

The UK presidency of the EU: rhetoric and reality

Key points

After the two 'no' votes in France and the Netherlands and the failure of EU leaders to agree on a budget, the EU was widely perceived to be in a state of crisis. Many commentators saw the UK's Presidency as a golden opportunity for the freshly re-elected Labour Government to push through badly-needed reforms. Tony Blair set out an ambitious agenda in his speech to the European Parliament in the summer.

However, as we set out below, the reality has been quite different to the rhetoric about reform. The British Presidency of the EU has been a disappointment so far. To date there has been no progress on reform of the EU budget and the CAP, or on reform of the EU's economic and trade policies.

Open Europe Director Neil O'Brien said:

"Tony Blair now has to act fast, or his time as President of the EU will be remembered as a failure. So far there has been no real progress on reform of the EU economy, or over-regulation, or CAP reform. The EU's stubborn refusal to open up its agricultural trade has left world trade talks teetering on the brink of collapse."

"The UK government - and other reform-minded member states - need to take a far tougher line if anything is going to get done. We should make it clear that we won't sign up to the new EU budget until we start to see real progress towards reform."

(1) The EU budget and CAP reform

The rhetoric:

"The UK rebate will remain and we will not negotiate it away. Period."

- Tony Blair, Parliament, 9 June

"If we are to make poverty history... Let us seek to make the excesses of the CAP history."

- Gordon Brown, Labour party conference, 26 September

The reality:

"We have put our abatement on the table. It is not the best way to spend European money... We cannot change agriculture in the short term."

- John Prescott, EU Committee of the Regions, 13 October

"Nothing as part of the EU's offer in world trade talks will reduce overall levels of EU farm spending by one cent"

- Spokesman for Peter Mandelson, 18 October

"It is absolutely and unequivocally not the intention of the Commission to use the Doha negotiations to precipitate a new phase of CAP reform."

- Peter Mandelson, Statement, 18 October

Two of the UK's top priorities for its presidency of the EU were to reach agreement on the EU budget for the period 2007-2013, and to proceed with reform of the Common Agricultural Policy (CAP). The two issues have become intrinsically linked. Back in June, the UK Government promised that there would be no negotiation of Britain's EU budget rebate unless there was an agreement to phase out the CAP. In Parliament Tony Blair talked about "getting rid of" the CAP (29 June).

However, since then the UK has gradually weakened its position on reform of the CAP. The Government started from a position of saying "no change to the rebate unless the CAP is phased out", but has now softened its stance to the extent that it seems willing to give up the part of the rebate in exchange for no more than vague promises about a discussion of the CAP.

Jacques Chirac has made it clear that he is determined not to budge on the CAP. In a speech on 14 July he said, "I am not willing to make the slightest concession on the common agricultural policy... The CAP is the future." French Finance Minister Thierry Bretton has insisted, "The CAP was reformed in 2003 ... We do not intend to go further than this reform". (17 October)

Nonetheless, John Prescott has stressed that the rebate is now up for negotiation. He told the Independent, "we will deal with the abatement and put it on the table" - despite the fact that the French Government has made it clear that it will not budge on the CAP.

Due to the way that the rebate operates (Britain gets back two thirds of the difference between its gross and net contribution), Britain's rebate would fall *automatically* if the CAP were eliminated, because Britain puts about €1.3 billion more into funding the CAP alone than it receives back in farm spending. If this net drain were removed the UK rebate would fall by around €900 million a year.

The UK initially seemed to be suggesting that this automatic mechanism was the only sense in which the rebate would be reduced. Tony Blair said that "The rebate remains because the reason for the rebate remains... Of course if we get rid of the CAP and we change the reason why the rebate is there, then the case for the rebate changes." But now the Government seem to be discussing a broader reduction in the UK rebate in return for CAP "reform" - rather than abolition.

