEVELOPMENT

Indicative of the approach adopted to the forthcoming Presidency and arguably of the British attitude towards European integration as a whole, is the fact that the major British priorities are not in any really sense EU issues *per se*. The first of these, sustainable development and the environment – particularly climate change - are expected to be near the top of UK's list of priorities. The start of international negotiations for the post-2012 period, when the Kyoto climate treaty expires, will begin towards the end of 2005, presenting a unique opportunity for London to shape climate change policy for the future.

The Presidency will focus on securing agreement on boosting medium- and long-term reduction strategies for greenhouse gas emissions. Under the Kyoto Protocol, the EU-15 are committed to reducing greenhouse gas emissions by 8 per cent by 2012, a figure experts claim is unattainable given that emissions are currently only one-third of the way to meeting this target (Kyoto Protocols to the United Nations Framework Convention on Climate Change, 9 May 1992: Annex B). The UK government is expected to initiate a discussion on the issue of aircraft emissions during the Presidency, taking forward Commission proposals to incorporate air transport into the EU Emissions Trading Scheme. This might also involve the development of a charging system based on the quantities of nitrogen oxide burnt by aircraft or a fixed tax on the sale of kerosene. All these options are likely to prove deeply unpopular with airline companies struggling to meet the surge in demand for low-cost flights between Member States (EIU:33).

The UK has also unveiled plans to establish a Europe-wide framework for creating sustainable communities. At the heart of this initiative is the UK's new academy for Sustainable Communities, launched in February 2005 in Manchester (Prescott, 2005). At the EU level, the UK Presidency will seek to implement actions arising from the review of the Sustainable Development Strategy earlier this year. At a global level, the UK Presidency will represent the EU in seeking to promote sustainable development through strengthening relevant UN bodies such as the UN Commission on Sustainable Development. As part of this process, the Millennium Review Summit in September will evaluate progress against the outcomes of the Millennium Summit held in 2000 which agreed eight Millennium Development Goals, including the eradication of poverty and ensuring environmental sustainability.

The UK Presidency will also prioritise a range of other initiatives and negotiations on the environment inherited from the Luxembourg Presidency. Work will continue with other Member States to implement the EU Action Plan on Forest Law Enforcement, Governance and Trade to tackle illegal logging, including work on devising Partnership Agreements with timber producing countries. The UK will also seek agreement on the EU's new chemicals strategy – REACH – by the end of its Presidency. London is particularly keen to develop a rapid and efficient system for collecting information on chemicals and for tackling those of most concern, whilst minimising animal testing and maintaining chemical industry competitiveness (FCO:48)

Finally, work will continue on securing agreement on the Regulation on a financial instrument for environmental policy – the so-called Life+ mechanism – and on the INSPIRE Directive intended to improve the management of environmental risks. Other issues that the UK Presidency will be charged with scheduling include: work on nature and biodiversity, specifically the expected draft Directive on humane trapping standards; the environment, health and quality of life, particularly by finalising work on the Directive relating to bathing water quality; discussion of Directives covering the sulphur content of marine fuels, priority substances and emissions control and the protection of ground water; and, finally, natural resources and waste, by ensuring final agreement is reached on the Regulation on shipments of waste. The Presidency should also make progress on the Directives covering batteries and accumulators and the management of waste from extractive industries.

Even though the environment can legitimately be considered relatively uncontroversial territory – and hence an ideal focus for the Presidency – even here there is the potential for embarrassment. Britain is currently in dispute with the Commission on emission levels, with the Government arguing that two installations in Gibraltar should not be included in its quotas. The Commission is also unhappy at the UK's unilateral revision of its plan to include further installations after the allocation of quotas had taken place. It is conceivable that the dispute may reach the European Court of Justice, though this would happen only after the Presidency has come to an end (The Guardian, May 16 2005).

Moreover, a recent report by the Royal Society – perhaps Britain's most respected scientific body – has suggested that the UK's climate change policy is 'unrealistic', in that it overestimates the effect of the policies that it is relying on to reach targets set under Kyoto (Royal Society response to Defra review of UK climate change policy, May 16 2005). The

report also argues that most of the gains the UK has made in reducing emissions are nothing to do with the Labour Government and more to do with the switch to gas before it came to office. There is a strong sense, then, that the UK may be guilty of not having its own house in order while at the same time seeking concessions from other Member States on climate change policy at the EU and G8 negotiating tables.

#### **AFRICA AND DEVELOPMENT**

London has indicated quite clearly that it views humanitarian aid, debt relief and African development as among the top priorities for both its EU and G8 Presidencies. The UK is likely to take forward the suggestions contained within the March report of The Commission for Africa - set up by the Prime Minister and involving seventeen mainly African Commissioners – particularly with regard to specific conflict and governance issues as well as supporting the Commission's proposals for enhanced action to help meet the Millennium Development Goals and enhance the commitments made at the World Summit on Sustainable Development (FCO: 88). The UK's priorities are therefore likely to include poverty diseases such as HIV/AIDS and the Millennium Review Summit and its follow-up. London is also particularly keen to make progress on trade issues in relation to development. Therefore the Presidency will hope to support an ambitious outcome in the Hong Kong WTO meeting in December as part of the Doha Round.

Once again, as in the case of the environment, the Presidency will also be used as a platform to help push forward a broader initiative that will be dealt with mainly within the forum of the G8. Holding the chair of the Council will enable British ministers to showcase the steps being taken by London in international fora to achieve progress in this area, even if the issue is not one amenable to resolution within the Union itself.

