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God Bless their Lordships

Recently the House of Lords discussed for the first time the Coalition government's European Union Bill, designed to make mandatory the holding of a referendum in this country on almost all future changes to the European treaties; and to "clarify" the legal position of the British Parliament within the European Union's constitutional structure. Anyone who reads the text of this debate will learn a great deal about the Bill; and may wish to draw some broader conclusions from it about the current workings of the British political system.

The House of Lords is rightly famed for the wide-ranging expertise of its members. The debate on the European Union Bill threw this expertise into high relief, with former Commissioners, former Members of the European Parliament and former government ministers all making their contribution to a near-unanimous condemnation of the Bill's most important provisions. Recurrent criticisms were that insistence on a referendum for even relatively minor treaty changes would bind unacceptably the hands of future British governments in their European negotiations; that the clause of the Bill supposedly asserting British parliamentary sovereignty within the European Union was either intellectually incoherent or superfluous; and that there was a flagrant contradiction between the supposed reaffirmation of parliamentary sovereignty within the Bill and the constraint placed on that sovereignty by the holding of mandatory referendums before Parliament could ratify future

changes to the European treaties. These criticisms came not merely from the Opposition benches in the House of Lords, but at least as vociferously from Conservative and Liberal Democrat peers as well. It is clear that opposition to the Bill in the House of Lords will be much more vigorously pursued than it was in the House of Commons in recent months.

After this first discussion, the Bill will now move into its Committee stage in the House of Lords, where at least two amendments are likely to be proposed, one setting a time limit on the Bill's requirement for mandatory referendums, and the other limiting the number of circumstances in which such mandatory referendums will be required. Even if these amendments are adopted by the House of Lords, it is difficult to see how the Coalition government could ever accept them. The referendum provisions of the Bill are clearly intended to create as much difficulty as possible for as long as possible to future governments which might wish to participate more fully than the present government in the continuing process of European integration; and already there are loud complaints from the more radical Eurosceptics of the Conservative Party that the proposed EU Bill is insufficiently stringent in its demands for mandatory referendums on future changes to the European treaties. The EU Bill was clearly foreshadowed in both the Conservative manifesto for the General Election of 2010 and in the Coalition Agreement. The House of Lords is unlikely to press its clear discontent with the Bill to the point of

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absolute confrontation with the government and the House of Commons. An important legacy of the present Coalition government is likely therefore to be the mandatory holding of referendums in the United Kingdom on even relatively small changes to the European treaties. In all probability this will act as a brake, as it is intended to do, on the freedom on future governments to pursue European policies which they might otherwise believe to be in the national interest. The EU Bill will be a central building-block in the growing edifice of British semi-detachment from the European Union.

The House of Lords is often, and reasonably, criticized for its absence of direct democratic legitimacy. Those who believe that their Lordships nevertheless have a significant contribution to make to the good governance of the United Kingdom should take comfort from this first debate in the House of Lords on the EU Bill. Those speaking seemed overwhelmingly to rely on their own experience and rationality rather than on the narrow party or populist concerns so much in evidence when European issues are discussed in the House of Commons. In a different political system to our own, the breadth and depth of the criticisms urged of the EU Bill by the experts in the House of Lords would give the government pause and probably lead to substantial amendment of a defective text.

Any such benign outcome is however wholly implausible in present political circumstances. The EU Bill is the outcome of negotiations within two coalitions, the coalition between the Conservative Party and the Liberal Democrats, and that between Mr. Cameron and his allies and the most radical Eurosceptic wing of the Conservative Party. The need to reconcile such divergent interests has had to take and will continue to take precedence over any other considerations. The EU Bill resulting from these cross-currents is

hardly an attractive advertisement for the supposed merits of coalition governments. The final speaker in the House of Lords debate last week was Lord Wallace of Saltaire, a Liberal Democrat peer with an impeccably pro-European record. As a junior minister winding up the debate for the government, he was obliged to defend the EU Bill against the barrage of criticism which had been delivered against it. The anomaly of Lord Wallace's position was certainly not lost on his listeners, and probably not on Lord Wallace himself.

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The EU has a new Pact! Should the UK cheer?

In addition to the Stability and Growth Pact, the EU will have a new pact, the Pact Plus Euro. That is at least the decision made by EU leaders at the 24-25 March Council meeting. The Pact did not have an easy birth: it was initially the Pact for Competitiveness, then renamed the Pact for the Euro until it reached its final shape and it gained a Plus. There is certainly an indication here that defining stronger economic coordination is definitely not an easy task and this is, in essence, the Pact's ambition.

At a first glance the Pact, at least in its recent weaker and revised version, asks Member States to do what they would have normally done anyway either through the normal legislative process or via other softer mechanisms such as Europe 2020. As for sanctions - the most recent obsession in the EU economic policy debate - they are not even mentioned. Furthermore, countries will be able to select the measures they pledge to implement. So the Pact is, in

fact, flexible and Member States can do more or less what they want with it. One might therefore wonder what is so special about this Pact after all. There are at least four good reasons to care about it.