The Government was initially keen to leave the EU budget off the Hampton Court agenda, and says it only expects to find agreement instead at the EU summit in December. However, there may well be agreement on the budget before the UK's presidency is up - given that the French government has announced it is willing to increase the EU budget further so the EU can spend money on research and development. The UK Government are increasingly desperate for a concrete "achievement" during their presidency and may be tempted to clutch at this offer as a face saving compromise.

This would be a mistake - it would be better to have no agreement than a bad deal. New EU spending programmes should only be funded by reducing wasteful spending on programmes like the CAP - rather than increasing the EU budget.

Action points

- The Government should be arguing that the only road to reducing the UK rebate is via phasing out the CAP. This will reduce the UK rebate by addressing the reasons the rebate was needed in the first place. The UK Government should not suggest that there might be further scope for cuts in the UK rebate on top of this.
- The UK should be making the case for the full phasing-out of the CAP rather than just partial reform. If other members are determined to maintain agricultural subsidies, such subsidies should be paid purely by member states, with no funds from the EU. The EU's only role should be

to prevent the residual spending from taking trade distorting forms or levels.

(2) Economic reform

The rhetoric:

“The time for debating European economic reform is over. Now is the time for action.”

- Gordon Brown, FT, 13 October 2005

“We are winning the political agenda”

- Gordon Brown, press conference, 13 October 2005

The reality:

In its Presidency agenda the UK Government put great emphasis on the need for Europe to enact difficult reforms to get Europe into shape so that it could compete in a modern globalised world.

At the heart of this agenda was the Commission’s deregulation initiative. In late September the EU Commission announced that it had decided to withdraw 68 pending proposals for legislation. However, on close inspection, it is clear that this was not the “bonfire of red-tape” it was presented as.

Most of the 68 bills concerned were already obsolete, or had been pending for years. 27 of them, for example, were over five years old, and 22 of them concerned the association agreements signed with the ten new member countries, which all became defunct when they joined the EU last year. Many of the other regulations are to be rewritten and will return in one form or another. *Le Figaro* described the policy as “largely cosmetic.”

This week the Commission announced the next step in its ‘campaign’ against over-regulation. It said it had turned its attention to the 85,000 pages of EU legislation already in existence and that it aimed to reduce the damage it does to the competitiveness of European businesses.

But again, on close inspection the reality is disappointing. Only 6 directives or regulations are definitely going to be repealed, and the Commission is actually proposing to introduce a new regulation which will apply to small firms. This will make very little impact on the mountain of existing EU regulation

The emphasis has drifted on simplification and redrafting of laws rather than actually reducing red tape. In its press release the Commission noted: “Better regulation is not de-regulation”. (25 October)

When Gunter Verheugen became Competition Commissioner, he said that "cutting red tape" would be his "personal trademark." (FT November 26 2004). But it is clear that the EU has not stopped its tendency to over-regulate. Figures released by the Foreign Office in March showed that since 1997 alone the EU has passed 4806 more regulations, directives and decisions than have been repealed. Gordon Brown has argued that half of all regulations affecting business are now created by the EU.

At the start of its Presidency the UK Government also committed itself to "resolving" European concerns over the proposed services directive, which it described as "crucial" and said would create "hundreds of thousands of jobs and billions of euros for the EU economy." However, in the face of opposition from MEPs, the directive has been shelved until next year, and may yet be scrapped altogether.

Action points

- The UK should insist on the reduction of regulation, and not allow pressure for deregulation to be deflected into ineffective attempts to create "better regulation."
- In particular the UK should look again at the Financial Services Action plan, which is increasingly seen in the City as creating more costs than benefits.
- The UK should propose across the board institutional changes to check the growth of EU regulation: regulatory budgets, sunset clauses, and it should look at exempting whole categories of smaller businesses from regulation.
- The UK Parliament should create an equivalent of the Danish Parliament's EU Committee, which has far greater powers than its UK equivalents to scrutinise legislation at an early stage and force Government ministers to reveal their voting intentions. Such a committee should also aim for high-level business and civic involvement, to help identify and stop bad proposals at an early stage.