Also like the environmental *dossier*, not only does international aid represent an issue over which broad rhetorical agreement should be easy to achieve, but it, too, presents certain potential pitfalls. Foremost amongst these is the prospect that Gordon Brown's proposal for the creation of an International Finance Facility, intended to front-load aid spending, will not see the light of day because of American opposition or the muted enthusiasm of EU partners. Be this as it may, British officials remain optimistic that some progress can be made on development issues. One possibility is that, if London succeeds in persuading its partners of the need for a new Overseas Development Aid target, a separate, subsidiary target would be set for the African continent. Senior officials also express guarded confidence that other initiatives may bear fruit, such as: providing first pillar funds for the High Representative for Foreign Policy, Javier Solana, for work on democracy building initiatives; providing training for the African Union for peacekeeping duties, or new schemes for EU intervention – possibly even ESDP interventions – in African trouble spots.

## ROUTINE MATTERS

### AGRICULTURE AND FISHERIES

#### *AGRICULTURE*

The UK – under both Labour and Conservative Governments – has consistently called for reform of the EU's Common Agricultural Policy. London is expected to focus its efforts on securing reform of the EU's sugar regime during its Presidency, believing this to be the 'most archaic in the CAP' (FCO: 39). The Government estimates the policy costs EU consumers €4.6bn a year and the Presidency will seek to take forward the Commission's legislative proposals gain agreement on them in the Agricultural Council by the end of its Presidency. London is aiming for what one UK official described as 'real, liberalising reform' of the regime, building on the Commission's Communication of July 2004, which argued for a 33% price cut, a reduction in the quotas available to EU producers and a review of the sugar regime as a whole in 2008. The focus on sugar is indicative of London's strategy of highlighting relatively limited yet realisable objectives for its Presidency. The same logic underpins the UK's enthusiasm for a new Rural Development Regulation which provides financial support to schemes promoting the restructuring of agricultural industry and rural economic diversification. The success of this regulation – and much of the agricultural agenda – is, however, bound up with the contentious negotiations on the future Financial Perspective (discussed below).

#### *FISHERIES*

EU fisheries policy proved to be the exception to the rule of silence on EU policy during the recent UK General Election. It was the target of acerbic criticism from the Conservative Party, which claimed it would seek to pull Britain out of the common fisheries policy (CFP) if elected. The Government, in contrast, is keen to give a lead in reforming the CFP during the Presidency.<sup>7</sup> Fisheries policy is a politically sensitive issue across the Union. The industry employs over a quarter of a million people and debate has revolved around how best to ensure a sustainable future for the sector. London is particularly keen to tackle the key problem bedevilling the CFP – its failure to curb over-fishing. EU quotas have proven ineffective in ensuring conservation, with Member States implementing the rules in an inconsistent manner. In response, the UK will continue with efforts to establish Regional Advisory Councils to better manage fisheries.

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<sup>7</sup> See, for example, Tony Blair's Foreword to Strategy Unit report: 'Net benefits: a sustainable future and profitable future for UK fishing', March 2004.

## **BUILDING CAPABILITIES: DEFENCE AND SECURITY POLICY**

The UK remains a strong proponent of greater security and defence cooperation in Europe and is expected to continue work during its Presidency on revising and prioritising the EU's counter-proliferation activity, while also focussing on the implementation of the European Security Strategy. The key focus, however, will be on the EU Force mission in Bosnia, the most ambitious ESDP mission to date. The Operation and Force Commanders are both British and the Force represents the EU's largest military operation to date. London has a particular interest in the success of the mission, as it is based on a template for military action that is fully consistent with British views on how ESDP should develop. The operation is being carried out under the Berlin Plus arrangements, which provide the Union with access to NATO assets and capabilities. Several member states, most notably France, have privately expressed concerns that the Bosnia mission is so highly dependent upon NATO.

British defence officials are also known to be keen on improving European defence capabilities. This will mean a focus on the Battlegroups Initiative and the Fourth Planning Process for the Headline Goal and the need to develop the requirements catalogue. Another key focus of the UK Presidency will be on improving the EU's capacity in coordinating civil and military support in post-conflict environments. Officials concede that operations in both Iraq and Afghanistan – and to a lesser extent Bosnia and the tsunami-hit regions of South Asia - have highlighted the need for a much more integrated planning structure, utilising civilian skills for interventions on matters such as democratic and judicial reform, public health and infrastructure development. Attention will also be given to the Union's plans to activate an operations centre for the planning and conduct of ESDP missions by January 2006 at the latest and the UK is expected to take forward the consultations with NATO for both the planning and the conduct of future missions.

British officials accept that, of all the items on the Presidency agenda, security and defence policy is the most contingent on events. Developments in Iran, Bosnia, North Korea or even the Congo could very quickly demand the Council's attention. There is also some concern over what one defence official called 'French sleight of hand'. Officials are wary that, with the UK responsible for chairing meetings, there may be efforts by the more integrationist Member States – notably France - to table initiatives which seek to develop ESDP in directions inimical to British preferences

## **ILLEGAL MIGRATION**

The UK is also expected to take forward calls to better manage illegal immigration to the Union during its Presidency. The UK Home Office has outlined plans to sign agreements with Russia, Ukraine, Morocco and China to take back migrants who have entered the EU illegally (Financial Times, May 27 2005). As part of this process, these countries will be rewarded with a more stable relationship with the EU, the details of which have yet to be fully worked out. This new initiative will build on work already completed by the European Commission on readmission agreements with Sri Lanka, Hong Kong, Macao and Albania. The UK is also known to want make progress on regional protection programmes to help countries which struggle to deal

with migrants who come from or pass through their territory. These proposals are likely to focus on sub-Saharan African countries, offering help developing legal systems, document and border security, training in managing migration flows and education and health facilities (Financial Times, May 27 2005).