I. Although it is not the quantum leap in economic governance many EU lovers were waiting for, the Pact is a symbolic step, a further message that EU leaders are ready to do – (well almost!) - whatever it takes to save the euro.

II. Once again the Pact is the price to pay to please Germany who is tired of saving the ‘profligate Mediterranean countries’ with generous financial assistance packages (and remarkably high interest rates!) and needs some sort of reinsurance that EU countries are going to behave better before it commits to supporting further bailouts. Let us not forget that Portugal has joined the other undisciplined country in need of a rescue.

III. The Pact irritates the European Parliament for its intergovernmental nature and adds a piece in an already complex economic governance architecture. This does not help to ease the tensions among the EU institutions and may pave the way for further institutional battles. At least the Commission managed to find a role for itself in the recent version of the Pact as it will be in charge of writing a nice report monitoring progress of Member States against the Pact.

IV. The Pact for the euro has now a ‘plus’ as it leaves non-euro area countries with the option to choose whether they are also going to adhere to it. Denmark, Poland, Latvia, Lithuania, Bulgaria, and Romania have already declared that they will join the club. Those outside, who do not want to be part of it, fear that the Pact could result in a two-speed Europe and it will create further divisions in the single market and that will boost the

influence of the euro area in setting the economic policy for the EU as a whole.

These at least should be factors that the British government, if it has not done so already, ought to consider. Predictably the UK has already made the choice of opting out of it and it once again decided to observe progress towards further integration from the sidelines. After all, this is in line with the apparent strategy of detachment adopted by the UK’s coalition government. The positive side of it is that the UK does not stand in the way if other countries wish to get closer. But the *realpolitik* is that, if you are a member of the Pact, the political costs are very little and you are in a club which will most likely decide EU economic policy.

Mr Cameron could not have been seen by his electorate to adhere to another Pact especially if the word “euro” is involved. Should Mr Cameron have scorned EU leaders when they decided to swap the word “competitiveness” for “euro” so that the UK could also join without risking the wrath of euro-sceptics? Perhaps yes, if it really means that from now on key decisions will be taken without him. Certainly a Pact for Competitiveness would have gone down better in the UK than a Pact for the Euro – also because competitiveness is now another very fashionable concept, and much easier to sell to the Brits.

Only time will tell if the Pact Plus Euro is better and more successful than the Stability and Growth Pact. Most importantly though, EU leaders should have learned the lesson that *Pacta Sunt Servanda* (agreements must be kept!) regardless of their Euro membership. Nobody wants another euro-crisis, even the numerous euro-sceptics that have been gloating over the recent euro area’s misfortune.

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Own Resources for a budget of our own.

Last week, ALDE leader Guy Verhofstadt (Belgium), Committee on Budgets Chair Alain Lamassoure (EPP, France), and the Chair of the Special Committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 (SURE), Jutta Haug (S&D, Germany), presented, in a 78-page document, their position on the reform of the EU budget.

The main problem identified by the three MEPs, in the Own Initiative report prepared in association with think tanks Centre for European Policy Studies and Notre Europe, is the structure of the EU budget's resources, which is predominantly financed by member states (currently around 85% if the VAT resource is included).

Verhofstadt, Lamassoure and Haug argue that this has meant two things: the EU's loss of financial autonomy and the development of the 'fair return' concept, opposing so-called 'net contributors' to 'net recipients'. This latter issue has given rise to political compromises in order to secure the approval of certain member states, such as the British rebate, each one of them rendering the EU budget more complex and opaque.

The three MEPs also flag the mismatch between the EU's increased competences – energy, space, fight against climate change – and the lack of a corresponding increased funding as a result of the current financing system.

What Verhofstadt, Lamassoure and Haug are proposing is for the

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Union's budget to no longer rely on national contributions but to be based entirely on so-called 'genuine' own resources. To do so, after having reviewed the six own resources options presented by the Commission last year, they propose to transform the current VAT resource into a European VAT, coupled with a generalised carbon tax – not included in the Commission's six options – and if need be complemented with a Financial Transaction Tax (FTT). They also consider that their financing reform will eliminate the need to return to national budgets the 'surplus' of unused appropriations at the end of the year, thus constituting a supplementary own resource. The three parliamentarians factor in therefore an extra three billion euro per annum.

The ideas put forward are not new but they are extremely important. First of all they recognise the anomaly in the way the EU budget is raised. Member State contribution were never meant to make up the majority of EU budget resources but today we have found ourselves in a situation where Member States foot the biggest part of the EU budget. Breaking with that norm has two advantages.

