THE UNITED KINGDOM IN A RE-FORMED EUROPEAN UNION

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Introduction

It's surprising, but delightful, to be giving an inaugural lecture on taking up a Chair – albeit a part-time one – in the early years of my eighth decade. I'm grateful to City University, to my colleagues in the Law School and, above all, to our former Dean, Professor Susan Nash, for giving me this opportunity to show – borrowing from Tennyson's *Ulysses* – that "old age hath yet his honour and his toil", and that "some work of noble note may still be done" by me. Though perhaps that's putting it rather high. Let me just say that I'm proud to be able to play even a small part in such a flourishing academic enterprise as the City Law School.

The apostrophe in the title of my lecture is important. What may be in prospect is not a simple set of reforms for the EU but, in the longer term, a re-structuring of the constitutional order, liable to alter its essential character.

At their meeting on 13 and 14 December 2012, the European Council endorsed what the Conclusions describe as a "Roadmap" for the completion of economic and monetary union ("EMU"). This was based on proposals in a Report entitled "Towards a Genuine Economic and Monetary Union", which their President, Mr Herman Van Rompuy, had been invited to prepare. The European Council also took note of a "Blueprint" – metaphors are going to become inextricably mixed – "for a deep and genuine [EMU]", published by the Commission on 28 November 2012, which provides a wide-ranging analysis of the relevant issues, including their legal aspects. I shall be referring repeatedly to those two texts. For the moment it is sufficient to note that the EU has been launched on the first stage of a process which may eventually lead to full fiscal and economic union for the countries of the Euro Zone and any other Member States that may wish to accompany them on their journey. The final destination of EMU would, in the Commission's words (Mr Van Rompuy is rather more cautious), "involve a political union with adequate pooling of sovereignty with a central budget as its own fiscal capacity and a means of imposing budgetary and economic decisions on its members, under specific and well-defined

circumstances". But even if it were to fall short of such an ambitious goal, EMU seems likely to entail a very considerable deepening of European integration for the participating Member States.

In the face of these developments, there are three possible courses of action for the UK that fall to be considered.

First, a decision to join in the adventure. It's unlikely that any of the present "outs", as I shall inelegantly call them, would think it sensible to adopt the single currency at this precise moment. The establishment of the European Stability Mechanism ("ESM") and the initiative by Mario Draghi in the dog days of last summer, of promising to buy unlimited quantities of bonds issued by Eurozone Members willing to accept strict and effective conditionality, has had a calming effect on financial markets; but it remains to be seen whether this is more than a breathing space. What a sensible "out" might perhaps do would be to declare a firm intention of signing up to the euro once the crisis has passed and economies are growing again. I can only say, with a touch of wistfulness, that, were the United Kingdom to make such a declaration, it would immeasurably enhance our standing with EU partners and improve the prospects of securing the reform of measures such as the Working Time Directive that many consider desirable. However, I have the immortal words of Sir Humphrey Appleby ringing in my ears, "That would be a brave decision, Minister". There is simply not the remotest possibility that a UK Government of any political colour would feel able to issue a declaration of intent to join the Euro Zone in the foreseeable future. So I shall say no more about this first possibility.

The second possible course of action would be to make the best of continuing as a Member State of the Union, while not participating in EMU. I share the dislike the Prime Minister expressed in his speech on 23 January 2013 for "talk of two-speed Europe, of fast lanes and slow lanes, of countries missing trains and buses". A "multi-speed Europe" is a better expression. Differentiation, in the sense that not all Member States are subject to the same rules or accept the same commitments, is and always has been a central organising principle of the Union's constitutional order. In the area of the common foreign and security policy ("CFSP"), for instance, where the United Kingdom is in the forefront, Denmark plays no part in actions with defence implications, while other Member States are entitled under the Treaty to

maintain their neutrality. I might also mention the recent creation of a unitary EU patent and Patent Court, by way of an action of enhanced cooperation pursuant to Article 20 of the Treaty on European Union ("TEU") and Articles 326 to 334 of the Treaty on the Functioning of the European Union ("TFEU"). The UK is participating in the EU patent, along with 24 other Member States, while Italy and Spain are holding aloof. Nevertheless, it has to be recognised that the position of "outs" in relation to a progressively deepening EMU is liable to be a difficult one. I shall be exploring the problems the UK is liable to face, more particularly on account of the interaction between EMU and the internal market, and some possible solutions.