## **PROBLEM ISSUES**

As will all presidencies, the UK's ability to realise its ambitions is clearly contingent upon developments not fully under its control. Presidencies are often hostages to fortune and the latest British one was always particularly vulnerable to being sunk by a crisis in the Union in the event of a French No vote in the referendum. However, the decisive nature of the French vote (55 per cent voted against the treaty), followed by an equally emphatic rejection by The Netherlands (61.5 per cent against), has ushered in a period of profound debate as to the future direction of the Union. As such, much of an already contentious legislative agenda for the UK Presidency has taken on a new resonance as debate rages as to how best and whether to proceed with ratification of the constitutional treaty. And the two No votes in France and The Netherlands have, as indicated above, opened up a much broader debate as to what type of Union the people of Europe really want, focussing on the desirability of further enlargement (and indeed on the wisdom of the previous enlargement), the nature and structure of economic policy across the Union, and how the structure of the EU budget - including the question of the British abatement.

## **RENEGOTIATION OF THE CONSTITUTIONAL TREATY**

The failure to ratify the Constitutional Treaty ranks as the most important and potentially problematic item on any presidency agenda in recent times. As Jack Straw, UK Foreign Secretary commented shortly after the Dutch No vote, the failure to ratify the treaty raised "profound questions" about Europe's future direction (The Financial Times, 2 June 2005). 'Profound divisions' would, perhaps, have been more accurate, as the failure to ratify the treaty has unleashed an acrimonious debate about how best to proceed. While Tony Blair has indicated he now views a UK referendum on the treaty as unlikely, the UK Government has maintained the official line that the treaty was agreed by twenty-five nations and it is therefore not up to Britain alone to declare it dead.<sup>8</sup> Indeed, London has called on Paris and The Hague to state publicly whether there is any future for the treaty..

Elsewhere, confusion abounds. German Chancellor Gerhard Schröder has continued to argue that the ratification process should proceed in spite of the referendum results. Meanwhile, several EU Commissioners, most notably Monetary Affairs Commissioner Joaquin Almunia, Trade Commissioner Peter Mandelson and Internal Market Commissioner Gunter Verheugen,

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<sup>8</sup> See the transcript of an interview on the BBC's Today programme by Minister for Europe, Douglas Alexander, on Thursday 2 June 2005, available of the UK Foreign & Commonwealth Office website [www.fco.gov.uk](http://www.fco.gov.uk)



have called for the process to be suspended (Financial Times, June 3 2005). For his part, Commission President, José Manuel Barroso, has continued to insist that the ratification process must continue across the EU, despite being known to sympathise with the UK's position in private. Jack Straw, addressing the UK House of Commons on June 6 2005, informed MPs that the UK legislation to enable the holding of a referendum has been frozen (the second reason of the bill in the House of Commons has been postponed), effectively pre-empting the debate in the rest of Europe as to whether ratification should continue.

As such, the UK risks being the only European country to have formally suspended ratification when EU heads of government meet in Brussels on June 16 – a potentially damaging situation prior to taking over the Presidency (Financial Times, June 3, 2005). This, together with Tony Blair's immediate response to the French No being a call for more widespread economic reform, has antagonised an already wounded French President. Such divisions provide a highly uncertain backdrop to preparations for the Presidency. Indeed the issues raised by the French and Dutch No votes are so great in number and serious in nature that it is widely accepted that agreement on a way forward is unlikely to be established at the European Council. It will therefore be up to Britain to chart a way forward during its Presidency.

## ENLARGEMENT

The UK Government has been amongst the most enthusiastic supporters of the EU's enlargement agenda as set down by the European Council of December 16-17 2004. However, the issue of further expansion – and the wisdom of the last enlargement round – proved to be highly contentious issues during both the French and Dutch referendums. The spectre of the 'Polish plumber', willing to travel to Western Europe and work for Polish wages, was revisited throughout both French and Dutch referendum campaigns. And with such resounding defeats in both referendums, both French and Dutch leaders are likely to be much more cautious in their support for further enlargement.

A particular casualty of the French and Dutch votes could be the prospects for Turkish accession.. Talks are scheduled to begin with Turkey on 3 October. London has consistently shown itself to be one of, if not the most, fervent advocate of Turkish accession, viewing it as an essential part of a Europe that is broad-based, multi-ethnic – and perhaps less integrationist. However, opinion polls have consistently shown that a majority of EU citizens are opposed to Turkish accession and support for Ankara would appear to be ebbing away in the light of the French and Dutch No votes. Indeed, German Opposition Leader Angela Merkel has argued that plans to offer Turkey full EU membership should now be reconsidered and replaced with the notion of a 'privileged partnership'(Financial Times, 3 June 2005).

Turkey may not be the only prospective member to suffer. The French and Dutch votes have also cast doubt on the enlargement of the Union to include Bulgaria and Romania, who both concluded their accession negotiations in 2004 and signed a joint Accession Treaty in April (Financial Times, 3 June 2005). Similarly, the UK will also find it harder to gain agreement on providing support for countries in the Western Balkans attempting to fulfil the political criteria for membership following the fall of the treaty. Supporters of the No campaigns in both France

and The Netherlands believe that the EU's expansion - particularly prospective enlargement to include Turkey - was an issue crucial to their success be at the heart of their success and the UK will find it difficult to convince its partners of the need to press on with further enlargement when there is every indication that the people of Europe do not support it.

#### **ECONOMIC REFORM AND THE LISBON AGENDA**

The issues of economic reform and the Lisbon Agenda - while controversial - were not expected to dominate the UK Presidency. However, remarks by Tony Blair following the French No vote that fears about enlargement and globalisation could only be met with more, not less, economic reform have served to push the issue towards the top of the agenda. Perhaps more importantly, they are expected to be the central debating ground between those arguing for a more free market, liberal Europe - Britain, Poland, Italy, Austria, Estonia, Greece, Malta, Portugal and Slovakia - and those that oppose this agenda - most notably France, Germany, Spain, Belgium and Luxembourg. Jacques Chirac, severely weakened by the French No vote, is expected to be robust in his calls that Europe's social model be protected. Yet UK government officials have revealed that Blair is in no mood to compromise, believing the economic tide in the Union is flowing in his direction. Britain also has the support of Commission President Barroso, who has himself vowed to press on with his programme of economic reforms, including plans to cut state aids and to open up the EU market in services.