First, it will release national budgets of the, albeit small at 1% of GNI, responsibility to fund the EU budget at a time of austerity at home and at the same time release the EU budget from intergovernmental bargains and deals. Second, it will connect the EU budget with the very citizens it serves, adding to the accountability of EU expenditure without adding extra costs to their annual bills.

Take the new European VAT own resource for example, which sits at the heart of the proposals. A national rate and a European rate would be applied and mentioned at the bottom of bills, which would enable citizens to know precisely their contribution. The revenue from the latter rate would be fed into the EU



budget. With a rate of 1%, it could produce an income of 57 billion euro per year, i.e. a little less than half of the current EU budget. The document considers an EU VAT to become a stable source of revenue, which should not lead to an increase in the VAT rate as revenue generated would be deducted from national contributions. Not to mention that the collection costs should be low as the tax already exists, albeit in a different form.

The benefits of redesigning the own resource system are there to be reaped. It is high time for these proposals to receive serious consideration from Member

States. We need to move away from fruitless arguments of who pays how much and towards a constructive discussion on how best to fund the EU budget to enable it to deliver in areas like environmental protection, research and development, energy security and growth across the EU.

Petros Fassoulas

For more information on the European Movement and past issues of 'The European' please visit www.euomove.org.uk and www.em-il.org.uk.

Round-up of EU activity during March.

1. Some 200 academics, economists, MEPs and others issued a call for an audit of Greek debt, a demand that may be raised in the Greek parliament in the coming days and which has also been quickly embraced by Irish trade unions and development NGOs regarding Dublin's public borrowing.
2. European Socialists proposed a 'growth pact' as an alternative to the 'competitiveness pact' originally proposed by France and Germany as a solution to the bloc's economic woes.
3. Maltese EU commissioner John Dalli went off message with comments which appear to support Libyan dictator Moammar Gaddafi and which flatly contradict those of Mr Dalli's boss, Jose Manuel Barroso.
4. EU's economic convergence plans are forcing Denmark to reconsider its euro opt-out, with a referendum on "modernising" Copenhagen's relation with Brussels possibly taking place by June. In the meantime Denmark is to sign up to a pillar of the so-called 'euro plus pact', despite not being a member of the eurozone. The move comes as EU ministers agreed to boost the firepower of a eurozone bail-out fund.
5. Nuclear experts from EU member states gathered in Brussels to discuss the damage caused to Japan's Fukushima nuclear power plant and the potential ramifications for Europe, after a powerful earthquake ripped through the Asian country.
6. Germany remains "deeply sceptical" about military intervention in Libya after an EU summit which saw France and the UK compare the situation to Europe's failure to stop genocide in Bosnia in the 1990s.
7. Greece won a reduction of 100 basis points - 1% - in the interest rate it pays on its €110 billion loan and an extension of the payment period from the current three years to seven and a half. Ireland was offered a similar reduction, but the country's new prime minister said he could not accept the terms demanded.

8. The European Commission has said air fares are unlikely to rise substantially under new emissions targets set for the aviation industry from 2012 onwards.
9. The controversial issue of tax was on the agenda this month as the European Commission unveiled plans for a pan-European corporate tax system. Known as the 'Common Consolidated Corporate Tax Base', it is meant to reduce red tape for companies based in more than one member states by having them file just one tax return, where its principle activities are based, a move that the Commission stresses would not infringe on states' ability to set their own corporate tax rates.
10. Portugal's Socialist government resigned after it failed to win a vote in the Parliament on 4th austerity package, aimed at proving to the financial markets and its EU partners that it is serious of addressing its budget deficit..
11. On Saturday 20 March a French jet opened fire on one of Colonel Gaddafi's tanks in the first strike of Operation Odyssey Dawn, a military campaign by a new EU-US-Arab coalition to protect Libyan civilians.
12. A majority of EU governments have agreed to a gradual redistribution of farm payments from older to newer member states, but few support the idea of limiting payments to the bloc's wealthiest farmers.
13. EU leaders have called on neighbouring states including Russia and Ukraine to carry out 'stress tests' on their nuclear plants.
14. A two-day summit in Brussels saw fresh cuts and restructuring announced by a series of member states who wished to "go beyond" that which has been agreed within the fresh euro-plus pact.
15. EU member states have bowed to last minute German demands on funding the future permanent bail-out mechanism, and indicated financial support will be available for crisis-stricken Portugal if necessary.
16. European Council President Herman Van Rompuy recently asked EU leaders to leave the dinning room for the first time if they wish to smoke.
17. A leading anti-corruption campaigner and acting MEP has said the European Parliament must substantially overhaul its rules following the latest corruption scandal, including an end to the practice of MEPs holding additional jobs.
18. Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania, all non-eurozone countries, agreed to sign up to the "euro plus" pact that aims to make European economies more "competitive".

Compiled by Max Deckers