(3) Trade reform

The rhetoric:

"We need to get rid of protectionism, whether it's in Europe, the United States or Japan. We need more open trade and opening up of markets in general and an end to trade distorting subsidies which are the greatest problem that developing countries face."

- Tony Blair, FT, 30 June

The reality:

The UK presidency pledged to push to get an "outcome" at the Doha round of WTO negotiations in Hong Kong in December. But instead of helping to drive the round towards a conclusion the EU is now widely regarded as the main obstacle to a successful outcome. Fierce opposition from some of the more protectionist member states to measures proposed so far in the negotiations has stalled the process, and more naturally pro-free trade countries like the UK have stayed unusually silent.

Rather than driving forward an agreement which could help lift millions out of poverty, the EU is now become the main obstacle to progress in world trade talks. Oxfam have described the EU's proposals as "smoke and mirrors", designed to exploit complex WTO loopholes.

Developing countries have warned that they will block the current WTO round unless there is a substantial reduction in rich countries' protectionist agricultural policies, which harm farmers in poor countries. The round was given a boost earlier this month when the US Trade Representative, Rob Portman, offered steep cuts in agricultural tariffs and subsidies. But the EU made a disappointing response: offering cuts which were quickly dismissed as insufficient by other WTO countries. But even this small move was enough to provoke a backlash from the French government, which called for an EU meeting at which they demanded the EU rein Mandelson in and proposed the establishment of a permanent 'expert group' to review future EU trade offers.

The proposal for a permanent expert group was rejected by member states. But nonetheless what the French government described as its "offensive" appears to have hamstrung the Commission. The Commission is already briefing that its revised offer, to be presented in the coming days, is likely to fall short of the offer made by the G20 of developing countries, which has been described by the US as the "minimum" the EU must do to reduce its barriers. Peter Mandelson's spokesman was quick to reassure protectionist member states that, "Nothing he is proposing as part of the EU's offer in world trade talks will reduce overall levels of EU farm spending by one cent." (PA, 18 October)

The French Government may have over-reached in its demands for what amounted to a permanent block on negotiations - but its original goal - the maintenance of high tariffs and subsidies - is now presented as a "compromise" option. Reform-minded member states - particularly the UK - have not pushed back hard enough against protectionist pressure. Thomas Östros, the Swedish Trade Minister summed the situation up: "The French have been very active, not least in the public debate, while there has really been very little said by the free traders." (FT, 26 October)

Action points

- The UK Government must act quickly to avoid a disastrous breakdown at the December WTO talks. It should add its voice more clearly to the group of member states backing free trade.
- The UK - and other reform minded member states - should make it clear that they will not agree to a new EU budget unless there is clear progress on trade.
- The Government and other groups should reach out 'over the heads' of anti-trade politicians and interest groups, and should work to build support for open trade policies among voters in countries like France, Ireland, Spain and Greece. The UK Government should aim to work with the leaders of the civic groups behind campaigns like *Make Poverty History* and *Live8* to make the case for reducing the EU's trade barriers against developing countries.

(4) Summing up: they said it

"When I read what Tony Blair said in front of the European Parliament, I harboured the hope that the Brits would arrive in the presidency with a new momentum. Then we read the list of their priorities - eleven priorities, eleven! That means that not one of them was really important. Since then, the weeks pass and scepticism grows."

- Aleksander Kwasniewski, Polish President, Le Monde, 21 October

"We have lost the President of the (EU) Council. From what we hear he is the British Prime Minister Tony Blair, although nobody has seen or heard of him since the summer recess ended... One rhetorically brilliant speech without consequences or follow-ups is simply not enough to secure success. We hear of hard work ... from his cabinet ministers, but the man himself is showing none of his promised European leadership."

- Othmar Karas, Vice-President of the EPP group in the European Parliament, 12 October

For more information:

Contact Neil O'Brien on 0207 197 2333 or 07973 142775

Or visit www.openeurope.org.uk