For its part, the UK believes economic reform in Europe needs to be accelerated. As Gordon Brown made clear in the Treasury's mid-term review of the Lisbon Agenda in September last year, Europe will need a step-change in the delivery of structural reform if it is to meet its stated goals (HMT, 2004:1). British officials and political leaders have frequently expressed frustration at the slow pace and limited scale of economic reform, and the Government is expected to use its position in the chair to push for further reductions in barriers to trade and investment, improvements in the regulations emanating from Brussels, and a greater focus on boosting employment, on economic growth and on enhancing competition policies.

#### *REDUCING BARRIERS TO TRADE AND FREE MOVEMENT*

Work here will concentrate on the Financial Services Action Plan (FSAP) and the Services Directive. The implementation and enforcement of the former - intended to integrate European financial markets competitively - would, according to some estimates, lead to a reduction in the cost of capital of 0.5% and a one-off increase in EU GDP over 10 years of 1.1% (House of Commons, 2004). The UK Government is hopeful of reaching agreement on the Capital Requirements Directive (CAD) element of the FSAP during its Presidency.

Gaining agreement on the Services Directive is likely to prove far more contentious. The proposals to liberalise the market in services became a totemic issue in the French referendum on the Constitutional Treaty. Opponents of the Constitution portrayed the directive as likely to lower wages and social security across Europe - mainly due to its 'country of origin' principle, allowing service providers to work in other member states under the rules in force in their

home state. Seeking to shore up falling support for the Treaty, French President Jacques Chirac won a number of concessions on the Directive at the Spring 2005 European Council. The summit's communiqué called for a rewriting of the directive, stating that it should preserve 'Europe's social model' in response to fears that opening up Europe's markets in services would lead to 'social dumping' by providers in eastern Europe that operate under lower labour and environmental standards. The directive has been criticised by many European trade unions – including the European Trade Union Confederation (ETUC) – concerned about its potential impact on social standards, particularly employment rules. Union leaders have argued that the liberalisation of services should follow the same path as that of the single market in goods, namely through the use of supporting directives setting down common standards in key product areas.

The fate of the directive now hangs in the balance. Whilst its withdrawal remains technically possible – at the discretion of the European Commission – such a step would fly in the face of the expressed preferences of both the European Parliament and the Council. Whitehall initially indicated that a negative vote in the French referendum might lead to the directive being put on hold for the foreseeable future but this now seems unlikely. An emboldened Blair clearly feels the time is right to push for more openness in the EU's services market which accounts for nearly 70 per cent of the European economy. On the other hand, the French referendum outcome will provide Chirac with immense incentives strongly and publicly to resist any efforts by the Presidency to force the measure through.

#### *BETTER REGULATION*

One of the central aims of the UK Presidency is to make headway on improving the Union's regulatory environment. British officials believe there has been a discernible shift in opinion in Brussels and the Member States over the need to rationalise and remove unnecessary regulation. Günter Verheugen, Commissioner for Industry and Enterprise, has vowed to make better regulation his priority and the incoming Presidency is likely to capitalise on this in an attempt to ensure that overly burdensome legislation is simplified and new legislation is introduced only if accompanied by a credible impact assessment and evidence that it would not undermine European competitiveness.<sup>9</sup> The Treasury underlined how important it considers the regulatory agenda by highlighting research from the OECD which has found that improvements in the Union's regulatory regimes could raise productivity levels by up to 6 per cent in many member states.<sup>10</sup> The UK's enthusiasm is not shared by France, however, which has led it be known that it thinks the focus on 'red tape' to be a baffling choice of priorities (Financial Times, June 2 2005).

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<sup>9</sup> Verheugen's enthusiasm for the better regulation agenda was made clear during a press conference in Berlin, in March this year. For a script of the press conference please see: <http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/178&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>10</sup> The research quoted from the OECD is the 2002 paper 'Product market competition and economic performance' and can be found in 'Long term global challenges and opportunities for Europe', HM Treasury, March 2005, p57.

Work will initially focus on the fifteen priority areas identified for simplification by the Council. In addition, London will seek to build on the December 2004 Six Presidencies' initiative, 'Advancing Reform in Europe', which set out a series of proposals to simplify and reduce burdensome regulation. Officials inside the UK's Department of Trade and Industry have indicated that they are particularly concerned with enhancing pre-legislative consultation and making greater use of non-legislative approaches at the EU level. At the national level, the Government is likely to advocate the introduction of reforms to minimise the cost of regulation on enterprise, focusing on the need to learn from best practice elsewhere in a manner tailored to local needs. France, Belgium, Germany, Hungary, Poland and Slovakia have already launched programmes along these lines, and the UK has itself adopted a more risk-based approach to regulation, identified as the most efficient approach in the final report of the Hampton Review, published alongside the 2005 UK Budget.

#### *RESEARCH AND INNOVATION*

In a recent paper, the UK's Department of Trade and Industry found that, on most internationally-comparable indicators of innovative activity, Europe is lagging behind key competitors (DTI, 2004). The UK is therefore intending to prioritise the 7<sup>th</sup> EU Research & Development Framework Programme during its Presidency, with the aim of maintaining and increasing excellence in basic research across the Union. This is part of a focus on aspects of the Programme that will offer the EU demonstrable value added, including industrial research in support of policy. British officials are keen to simplify the 7<sup>th</sup> Programme to make it more user-friendly and accessible for industry and science. The Programme is, however, likely to get caught up in the ongoing budgetary debate, with the UK Government keen to see any increases in funding for R&D – the Commission is asking for a doubling of the budget of the current Programme to over €35bn over four years – stay within a budget of no more than 1% of EU GNI.

