

**The Royal Society of Edinburgh**  
**Joint event with the Centre on Constitutional Change,  
and UK in a Changing Europe**

***Understanding European Challenges***

Tuesday 16 February 2016

Chair: Sir Muir Russell FRSE

*Please note, the event was held before the Prime Minister completed the renegotiation terms of the United Kingdom's EU membership.*

**Background**

The European Union (EU) is facing unprecedented challenges, including the problems of the Euro, the refugee crisis, and political and economic turbulence. The conference addressed these questions and the different possible futures for Europe. It examined the issues in the relationship between the United Kingdom (UK) and Europe, and the way they are seen in the nations and regions. It also looked at the alternatives to EU membership should the UK decide in the coming referendum that it wishes to withdraw.

**Session One: Challenges to Europe**

**Professor Brigid Laffan MRIA, European University Institute**

Professor Laffan's talk focused on the challenges to Europe, the role of the European Union and the dilemmas and difficulties it faces. She argued that in the current climate, the EU can't produce a big bargain, but can come up with a series of mini bargains to make the world a better place.

Europe is now a very uncertain place; different from when the EU was set up. The European neighbourhood policy began as a circle of friends, but it could now be seen as a ring of fire. It has been argued that crises are good for the EU. Professor Laffan, however, refutes this argument. At the moment, there are ethnic, religious and economic cleavages which could lead to disagreement and conflict. These are overlapping ('reinforcing') cleavages which run very deep within the EU; they are not cross-cutting cleavages, which are easier to resolve. The systemic crises currently being experienced have contributed to the very real threat of EU disintegration.

*The Eurozone*

The first challenge discussed was the Eurozone. Professor Laffan believes that the acute phase is over; financial stability in Europe is stronger than it was. However, the Eurozone is not at a stable equilibrium and the Banking union is not complete. Further work will have to be done.

She sees a pressing need to maintain the Euro. The cost of the Euro imploding would have an effect globally, similar to the global financial crisis in 2008 and after. Professor Laffan believes that further instruments of policy will need to be developed in the Eurozone area, possibly in relation to fiscal policies and debt write-offs. The states' capacity to adapt and grow is also a challenge, particularly for many states which are facing high unemployment

and inter-generational conflict. Getting the Eurozone to a relatively stable equilibrium is a major challenge.

### *Russia*

The second challenge facing the EU is Russia. Europe's sense of political influence, coherence and identity has begun to be lost and Russia plays only to Putin's whims. The EU has responded to Russia's force with sanctions, which have mostly held. There is also currently a reliance on the United States' security blanket, yet the US is less willing to act in that role. The question was raised whether anyone can grasp the geopolitics in the EU in the current climate.

### *The United Kingdom*

The EU's third challenge is the United Kingdom. For the first time ever, Article 50<sup>1</sup> of the Treaty on European Union may be triggered. If the UK left the EU, it would be a major challenge for the Union. It would alter the EU power balance – reinforcing German power, and further weakening French power. The EU could become less liberal and more closed in as a result of BREXIT. The question of membership would be raised in other member states.

### *The Refugee and Migration Crisis*

The fourth challenge to the EU is the refugee and migration crisis. Professor Laffan said that the combination of the Schengen Agreement and porous borders is putting a strain on many states, which has led to a reaction. The EU needs a managed migration policy, with many believing that it could benefit, in the medium to long term, from immigration, as many countries are facing an ageing population. There are major questions about burden sharing and about the security dimensions which need to be resolved. Cooperation has never been more urgent, or more difficult, among the European states. There is very low trust among the member states, and a weak collective capacity, with no space for a collective bargain.

The EU is both contested and tested. This is accentuating tendencies which have existed for a long time. Democratic politics in Europe are bearing a lot of strain at the moment. It is mostly governing parties taking the strain, as voters move away from these parties. There are many colours of Euroscepticism, including utilitarian (the EU doesn't deliver), democratic (the EU is not democratic) and sovereignty arguments (the EU takes responsibility for issues that are better dealt with at the state level).

### *Mini bargains*

There is, however, deep interdependence within the EU, keeping the system together. The EU is distinctive in global terms – it is treaty based, and has common institutions. The single market is the tie that binds the member states together. The relationship that the UK has with the single market will have to be negotiated in the case of a vote to leave. Yes, there is a world beyond the EU, but the EU provides a great channel for cooperation in hard times. The EU needs to acknowledge that there are major redistributive conflicts, and it needs to find a way to respond to those conflicts. This will be extremely difficult.

