CONFERENCE REPORT

BRITAIN'S COALITION GOVERNMENT AND ITS EUROPEAN POLICY

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Merely six days after the UK's general election of the 6th of May 2010, a coalition government was formed between the Conservatives and Liberal Democrats. A few weeks before the election the Federal Trust and TEPSA jointly organised a conference on 'Britain, Europe and the upcoming British elections' in London to reflect on the implications of that election for Britain's European policy. Six months after the formation of the coalition government, the Federal Trust and TEPSA organised another seminar, in Brussels, to analyse the new political reality in the UK and Britain's EU policy with a focus on topical EU financial issues. Speakers were *Mr Andrew Duff*, Member of the European Parliament for the Liberal Democrats; *Sir Brian Unwin*, KCB, Former President of the European Investment Bank; and *Mr Brendan Donnelly*, Director Federal Trust.

Coalition government

Reflecting on the participation of the Liberal Democrats in the coalition government, one speaker observed a paradox. For years it was anticipated that when none of UK's leading political parties (Conservatives or Social Democrats) would be able to secure a majority in parliament there would be a hung parliament dependent on the Liberal Democrats, who would make their support to a minority government dependent on change in the electoral system. However today's reality is reverse. The choice made by the Liberal Democrats after the election to become a junior partner in a Conservative government is both reasonable and risky. The choice for acoalition with the Conservatives, might have been based on expected electoral benefits compared to helping Labour in power after their electoral loss. However the LibDems are considerably closer to Labour in terms of policy choices than to the Tories. Also quite surprisingly, the Liberal Democrats opted for full government participation instead of providing mere parliamentary support. This might give the LibDems more legitimacy and better leverage vis-à-vis the Conservatives, but there is the risk that this will turn for the worse at the next elections for the Liberal Democrats and therefore have a severe impact on UK's political landscape.

Others argued that the Coalition Pack should be judged pragmatically, as an improvement of what a Conservative government would have been. Moreover, it was considered too early to assess the outcome of the cooperation between the two parties, given the fact that there is still 4.5 years to go of their parliamentary term. Others highlighted a possible fraction within the coalition after the referendum on electoral reform in early May. Curiously, the two parties in government will campaign for opposing sides. If the proposed electoral change will be rejected, the LibDems may reconsider their position in the coalition, since without achieving electoral change there are few benefits for the Liberal Democrats in being the loyal partner in this coalition.

EU referendum bill

Turning to the content of the coalition agreement, the speakers agreed the EU was not a breaking point for the LibDems during these negotiations. According to some this resulted in a defensive stance to the EU in the coalition agreement. Examples highlighted were the agreement not to join or make any preparations to join the euro and the position on the EU budget. Also the commitment to hold a referendum on any future EU treaty that would transfer competences of areas of power to the EU. It was discussed that much will depend on the precise wording of this referendum bill. With the Croatian accession in sight, the question rises whether a referendum also be required for accession treaties. It was also questioned why referenda should only be held concerning the transfer of competences from national to EU level, not also on opt-outs excluding British competences to be transferred to EU level. This 'referendum lock' was viewed as intellectually incoherent by one of the speakers, as it prescribes also future governments to hold a referendum on any future treaty that transfers competences to EU level.

EU and UK response to banking crisis

This year was considered to be a critical moment in EU history. The Euro zone crisis has its roots in the credit crunch that almost caused a complete collapse of the banking system. Therefore an immediate overhaul of financial regulations was deemed necessary and for this international coordination was required. A combined EU-US initiative would have been preferred, but was hampered by slow progress on the side of the US. In contrary, the EU moved with remarkable speed. The De Larosière report was timely and its recommendations were taken on board. At the time it was feared that these recommendations (and the new initiatives stemming from them) would lead to a clash with a new conservative government in the UK, given the interests of the City. This fear proved ungrounded. The new coalition government followed a sensibly pragmatic route. The expected protests in the City and at the backbenches were limited and the Financial Times was actually quite positive about the possible effects of the EU initiatives. However, it was argued it is the execution that counts and it is therefore up to the EU to ensure that these new initiatives are up and running by January 2011. It was also signalled that there is still the need to attempt to align the financial reform at the EU level with the US. It was concluded that, though there is still a lot to be done, so far the coalition has recognized that its interests are best kept within the EU.

Economic governance of the Euro zone

UK's inaction in the discussions on the economic governance of the Euro zone is a paradox: the UK has potentially a huge contribution to make on economic governance because of the City and its administrative capabilities on the subject. Nevertheless, the UK government was content with being positioned on the sidelines while the decision was made. Although the UK is no member of the Euro zone, the economic governance issue will beyond doubt affect the UK. It is critically important to UK's main export markets. Also UK based banks have a large exposure in Ireland.

Financing the EU: 2011 and the Financial Framework post 2014

Several panellists stated that there is lot at stake at the moment: the review of the budget, the review of the financial system, and the Financial Framework from 2013. This reform is partly the effect of the implementation of the Treaty of Lisbon. The current debates concern both fundamental matters like the question of own resources, and the present negotiations on the budget of 2011.

Concerning EU's own resources it was argued that since currently 70% of the EU budget comes directly from national governments and only 30% are own resources, the share of own resources should go up in order to overcome the discussions on the net contributors and net receivers. Radical reform on this was viewed to be in the interest of all. Based on this argument it can be perceived as contradictory that the UK government is in favour of the status quo instead of being more progressive. This stance is of course explained by the anti-EU elements in the government. One of the speakers argued it would be better if the UK would exert itself as a more flexible partner and committed to the steady reform of the Union, including the budget.

It was stated that the rhetoric in the UK on the EU budget has been traditionally antagonistic. In the national debate the economic significance of the EU budget is exaggerated. Even in previous periods of growth (like 2006-2007) EU's budget has risen with a considerably slower pace than many of the national budgets. Now it is also not the EU budget that is suffering from big deficits like the member states, in fact the EU never has a budget deficit – that is a national phenomenon. It was asserted that the budget of the EU is also qualitatively different: it is primarily an investment vehicle of the political objectives of the EU, instead of the redistributive member states' budgets. One of the speakers argued that on EU level large economies of scale possible, this will save national economies money. The EU should therefore really be seen as common spending to address common problems.

The annual budget has to conform strictly to the Financial Perspectives and is to be decided on by the Council of Ministers and the European Parliament. The European Council plays no formal part in the negotiations. According to some the new rules of the Treaty of Lisbon on the decision-making regarding the annual budget worked quite well in practice – until the European Council blunt in. The current disagreement focuses on several aspects and the question whether the applicable decision-making method should be unanimous or QMV. Surely the EP asserts itself into a QMV context.

Observers pointed out it was encouraging to see that Cameron has been willing and able to compromise on the budget 2011 issue. With this willingness and the rather cooperative stance on financial reform initiatives the new government appeared to be more committed to EU cooperation than was feared early 2010, although there will be many more issues to come in 2011 possibly challenging this attitude.