#### *PROMOTING EMPLOYMENT*

Along with the Services Directive, employment policy is likely to present one of the key challenges for the UK Presidency. The Government is keen to promote flexible and adaptable labour markets across the Union. Yet it confronts one particularly thorny issue in the shape of the Agency Worker Directive – seen by many on the left in France and Germany as in need of strengthening if they are to provide adequate protection for workers. The Presidency will need to strike a balance between maintaining European competitiveness and ensuring appropriate employment protection for workers.

Happily as far as the Government is concerned, one potentially problematic issue has been removed from the agenda less than a month from the start of the Presidency. On 2 June, Employment Ministers from Italy, Germany, Poland, Slovakia and Slovenia together blocked a Commission proposal on the directive that would have phased out the British opt out – which allows UK workers to work more than 48 hours on a voluntary basis – by 2012. The controversial directive has now been returned to a Council working group for further

discussion, which means it is unlikely to resurface until 2006 (particularly given the identity of the chair.) In keeping with the more aggressive stance being adopted by the Government, industry Secretary Alan Johnson announced that '[t]here's a sea change going on here....There's a really strong feeling that the threat of globalisation and concerns about how to deal with the need to promote growth and jobs mean that we all have to be more flexible' (The Guardian 3 June 2005).

The Department of Trade and Industry has also indicated that there is likely to be a strong gender equality emphasis during the Presidency. This is likely to revolve around a new Directive pulling together and simplifying existing European legislation on gender equality and equal treatment in order to clarify rights and responsibilities for individuals, employers and service providers. The UK will also continue work with Commission to bring forward plans for a new European Gender Institute to co-ordinate and implement EU work on equal opportunities for men and women.

#### *COMPETITION POLICY*

Less controversially, competition policy is one of the few areas where the UK Government explicitly and unambiguously stated its preferences relatively early. The Labour Party called for an independent EU competition authority as part of its general election manifesto for business (Labour Party, 2005b), while Gordon Brown has argued that an independent authority could take responsibility for investigations into key markets (Financial Times, April 20 2005). Even here, however, significant obstacles present themselves. The European Commission is deeply sceptical of the plan, believing its competition DG to be free from political interference. More importantly, the Commission's powers in this area are enshrined in the EU Treaty and any change would require the unanimous support of all twenty-five Member States.

Over and above this new proposal, work will continue on reviewing the regional aid guidelines and other state aid instruments. The Government sees this as an opportunity to reform the EU rules to ensure less and better targeted state aid, in line with the Lisbon objectives (FCO: 35). However, negotiations are likely to be overshadowed by the prolonged dispute between the US and the EU on the subsidies paid to aircraft makers Boeing and Airbus. The US is accusing the EU of having funded the Airbus project with generous subsidies while the EU claims that Boeing is receiving similar help in the US for its 787 Dreamliner plane. The 90-day negotiation deadline for a negotiated settlement, set on 11 January 2005, has now passed and negotiations between EU Competition Commissioner Peter Mandelson and US Deputy Secretary of State Robert Zoellick have become increasingly acrimonious. Moreover, the two sides are also mired in a dispute on the American decision not to repeal the Byrd Amendment on anti-dumping, despite it being ruled illegal by the WTO in 2004. This permits US firms to benefit from anti-dumping fees levied on foreign companies. The Commission has indicated that US paper, farm goods, textiles and machinery will face an extra 15% duty from May 1 2005. Given these disputes, the prospect of having an outline agreement for the Doha Round ready for discussion at the December 2005 ministerial meeting in Hong Kong looks remote.

## FINANCIAL PERSPECTIVE

The current Financial Perspective for the Union will expire at the end of 2006. The Commission had hoped to conclude negotiations on the next Perspective – financing the EU between 2007 and 2013 – in time for the June 2005 European Council. Negotiations have proven contentious and protracted, however, and a deal may not now be reached before the UK Presidency begins in July.

### DISAGREEMENT ON NET CONTRIBUTIONS

Finding agreement on the net contribution levels for Member States has proved problematic. The EU's six net contributors are demanding a ceiling on contributions of roughly 1% of Gross National Income (GDP at market prices, plus the addition of net primary external income). A group of net contributors – Austria, France, Germany, the Netherlands and Britain – issued a letter to then Commission President Prodi in December 2003 informing him they would oppose any increase in the EU's budget from current levels. For its part, the European Commission's draft budget for 2007-2013, first presented in February 2004, argues for an increase in the budget in absolute terms and in relation to the member states' GNI. Barroso's team is seeking a contribution of nearer 1.15% of GNI over the seven years of the Perspective, totalling nearly \$1,205.39 billion and representing an annual increase in expenditure of around 16 per cent more than is planned for this financial year.

Behind these headline figures lurks a longstanding debate about the justification of increasing the budget when an unreformed Common Agricultural Policy (CAP) and cohesion policy funding still dominate the EU's expenditure. The Commission hopes to direct spending towards sustainable growth in the pursuit of the objectives laid down in the Lisbon Agenda, with resulting cuts in the sums devoted to sustainable management and protection of natural resources – including agricultural support payments, which fall from 36.2 per cent next year to 29.4 per cent between 2007 and 2013 – as well as foreign policy and administration, which will see spending stay the same in percentage terms.

The political context surrounding the negotiations is fraught. The UK's challenge is not only to broker agreement on the Perspective but to do so quickly. The Luxembourg Presidency's efforts have been hampered by a General Election in the UK, referendums on the Constitutional Treaty in France and the Netherlands, regional polls in Germany and likely elections in the Netherlands and Poland before July. The British Presidency may well be free of such distractions, but will be under pressure to ensure a successful resolution before Germany goes to the polls next year and the UK holds its own referendum in early 2006.