Professor Laffan believes that there is a series of mini bargains, which, if they are achieved will get the EU through this most critical period in its history.

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<sup>1</sup> <http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-European-union-and-comments/title-6-final-provisions/137-article-50.html>

Firstly, the Eurozone needs to go beyond the banking union; it will have to develop a fiscal capacity. It will have to engage in some debt reduction – at least for Greece.

Secondly, Frontex<sup>2</sup> and Europol<sup>3</sup> will have to be strengthened, in terms of both operational authority and capacity. Given the crisis, refugees are a priority in this phase, followed by economic migrants. In particular, there has to be burden sharing across states. We also need to focus not only on integrating refugees, but also on what it means to live in Europe.

Finally, there is a need for the EU to reach an agreement with the UK, and for the UK to decide that its future is better in than out. Europe has many small states which need to learn to live with deep interdependence, particularly cooperating in challenging times. If the EU disintegrates, there will be a search for various levels of cooperation.

Professor Laffan concluded by saying that the next ten years is an extremely important period. The decisions made now will have a long-term impact on what it is like to live in Europe.

## **Session Two: Issues for the UK**

### **Professor Anand Menon, King's College London, Director of *The UK in a Changing Europe***

Professor Menon's talk examined the renegotiation, what the campaigns might look like, what the outcome might be, and discussed the politics around the vote.

#### *The renegotiation*

The renegotiation is hard to assess at the moment, partly because it has not been signed and sealed, and partly because it is hard to know against what benchmark it should be assessed. Judging from the text that is being discussed, David Cameron has probably achieved more than many people expected in carving out a new position for Britain in the EU. It is, however, well short of the new settlement he was selling in his Bloomberg speech of 2013.<sup>4</sup> There is a question over whether this new deal will be binding, and if it will be approved by the European Parliament. The referendum puts politics (vagueness) against law and economics (clear rules). Academic research has concluded that the practical impact of the measures being discussed will be limited. This is to say that the real consequences of the negotiation regarding migrants will be relatively minor, but the politics will be important. The renegotiation matters in terms of those who are politically engaged (especially the Conservative membership and Conservative MPs), not so much to the general public.

For both "ins" and "outs" Eurozone arguments could cut both ways: for countries in the Eurozone, it would make no sense to allow the UK to play by a different set of rules, as this could pose a risk to the Euro.

#### *The campaign*

Professor Menon predicts that we are going to have an unremittingly negative campaign due to both sides playing up risks. Fear is an effective method to persuade voters. There is a lot

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<sup>2</sup> The European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex) was established on 26 October 2004. <http://frontex.europa.eu/>

<sup>3</sup> Europol is the European Union's law enforcement agency whose main goal is to help achieve a safer Europe for the benefit of all EU citizens. They do this by assisting the European Union's Member States in their fight against serious international crime and terrorism. <https://www.europol.europa.eu/>

<sup>4</sup> <https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>

of fear mongering, and a lot of speculation, including what 'out' actually means. Both the 'in' and the 'out' campaigns are currently entrenched in fiction. It is hard to get facts into the debate, and the veracity of sources is doubtful.

It appears that David Cameron will base his campaign on the issue of security; that by staying in the EU, the UK will be better able to deal with threats. The renegotiation itself is not central to this argument – it has nothing to do with security, so won't have much to do with the campaign.

The Electoral Commission has considerable freedom regarding designating campaigns; it may not designate a campaign on either side, it may designate campaigns on both sides, or it may designate on only one side. It is unclear how this will play out. Being designated means significant funding. Each political party gets money to spend as well, depending on its vote share in the last General Election.

There are currently several groups in the 'out' camp, and it is very fractured. There is a lot of fighting, due to the desire to be designated as the official 'out' campaign. The infighting can also be attributed to the key message of the campaign. Another contributing factor is personality. They need leaders other than Nigel Farage to attract undecided voters.

The 'in' campaign is united at the moment, though it may fracture later. For example, the Sturgeon factor: staying in would be good for Scotland, but if the UK votes out, this could trigger a second independence referendum for Scotland, Nicola Sturgeon's ultimate aim. Jeremy Corbyn wants to stay, but on a different platform (he is in favour of migration and greater social and employment protection).

