

## Brexit or not? Time for the EU to move

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The deteriorating relationship between the United Kingdom (UK) and the rest of the EU, including the prospect of a referendum on EU membership, would have dominated the Union's agenda had it not been for the economic/financial crisis, followed by the external crisis which we are now facing in the East. Precisely because of these crises, it is now time for the incoming European Commission to take the bull by the horns and ensure that the EU can move on from a potential referendum and its possible outcomes.

The June European Council noted that "the UK raised some concerns related to the future development of the EU. These concerns will need to be addressed. In this context, the European Council noted that the concept of ever closer union allows for different paths of integration for different countries, allowing those that want to deepen integration to move ahead, while respecting the wish of those who do not want to deepen any further." While the EU has, arguably, successfully developed at different speeds for decades, to address the UK's (fundamental) concerns, it is now time to work out whether and how the UK can be accommodated, and what this would mean in practice.

UK membership is desirable but not at any price, so the aim should be to keep the UK in, while also ensuring that the principles on which the EU is built are protected. There will need to be a *modus operandi* which enables the EU and in particular, the Eurozone, to continue to make progress in addressing the shortcomings of European integration and European Monetary Union (EMU) in particular, while at the same time offering a reform package that can satisfy the UK. This does not necessarily mean that all EMU reforms have to be within the EU framework: additional intergovernmental arrangements could also be a possibility. However, this could add to the complexity and inefficiency of the system, as well as sidelining the supranational element of EU governance which will be needed to make EMU function.

### **Making a deal**

In case of an in-out referendum which might come as early as 2017, a deal with the UK will be needed and the Commission should start by drawing up a possible package, which still respects the fundamental values of the EU. Admittedly, this is difficult as the UK has not been very forthcoming on what exactly the desired reforms are, especially since, in many areas, the UK already has special arrangements and flexibility, be it the Euro; the UK rebate; or the UK's involvement in EU police and criminal law measures adopted before the Treaty of Lisbon, where the UK has decided to exercise a block opt-out but has indicated its intention to opt back in for some specific measures.

In addition, some of the more concrete suggestions coming from the UK seem to touch on the fundamental values of the EU and/or raise strong political objections, for example around mobility of EU citizens. They might also require EU treaty change, which is seen as highly undesirable at the current juncture. Politically, for the other Member States, it is also not a good time to start the process, given the levels of uncertainty and disagreement about the future direction of the EU.

Despite these difficulties, if a reform package is needed to keep the UK in the EU and if this is seen desirable by the remaining Member States, such a process will need to start now to work out a deal acceptable to all Member States, with implementation needing to begin before a UK referendum. Starting to design a reform package now could also be a way to ensure that the reforms might serve a greater benefit than just assuaging the UK, enabling a process of reflection on what reforms might benefit the EU as a whole.

There are of course, major political challenges attached to this approach: the UK might not accept the Commission as an 'honest broker' to work out such a deal and it could see any suggested deal as the starting point for further concessions by the EU. For these reasons, the Commission and the Council should jointly put together an expert group, including UK and non-UK participants, also involving the EP, to work out the details of such a deal. It should be made clear to the UK by the other EU Member States, and especially Germany and France, that they have committed to this process and that this will be the only way to get a reform package ratified at a later stage, which in the end needs political support across the EU.

While such a package of reform, if convincing, would provide a sound basis for keeping the UK within the Union – in opinion polls, there is a large majority for staying in a reformed EU – the EU should also start contingency planning for a possible Brexit. This should include setting out clearly to the UK the political and economic costs of being outside the Single Market in case of exit.

## **Beyond a UK deal: a Europe of concentric circles?**

Dealing with the immediate situation in the UK only is not sufficient. The EU has been very successful in dealing with differentiated integration aspirations in the past by providing the option for countries to not integrate (at the same speed or at all) in some specific areas – with the Euro being the obvious example. Clearly, by now, we are far removed from the idea of a multi-speed Europe, where all countries are moving in the same direction, albeit at different speeds. Now the idea of concentric circles is more appropriate, with some countries choosing to permanently not integrate with respect to certain aspects. This could be a way forward; as Karl Lamers and Wolfgang Schäuble put it in their recent FT article: “In order to make progress ..., we should keep using the approach that proved its mettle back in 1994: to establish cores of co-operation within the EU that enable smaller, willing groups of member states to forge ahead.”

But new challenges to this model of EU integration exist. In a number of areas a process of ‘inverse subsidiarity’ can be observed, i.e. areas where EU-wide solutions are now needed as it is no longer possible to deal effectively with the issue at national level, for example related to energy security or migration. This runs contrary to the instinct of many countries, especially those on the outer rings of Europe’s concentric circles, to have ‘less Europe’ in the aftermath of the crisis.

Further integration is also becoming necessary for EMU due to a process of ‘spill-in’, i.e. further integration within a policy area to avoid negative consequences, here driven by necessity to stabilise the Euro (as opposed to a wish to move towards a federal Europe or the pull of positive spill-over effects). Again, this will clash with non-Euro countries, especially those exercising a permanent opt-out.

To address this challenge, it is often proposed that EMU integration can be a parallel process that does not affect countries outside the Eurozone, and will not touch other areas of integration. But it is not always easy to achieve a clean separation between the different circles of integration. This is particularly challenging when it comes to issues connected to the Single Market, where further integration in other policy areas, for example in terms of regulating capital markets or in terms of taxation, inevitably will impact on the Single Market, potentially leading to conflict and legal challenges. Equally, trying to separate out elements from the Single Market which are seen as less desirable in some countries – social and environmental rules, free movement of people – risks undermining the common rule book which is the foundation of the Single Market.

Politically, conflicts can arise when different concentric circles share the same institutions. It can give rise to a European version of the ‘West Lothian’ question (which was raised in the UK, namely whether members of parliament from outside England should be able to vote on matters that affect only England), i.e. should MEPs or national governments from non-euro countries have the right to vote on issues which only affect the Eurozone? This becomes especially critical for decisions on future strategic directions, which might require unanimous treaty change. But creating mechanisms or new institutions outside the existing EU governance framework gives rise to complexity and uncertainty (as seen already with the Fiscal Compact), as well as potentially undermining the EU by countries in the outer circles becoming marginalised from key decisions.

There are many open questions to address, as can be seen already in the discussion on whether there is a need for a semi-permanent Eurogroup President, whether the Financial Transaction Tax (being introduced under enhanced cooperation) is compatible with the Single Market and whether only MEPs from Eurozone countries should vote on Eurozone legislation. So, in addition to starting to work out a (limited) reform deal for the UK, the EU needs to start a process of seriously considering its future differentiated integration model.

## **Re-thinking European integration**

Such considerations clearly go beyond simply accommodating those Member States more reluctant to further integrate. Rather, the EU needs to decide what to reform and what new integration steps are needed to tackle current challenges before starting to think about treaty change, institutional changes and a new differentiated integration architecture.

This goes straight to the heart of the European integration process and will require ultimately, a European Convention. But even before we start such an endeavour, the EU needs to rethink how decisions are taken on its strategic direction, including how a next Convention should operate, which could also help to reduce some anxieties about this process.

In the end, a new Convention will have to answer a fundamental question: can European integration still be organised as concentric circles or is it ‘all or nothing’? If the latter, it might turn out that despite winning a referendum on staying in the EU, the UK will not be a part of the EU integration process in the longer term.

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