### THE BRITISH ABATEMENT

Britain's ability to broker an agreement will undoubtedly be hampered by the thorny issue of its rebate. Jacques Chirac, the French President, has repeatedly – and publicly – questioned the continued justification for the *cheque britannique* and although Britain maintains a veto over any changes, enshrined in the 1988 Own Resources Decision, it is likely to receive little

support from other Member States in its efforts to maintain the rebate in its entirety.<sup>11</sup> Chirac is expected to make the issue of the British rebate his opening salvo at the June 16 European Council meeting as he tries to regain momentum after the damaging French No vote.

The British rebate – a repayment of around two-thirds of the difference between its share of value added tax contributions to the budget and allocated expenditure – is regarded by the Commission as an anachronism. Figures from the Treasury indicate that the UK has received £39bn through the rebate since 1984. When it was agreed, according to the European Commission, gross national income per capita in the UK – measured in purchasing power parity terms – was 9 per cent below the average of the EU countries. In 2003, it was 11 per cent above the EU-15 average and the Commission argues this figure is likely to have risen still further with the recent accession of ten new Member States (Financial Times, March 24 2005). At issue, then, is whether the UK should continue to benefit from this special arrangement given its faster rate of economic growth over the past two decades relative to the EU average. Member States are particularly aggrieved at the maintenance of the rebate given that they now pay disproportionately to the rebate -- despite the fact that they have lower levels of income -- as a result of a deal struck in 1999 that allowed Austria, Germany, the Netherlands and Sweden to pay less than would be expected on the basis of their national income. The problem for London is that if the abatement were to be scrapped, all twenty-four of its partners would benefit.

For its part, the UK maintain its position that the rebate is still fully justifiable. The Treasury has produced figures that show that Britain has contributed a net £40bn (€58bn) to the Union since the rebate was agreed -- compared with €29bn from France (Begg: 36). Government officials are quick to point out that if the rebate were to be scrapped the UK would be responsible for financing the Union to a disproportionate extent (Begg: 38). The Treasury has received support for this position from an independent report published by the UK House of Lords European Committee (House of Lords: 9 March 2005). The report argues that the Commission's proposal to replace the UK rebate with a 'Generalised Corrective Mechanism' that would apply to all countries should be opposed as it would drastically reduce the size of the British rebate (House of Lords: 41-47). The mechanism is only triggered beyond a threshold for net contributions, set at 0.35 per cent of GNI, and this would take the form of a 66 per cent abatement, with the total of all abatements capped at €7.5bn. The report rejected the proposals on the grounds that there was no logic in setting a threshold but abating the excess above it by only 66 per cent, arguing that either the 66 per cent should apply to the whole net contribution, or the excess above the threshold should be abated in full (House of Lords: 128). This echoes the official UK Government line on the mechanism, that it has the effect of "sharing out the value of the UK abatement among all net contributors" (House of Lords: 23). UK Chancellor Gordon Brown has subsequently warned that he will not even put

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<sup>11</sup> Under Article 269 of the EC Treaty, the Council, acting unanimously, lays down the provisions governing the EC's 'Own Resources'.

the rebate on the table unless other countries are prepared to accept less from the EU's €100bn annual budget (The Financial Times, 16 May 2005).

The House of Lords report found that the continuation of the British rebate should be considered 'entirely legitimate' as long as the predominant weight of the Common Agricultural Policy in the budget continues. It strongly criticises the 2002 informal agreement between France and Germany that will see the agricultural budget continue to rise by 1% a year in nominal terms until 2013, despite the deal finally breaking the link between support and production (House of Lords: Chapters 3 and 8). The Lords called for the national financing of direct subsidies under the CAP in order to eliminate budgetary imbalances between member states (House of Lords: 129, 143). Following the French no, and the clear strategy adopted by President Chirac to use the abatement as a smokescreen for his own domestic problems, Tony Blair has openly linked the notion of a revisiting of the rebate to a substantial reform of the CAP. Unsurprisingly, it is a linkage that has been rejected out of hand by the French President.

Perhaps the most creative proposal on the British rebate was put forward by the Luxembourg Presidency to EU Foreign Ministers in late May, arguing that the British rebate should be fixed in 2007 (Council: 19 May, 2005). The Presidency argued that this should occur on the basis of an average over a period prior to the most recent enlargement. The amount would then be set on a downward path from the following year. The document also called for an average budget contribution of 1.06-1.09% GNI, a strong departure from the European Commission's proposals. But even this new proposal seems unlikely to satisfy London with both Chancellor Gordon Brown and Foreign Secretary Jack Straw briefing journalists that they were opposed to the plans, arguing once more for a reshaping of the EU budget with cuts in agricultural spending (The Times, May 20 2004).

The Financial Perspective is likely to be among the most difficult – and pressing – issues facing the Incoming UK Presidency. And a lot is riding on its successful completion. This is the first time that a full seven year package has been put forward for unanimous agreement by a European Union with 25 Member States and it will cover a period during which further accessions are possible in 2007 (Romania and Bulgaria) and (now less probably) thereafter (Turkey). The European Parliament -- slated to be given increased powers under the Constitutional Treaty -- will expect to have a greater say in negotiations than would have been the case previously. The outcome of negotiations on the budget is also vitally important for a new and enlarged Commission already the object of controversy over the appointment of some of its members. Moreover, the level at which the Perspective is agreed is potentially important for the future of the Stability and Growth Pact (SGP), with net contributors arguing that the budget needs to be taken into account when assessments are made about whether to penalise a Member State for failing to meet the 3% of GDP deficit limit.