The opposing camps are currently trying to make a referendum on different issues. The 'in' camp are focusing on the jobs we'll lose if we leave, and 'out' want to make it a referendum on migration.

### *The outcome*

Currently, 'remain' has a 10–15% lead in telephone polls – internet polling is neck-and-neck. Turnout on the day will be crucial. Turnout is hard to predict at the moment.

### *Politics*

There are big implications for the Conservatives. MPs are currently thinking about their future in the Conservative Party. Currently, it is based on 'out' versus 'in'. Many MPs are Eurosceptic – they will vote for the more Eurosceptic candidate in the next leadership election.

There will be instability and uncertainty if we leave, potentially lasting longer than the two years currently discussed. Other member states fear the consequences of us leaving the EU. They don't want to make leaving an attractive option, encouraging other states to consider exit.

Professor Menon concluded by saying that David Cameron will be heralded as a political genius if he can keep us in the EU and ensure George Osborne becomes the next leader. No one would have expected these things, and also winning a majority against all odds, in 2015. That is the end to which he is working.

## **Session Three: Views from Ireland, Wales and Scotland**

### **Ireland – Dr Paul Gillespie, Irish Times and University College Dublin**

There will be deep risk and uncertainty if the UK decides to leave the European Union. There would be consequences for the EU, consequences for Scotland and also consequences for Ireland.

Dr Gillespie believes that it is in Ireland's best interests for the UK to remain in the EU. As an example, if the UK voted to leave, Ireland would acquire a new land border with the EU. The effect on British/Irish relations would also be profound. Relations between the two countries have become much more amicable within the setting of the EU.

The policy impact on Ireland of the UK leaving the EU would be immense. Dr Gillespie predicts that the shape, structure and policies of the EU would become less liberal if the UK chose to leave. The balance of power would be affected. The narrative in Ireland regarding the EU is different to that in the UK, however. There would be no surge of opinion in favour of Ireland leaving the EU, if the UK voted to leave.

Membership options for the UK are viewed as being fully in the European Union, half in, half out, or fully out. These options are yet to be fully defined. The UK being half in is optimal for Ireland, as it keeps an ally involved. The issue of security could be made into a positive narrative – swinging undecided opinion towards half in. The question over whether the referendum is premature regarding the Eurozone is an interesting question. It would be difficult for liberal Ireland to deepen its involvement in the Eurozone if the UK votes to leave.

Dr Gillespie said that both devolution and the campaigning about the referendum have been discussed separately in England, Wales, Scotland, Ireland and Northern Ireland, with different conceptual frameworks. We need to be looking at the issue in terms of state transformation – political and economic functions. We need to be looking in an exploratory way, as we are living through changes which bring us closer together.

Ireland and Scotland have been bought together in recent years. If Scotland wanted to remain in the EU even though the UK chose to leave, this could trigger a second Scotland independence referendum, which could have a consequence on the state structure of the UK. This in turn could have an impact on Irish unification – it could be put on the political agenda sooner than expected or desired.

Dr Gillespie concluded by saying that the current state of politics in Europe should not be characterised as being about 'post-national states'; identity is still rooted in national dimensions. He believes that it is more relevant to talk about post-sovereignty.

### **Wales – Dr Joanne Hunt, Cardiff University, Senior Fellow, *The UK in a Changing Europe***

Dr Hunt believes that the referendum has been driven from Downing Street, and has been a highly centralised negotiation. There is a sense that Wales has been watching from the sidelines so far. The current Government's stance is clear: relations with the EU are a reserved matter.

Dr Hunt argued that deciding what was in the renegotiation should have been a discussion held across the UK. Little attention is currently being paid to the UK's internal union. For example, it is likely that the vote on the referendum will take place in close proximity to the parliamentary elections scheduled to take place in the devolved nations on 5 May 2016. This could have an impact on voter turnout, and could cause confusion. The confusion over agendas has already been evident in Wales. The issue has been raised by ministers of devolved nations, but it has been ignored by the Prime Minister.

Unlike Scotland, Wales has power conferred upon the Assembly. Some of the conferred powers have direct relations with the EU, such as agriculture and the environment. The Wales Bill is currently a focus in the nation. There is a proposal in the Bill to change from the current model of conferred power, to a model of reserved powers. However, some have criticised the settlement as being unfit for purpose. The Bill could potentially place new restrictions on the competences that the assembly holds. For example, employment and industrial relations have not been explicitly conferred on Wales. It is, however, an area in which the Assembly has legislated. Dr Hunt argued that there is an incoherent and inconsistent system of competences as they are developing across the devolved nations.

