

## After the Party: what next for the EU and the Euro Area after the Cameron Veto

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The December European Council had many of the characteristics of a teenage party: it went on into the small hours, tempers frayed, gang loyalties were tested to the limit and beyond, there was a macho fight over the affections of a woman, the loser stormed home into the arms of his cheering supporters and is still hoping to form a new gang, the house got trashed a bit and everyone went home claiming victory. But what did it settle if anything?

Mr Cameron's failed attempt to extract a price for his approval of amendments to the Lisbon Treaty to strengthen the governance of the euro thrust all 9 of the other non members of the euro into the arms of the euro area. Even the Danes who have a treaty opt out on Euro membership and the Swedes, who act as if they do, have sided with the euro area. There will now be a treaty outside the EU treaty) with somewhere between 23 and 26 signatories rather than just 17. That shifts the dynamics of the EU and euro area

Four questions arise: first is will the treaty be established? The second question is whether, if it is established, all 26 EU member states who have signed up for a new treaty will actually sign it. The third is whether if the treaty as sketched in the Council conclusions will deliver as it is hoped? Finally where does this leave Britain?

The first two questions are easy to answer but the answers leave us no further forward. On the first, Ireland says it will have to decide whether it needs to call a referendum but that cannot be decided until it has a treaty text, which is unlikely before March 2012. There is no guarantee that such a referendum would be won even a second time. Who can say what the next Greek government, due after elections in February, will think, particularly about the requirement to reduce its excess debt burden above 60% of GDP (the Greek excess is expected to be 100% of GDP in 2012) by one twentieth every year for the foreseeable future let alone Italy, Spain and Belgium. As Martine Huberty points out the EU and the euro area face a potential legitimacy crisis in national parliaments and among electorates as well as a debt crisis. So even within the euro area ratification is not guaranteed

As for the eight non-euro-area countries that have signed up for the treaty, their agreement is subject to approval by national parliaments. If all ten of them fail to sign the treaty that would weaken the ability of the euro area to dominate discussions of where the single market and financial regulation in particular since it would fall short of the Lisbon qualified majority threshold of 255 votes (although it would meet the double majority based on number of countries and population criteria after 2014). Poland plus Romania plus one other country of the eight would be required to sign to take them across the QMV threshold; or the countries with a currency board with the euro, Latvia, Lithuania and Bulgaria, plus any two of Sweden, Hungary or the Czech Republic. If the qualified majority line is not crossed that would strengthen the UK's hand in demanding a stronger role in the design of new rules in the single market for the next two years when important financial regulations are being decided.

On the third question, of whether the Treaty as sketched in the Council conclusions does enough to ensure that similar crises never happens again, the judgement of many economists suggests not. Peter Holmes sets the arguments out in some detail and it is not obvious that, except egregiously in the case of Greece and to a minor degree in the case of Portugal, that fiscal policy was the genesis of the sovereign crisis in Europe. The possible justification for the current approach is that the sovereign crisis – whatever its causes – is caused by capital flight from Europe driven by fear of moral hazard in the markets and that the ECB will then not intervene in the bond market immediately and directly without draconian fiscal rules.

And as for Britain what is there to say? For Cameron to have forced the euro area to implement their own treaty in the hope that Britain will gain leverage over access to the Commission and the Court to police the new system is one thing. But to have driven the rest of the euro area into the arms of the euro area is another. A group that included the Swedes the Danes and the Poles as well as the UK deserves some respect and reflects a reasonable range of European preferences. As it now stands the signatories of the new treaty are very likely to add up to more than a qualified majority and in extremis to everyone but Britain. In those circumstances it will be very hard for the Commission to do anything but ignore Britain and its special needs when drawing up legislation. Note also that the new treaty will include a clause about using enhanced cooperation provisions of the Lisbon Treaty to ensure the smooth functioning of the euro zone which will ensure that Britain can be locked out of debates at 26 on the future direction of the single market

It is also clear by the sheer surprise of the other member States (and the dogs breakfast of British demands) that the other member states had not been prepared and indeed that the policy had only been drawn up at the last minute in response to the hand bagging that Tory eurosceptic back benchers gave Mr Cameron in the weeks before the Council (see Tim Bale's contribution). Sensible diplomacy was thrown out the window. Not obviously the actions of a statesman let alone a good negotiator.

It could be very bad for Britain in the EU over the next few years if the 26 sign up to this treaty. The Government has to hope that national parliaments don't go along with their governments in the short run and that pulls the number of signatories below a qualified majority. Interfering in that process is dangerous but in as far as diplomacy can influence national parliaments it will need to be deployed. In the longer term, looking at areas where the UK has a veto notably in the Financial Framework negotiation to fashion sweeteners/sanctions for member states Britain wants to influence on any particular issue is one way forward – but timing is hard to get right and it would start a process of sacrificing the budget rebate which would be hard for the eurosceptics to bear. And in general searching for areas where Britain shares interests or where it has strengths that others might want to draw on is an obvious way forward.

The UK however will likely spend some time in the sin bin in Brussels and by its diplomatic clumsiness in the face of an existential crisis for the euro may have made other member states so angry that it can forget much by way of cooperation for some time to come whatever happens on the Treaty or the euro. In the longer term unless it actively pursues a carefully constructed strategy

of cultivating the Commission, Germany, France and the euro outs it will continue to be isolated. In those circumstances withdrawal could look more and more attractive to both sides. Whether life in the EEA or indeed in the equivalent of the EU-Switzerland agreement (which may not be on offer) will be that comfortable for the eurosceptic Tories is hard to gauge since the EEA amounts to regulation without representation along with budget contributions and no rebate

Of course events may come to the UK's aid and a break-up of the euro zone may make all of this yesterday's news. However that comes at its own price – 7% of GDP if the Sun is to be believed.

For the moment it is hard to see this except as a very sharp swerve towards the exit lane from the EU and potentially towards the breakup of the UK if the Scots and the Welsh take a different view from the English. A very strange direction for a traditionally unionist party to take the United Kingdom