## CHINA AND IRAN

The issue of whether to lift the 1989 ban on arms sales to China has exposed familiar tensions within the EU. The key advocate of the proposal is France, with Paris arguing that it would demonstrate the Union's commitment to amicable relations with a China likely to be amongst the world's leading economies within a decade (Financial Times, April 18 2005). This has drawn a furious reaction from the US which has argued that ending the ban would have serious ramifications for transatlantic ties.

The UK finds itself in a difficult situation. European defence companies with a limited share of the US market are anxious to see the ban lifted while those. The UK's BAE Systems is opposed, keen to safeguard business worth more than £4bn in the US market (Financial Times 7 April 2005). In addition, defence officials concede that they are being subjected to significant American pressure on the arms embargo, raising the prospect of Britain again finding itself caught between Europe and the United States on a matter of substantive policy.

London has begun to argue against a simple lifting of the ban, calling instead for a period of reflection. The recent passage of a Chinese law against Taiwanese secession led Jack Straw to comment that lifting the ban was now "more difficult". The Union itself seems to lack the stomach for another internal fight. A senior EU delegation to China recently linked the lifting of the ban to the resolution of several human rights issues, most notably the need for the release of prisoners held since the 1989 Tiananmen Square uprising. The Luxembourg Presidency has now moved to delay a decision (Financial Times, April 15 2005; 19 April 2005). Nevertheless, deferral cannot be indefinite and the issue is likely to be at the forefront of negotiations during the EU-China summit celebrating the 30<sup>th</sup> anniversary of the bilateral relationship, to be held in September.

Many of the tensions created by the Chinese arms embargo are replicated in the EU's ongoing negotiations with Iran on the latter's nuclear ambitions. To date, the US has been prepared to let the EU3 (UK, France and Germany) take the lead in negotiations but there are already signs that Washington's patience may be running out. The issue again risks opening up old divisions within the Union on security affairs. The UK Presidency will hope that moves to establish an EU-Iran Trade and Co-operation Agreement, together with parallel negotiations on a political agreement, will defuse tensions, though it remains all too likely that the issue will flare up at some point during London's occupation of the Council chair.

## THE WORKINGS OF THE PRESIDENCY

It is not just the politics of the presidency which cause member state headaches during their time at the helm. The size and complexity of the job of holding the office render it a challenge for any national administration. According to one estimate, there will be some 40-plus Council meetings, including the informal meetings at senior level plus action plan meetings during the Presidency – (Lord Dykes, Hansard, column 775, 9 March 2005)

Work starts on a forthcoming Presidency well in advance. In the British case, priorities are set via a lengthy series of discussions between the various government departments, up to and including the ministerial level. Planning starts well in advance on the issues to be promoted, some two years ago in this case. The better regulation initiative, mentioned above, was a case in point, first brought up in 2003, with the Commission intending to produce proposals on how to simplify legislation in October.

In administrative terms, it would seem that the forthcoming British Presidency will function much like previous ones. A special Presidency department in the Foreign Office (EUP) is responsible for the organizational aspects. One advantage over 1998 is that 'there is a greater continuity of expertise this time round,' and in particular, 'there are lots more officials around who were active on EU matters in 1998 than was the case in 1992 with people active in 1992' (interview, Cabinet Office). Early indications from Whitehall are that, despite problems sometimes encountered in coordinating positions on EU negotiations and in sharing information with the Treasury, this has not proved to be a problem issue in the run-up to the presidency.

A slight change of emphasis relates to efforts taken to coordinate both with the EU institutions and with other Residencies. In 1992, London was accused of not working closely enough with the Secretariat General of the Council in planning and running the Presidency. In 1998, a conscious decision was taken to do so more frequently and the forthcoming Presidency will, according to Foreign Office officials, see a continuation of this trend. This is the case as much out of need as desire, in that in an EU of twenty five member states, it has become increasingly difficult for a Presidency charged with brokering agreement on complicated and potentially highly divisive issues to keep track of the negotiating positions of the various member states. Working with the Secretariat General will not, as is the case with certain of the smaller member states, stretch to allowing Secretariat officials to chair working groups (Westlake and Galloway 2004: 338), but there is every indication that London intends to work closely with the institution during its tenure of office. Similarly, the UK has been more assiduous than in the past in collaborating and coordinating with both the outgoing and succeeding Presidents. To this end, a seminar was organized in London in mid May to which officials from both Luxembourg and Austria were invited.

In terms of the functioning and organization of the Presidency itself, the one major potential change relates to the European Council meeting scheduled for October. Plans have been floated ahead of the Presidency to scrap the traditional autumn summit not least because of the Prime Minister's dislike of the events (Financial Times, May 3, 2005). This would be a novel – and no doubt controversial – innovation, though the call at the June European Council by President Chirac for a special summit to discuss the future of the EU (doubtless music to Tony Blair's ears!) puts increased pressure on London not to follow through on it.

## III – Prospects for the Presidency

Prior to the French and Dutch referendums, a low key, low risk Presidency was the strong preference of the British Government. Throughout Whitehall, as one senior official put it at the time, 'we are intending to focus on what we know we can get done'. Thus, while the overall nature of the UK's Presidential agenda was in reality highly dependent on what the preceding Luxembourg Presidency managed to accomplish, London had decided, where possible, to focus on an agenda which promised to deliver tangible results. As another official put it at the time: 'we are focusing on the value-added, to show that Europe can work. Indeed the UK's two main agenda items – climate change and Africa – were chosen largely as a function of a benign coincidence that will see the Prime Minister in the chair of the G8 and EU simultaneously. Africa's plight and climate change are both the object of broad consensus within the Union, and London clearly views the dual-chairmanship as an opportunity to secure agreement by all the main players in the world economy on subjects of genuine interest to the Prime Minister, whilst, happily, highlighting its own role, and avoiding potentially damaging rifts within the Union.