She continued by saying that there is a divergence in approach between Westminster and Wales, and questioned which fits best with the EU. From the polling that has occurred so far, there appears to have been a drop in support for EU membership in Wales – a growing vote to leave. There has also been evidence of a growing vote for UKIP in Wales. The context is one of a changing balance of competence in the UK and upcoming elections.

Dr Hunt concluded by noting that Welsh Government ministers consider that a vote to leave would be catastrophic. Wales would lose out on funding streams, and on access to the single market, among other things. The people of Wales are increasingly looking like they may be prepared to take that risk, however.

### **Scotland – Professor Andrew Scott, University of Edinburgh**

Professor Drew Scott began by predicting that this will not be the only referendum on the EU; another one may be triggered through treaty change (European Union Act 2011).

Research has shown that the UK has unambiguously benefited from EU membership.

Professor Scott echoed the point from Dr Hunt's presentation that the renegotiation has been a centralised process.

There is a distinctive Scottish interest in this referendum. Scotland has a relatively open economy which enables more trade with the EU. In the case of a vote to leave, Scotland would regain its constitutional sovereignty. However, if Scotland wanted to continue to trade with the single market, the nation would have to accept the EU rules, even though Scotland no longer contributed to their definition. Scotland would lose its legislative voice.

Scotland has a major skills gap. Migrants are one way of filling that gap. If the EU negotiations were to limit the future number of migrants, Scotland would have to find another way to solve the skills shortage. Many migrants contribute both directly and indirectly to the Scottish tax base. Professor Scott questioned how you service public spending if your tax base is not growing. Another way could be to allow international students at Scottish universities to stay after graduation and contribute to the Scottish economy.

It seems that in Scotland, there is little support for David Cameron's reforms, yet strong support for staying in the EU. Professor Scott argued that the EU is being reformed every day, not just during these negotiations. The process is ongoing. David Cameron's reforms are not changing Europe as a whole. Rather, they are changing the UK's relationship with Europe. Professor Scott believes that the economic climate is a big factor in our EU membership. For example, at the moment, the UK economy is stronger than the EU economy.

Professor Scott concluded by saying that in addition to the economic effects, more policies could be devolved to the Scottish Parliament if the UK voted to leave the EU. If the UK left the EU, a range of policy matters which are effectively reserved to the UK as international

would be likely to default to being devolved. This could significantly change the practical terms of the devolution settlement.

## **Session Five: Alternatives to the EU**

### **Professor John Erik Fossum, University of Oslo**

Professor Fossum began his talk by discussing how the EU has a range of affiliations with non-member states. He believes that the Norwegian case is the most relevant to the UK. The Swiss case is very complex, and is unlikely to be the model adopted by the UK following a decision to leave the EU. For countries which are affiliated, it is a triangular issue of market access, the issue of political co-decision, and the threats of being excluded and marginalised.

The EU itself is concerned with ensuring uniformity and market homogeneity, but it is also trying to be accommodating. It is a difficult balance: external differentiation may increase internal pressures for differentiation.

Professor Fossum argued that the EU was never designed to be a hegemon. The integration process is having hegemonic effects, however. There is also an issue of uncertainty. The strong support by affiliated states for the European Economic Area (EEA) agreement could be attributed to the fact that it provides legal certainty, rather than an unregulated system. The EEA could be seen as a compromise. More and more decisions are being made, with implications for members and affiliated states. By being an affiliated state, a country loses out on self-determination; but it may also lose out on co-determination.

Norway and Switzerland could be referred to as the 'Sovereign Democrats'. They have rejected EU membership, with part of the reason for doing so being to protect their constitutional democracy.

#### *Switzerland*

Switzerland has a mix of political republicanism, weak political liberalism, yet strong economic liberalism. The country also has a strong history of neutrality and non-affiliation. Switzerland has a functional collaboration with the EU. The country automatically adapts its legislation so that it is EU compatible, to enable a seamless relationship. Although it is not subject to monitoring, there is automatic adaptation to align it with what is happening in the EU.

Switzerland's bilateralism combines strong resistance against interference from neighbouring states and international organisations, with an extreme opportunism towards the demands on multinational corporations. This can undermine the capacity of organisations such as the EU to secure fully effective application of its policies in relation to private capital holders and multi-national corporations. Based on its perceived national interest, Switzerland's approach might be interpreted as hypocritical.