Before the plebiscites in France and The Netherlands, according to one Cabinet Office official, Blair wanted "to strike a tone of a workmanlike presidency, getting business done - in stark contrast to 1998, which was much more about glitz, showcasing and events'. In 1998, the UK Presidency attempted to use its office to 'secure a clear set of gains which could be held up as reasons for liking "Europe"' (Anderson 1999: 63).

This new, more modest approach stemmed from the particular problems British governments face in attempting to carry out a 'successful' presidency. On the one hand, the rhetoric of the Eurosceptics provides incentives for the government to be seen to be arguing its corner and winning the battle in Brussels. On the other, the art of the Presidency is in avoiding battles and ensuring effective, consensual decision making wherever possible. The bind for the government - which remains even after the French and Dutch No votes- is that if it avoids being attacked at home for failing to stand up to its partners, the opposition Conservatives may well talk up any criticism emanating from other European capitals about the ineffective chairing of the Council by a member state too preoccupied with fighting its own fights.

Yet immediately after the French No vote, British reserve seems to have been superseded by a determination to ensure that Europe reforms itself. Tony Blair clearly believes that the Union has reached a moment of truth and that the UK presidency provides an opportunity to secure agreement on the kind of reforms London has long called for. Thus while Britain's priorities for its presidency remain, it is the key battlegrounds of the renegotiation of the treaty, economic reform and the EU budget that will dominate the UK's time at the helm.

However London faces both substantive and procedural obstacles to running a successful presidency and securing the outcomes it desires. Procedurally, one can but wonder what the impact of the current state of affairs on the Union will be on the UK's highly-regarded policy

making machinery. It is commonly argued that the particular strength that London has in its dealings with the Union is the calibre of its officials. In general, this means that the London policy making machinery functions most smoothly when the issues are routine and apolitical (Menon and Wright 1998; Wallace 1997). It is when Westminster becomes involved in the process of interaction with the Union that one forms the impression that 'track troops have been put at the disposal of confused strategic objectives' (Wallace 1997: 687). Renegotiation of the constitutional treaty, of course, will be a political event *par excellence*

Substantively, the agenda that London will inherit contains no high profile dossiers liable for quick and painless completion – as was the case in 1998 with both the single currency and enlargement. Moreover, the blatant tensions between the amendments to the treaty text that France will seek and those that the UK government will find acceptable make it hard to see how compromise can be achieved. Similarly, London and Paris approach the need for economic reform from completely different angles. Internationally, both China and Iran could reinforce perceptions of the splits between an Atlanticist Britain and its European partners.

Perhaps most importantly, presenting even the appearance of impartiality from the chair will be problematic, at least for a Prime Minister under pressure at home to be seen to be defending British positions. Any member state would struggle to carry out the tasks of the Presidency effectively and impartially under these circumstances, but for a country where the political debate about the Union is febrile to say the least, this will represent a particular challenge. Admittedly, the Blair government brought about a marked sea change from its predecessors in the 1998 Presidency by manifesting a commitment to fulfil the obligation of an office of the union in an impartial way (Ludlow 1998: 578). But the task will be all the more difficult this time. Discussion of issues such as the rebate will have tremendous political resonance at home, placing pressure on the Government to be seen to be fighting their corner even absent the prospect of a referendum on the Treaty. This is especially so given that a much-weakened Chirac will seek to oppose any attempt by London to push through liberal reform measures, while using the British rebate as a smokescreen, in the hope of regaining support amongst the French public.

Domestic pressures will severely restrict the freedom of manoeuvre of a government whose majority is much reduced from that it enjoyed prior to the election. Successful completion of the negotiations scheduled for the next six months will depend on the Government's ability to offer concessions in return for any gains, to offer carrots to a French President who cannot afford to appear weak at home. Yet even the hint of compromise on issues such as the rebate will unleash howls of protest in the media and amongst opposition politicians (not to mention the Treasury).

On the other side of the debate, there are increasing signs of bitterness in the relations between the government and the Europhile lobby. Stephen Wall, former adviser to Tony Blair on EU matters, has not been slow to criticize the Government over its handling of EU affairs since his departure. More recently, a bitter exchange has broken out between the Prime Minister's office and the remnants of Britain in Europe, the campaigning organization that

would have coordinated a yes campaign in a British referendum. Following the decision to postpone a referendum, a 'well placed source' was quoted as remarking that

BiE always had an inflated idea about its own importance. They didn't understand that a referendum was only ever going to be won by politicians...Tony wanted an outrider organisation to keep things ticking over in case we needed to build a campaign and put our foot on the gas. That is no longer necessary. The people in Britain in Europe were all over 21. They should have known the facts of life (The Times 9 June 2005).

This is hardly language intended to placate pro-European opinion, and smacks of a hardening of the Government's stance. And of course it is still uncertain whether the UK will eventually be forced to hold a referendum on a resurrected constitutional treaty!

Ironically, and even absent the prospect of a referendum, the UK risks becoming a victim of its failure to deliver on the government's repeated promise to undertake a campaign explaining the benefits of EU membership to a sceptical public. As a consequence, debate in the UK is in a sense simply not mature enough to grasp the notion of a successful presidency. Appreciating a successful six month tenure implies accepting the need for effective brokerage and compromise which, in turn, implies an unambiguous recognition of the benefits of, membership. Without negotiating constructively and offering at least minimal concessions, it will be all the harder for the UK to secure its objectives. Tony Blair clearly senses – and relishes the fact that – the time is right to take the initiative in proposing reforms that will, if successful, make the Union still more 'Anglo-Saxon'. Ironically, British political and public opinion – fed for so long on a diet of Euroscepticism – may not provide him with the space he will need to succeed.

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