#### *Norway*

Norway's reasons for not joining the EU include its desire to protect its national independence. After years of foreign rule, it does not want to join a different union. Norway's affiliation is broader than Switzerland's. It is continually expanding.

Norway is a member of the EEA, which affords the country a level of legal certainty and protects it against certain adverse economic effects that could prove problematic if there were no affiliation with the single market. However, despite not being a member of the EU –

and thus having no representation in EU institutions – Norway must agree to enact legislation comparable to that which is passed in Brussels. This could be viewed as Norway surrendering some of its sovereignty. Attempts by Norway to have representatives from other states speaking on its behalf (“surrogate representation”) have failed.

Norway’s status as an EEA member has also affected Norwegian politics. Parliamentarians now must attempt to balance the responsibility they have to voters to stay true to the platforms and promises they were elected on, the need to uphold international agreements, and the desire to remain responsive to the changing wishes of the electorate. This has resulted in increased criticism of the Norwegian Government. The situation also has ramifications for political accountability, as there is no representation at an EU level. While the Norwegian Government is accountable to both the parliament and the voters, it is also, despite not being a member, indirectly accountable to the EU.

#### *An alternative for the UK?*

Professor Fossum concluded his presentation by considering whether there is an alternative model. One possibility could be joining the EEA. He believes that if the UK wanted to become a member of the EEA, it would first have to become a member of the European Free Trade Association (EFTA). As each EFTA state has a veto, this raises the question of whether the EFTA states want the UK admitted.

#### **Ewen Stewart, Director, *Global Britain***

Mr Stewart’s presentation focused on the European economy, examining three specific areas: trade, debt and the Euro. He questioned whether the EU has, in fact, been a success and asserted that the UK would have a strong future as an independent country outside of the European Union.

#### *The Euro and debt*

Mr Stewart argued that there is no correlation between population and wealth. It is the policies that a government follows, not the bloc that a country is part of, that is significant.

In addition, there are differing levels of economic growth across the world. Generally, the Eurozone has not enjoyed strong growth. Many European countries have significant debt. We are living in a very uncertain world, and seeing a lot more debt.

The Euro is not optimal. The EU has seen low economic growth, with the Eurozone, in particular, struggling. This trend can be attributed to the Euro (for example, the high labour costs in the EU have exploded when compared with the average, making it uncompetitive and thus increasing unemployment). Unemployment is higher in the Eurozone than in any other part of the developed world.

#### *Trade*

The world is changing. Mr Stewart believes that you do not need to be part of a large bloc to succeed. This is to say that, if the UK left the EU, its historical links would help with its trade.

British trade is asymmetric. It has a strong service sector, but is not very good at trading goods. The single market is therefore not as beneficial for Britain, due to this market’s relative weakness in services, but strength at trading goods. Britain is currently exporting more to countries outwith the Eurozone than to those in the Eurozone. The EU is a low-growth part of the world. Mr Stewart argued that the UK is in a stronger negotiating position than other countries because of its size.

### *The UK's strategic advantage*

The UK's other strategic advantages include English being the dominant language across the world, and our strong tertiary education system. The UK is also stable and enjoys comparatively low levels of corruption. London is the world's global financial capital, and would continue to be so, regardless of the UK's membership in the EU. UK energy reserves are a strategic advantage, even taking into account the current price of oil. Furthermore, the UK's global position is highlighted when it is considered that the United Kingdom and France are the only significant military powers in the EU. Mr Stewart believes that the threat to the UK's position comes from its continuing membership of the EU, as the organisation poses a regulatory threat.

The UK plays a very full part in international affairs. The UK would still be a member of 95 other international organisations if it left the EU. If Scotland were to become independent, it would have to apply to the EU as a candidate nation. Scotland does meet most of the regulatory requirements for membership, but it would be naïve to believe that the accession process would be easy or quick. It could set a precedent, which would make other member states nervous. The terms under which an independent Scotland might join may not be favourable, and its negotiating position would be relatively weak. Furthermore, it might have to join the Euro.

Mr Stewart concluded his presentation by stressing that the EU needs the UK more than the UK needs the EU, as UK withdrawal could significantly weaken the EU. The United Kingdom has more to offer as an independent country than it does as part of the European Union.