The final possibility for the UK, if a satisfactory accommodation with EMU cannot be found, would be to exit the Union and attempt to negotiate a form of association with it, like the EEA countries or Switzerland. I shall explain why I regard that as a *pis aller*, to be resorted to only if all else fails.

This lecture will be in four unequal parts. I shall begin by recalling the special legal and institutional arrangements introduced by the Treaty of Lisbon that apply to Member States whose currency is the euro. I shall go on to make some remarks about the road map to EMU, and how this can be implemented from a legal point of view. I shall then consider the problems for the United Kingdom of belonging to the Union, while remaining outside EMU, and how these may be addressed. Finally, I shall consider the options for organising withdrawal.

The legal and institutional arrangements specific to Members of the Eurozone

First, then, the legal and institutional arrangements specific to Members of the Euro Zone. These can be regarded as an extension of the differentiation, established by the Maastricht Treaty in anticipation of the introduction of the single currency, between Member States whose currency is the euro, and Member States with a derogation, which might be permanent, as in the case of the UK and Denmark, or temporary for those not yet economically qualified.

Protocol (No 14), which is linked to the TFEU by Article 137 of that Treaty, gives formal recognition to the Euro Group of Ministers, while making clear that their meetings are informal, in the sense that no legally binding decisions can be taken. It is stated that the Commission "shall take part in the meetings", while the European

Central Bank ("ECB") may be invited to do so. The meetings are prepared by representatives of Eurozone Finance Ministers. The Protocol provides for the election of a Euro Group President for a term of two and a half years.

Those arrangements are to be supplemented by the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("TSCG"), which was negotiated in the aftermath of the UK's veto on Treaty amendment in December 2011. The TSCG, about which I shall have more to say presently, has a Title V with the ambitious heading "Governance of the Euro Area". This provides for informal Euro Summit meetings between the Heads of State or Government of Eurozone countries, together with the President of the Commission, and to which the President of the ECB may, again, be invited. The meetings are to take place at least twice a year to discuss questions relating to the responsibilities of Eurozone countries for the single currency, other issues concerning the governance of the Euro Area and the rules that apply to it and – more worryingly for "outs" like the UK – "strategic orientations for the conduct of economic policies to increase convergence in the euro area". A President of the Euro Summit is to be appointed by a simple majority at the same time as the president of the European Council and for the same term of office.

The most important of the Treaty provisions specific to Members of the Eurozone is the new Article 136 TFEU. This confers a very wide competence for the purpose of ensuring the proper functioning of EMU. It enables the procedures laid down by Article 121 TFEU on multilateral surveillance of Member States' economic policies, and by Article 126 on the avoidance of excessive government deficits, to be used for the adoption of measures that apply exclusively to Eurozone countries. When the Council exercises this competence, only its members representing Member States whose currency is the euro are entitled to take part in the vote. I note the implication that other Member States are not precluded from taking part in the preceding discussion.

The competence conferred by Article 136 has been used, notably, for the adoption of the two instruments specific to Eurozone Members that were included in the so-called "Six-Pack" of five Regulations and a Directive, which came into force on 13 December 2011. The aim of the Six-Pack is to improve both fiscal surveillance and macroeconomic surveillance for all 27 Member States. It reinforces the Stability and

Growth Pact by adding detail designed to render the criteria of the Pact more operational. There are stricter rules for the Eurozone countries, including a system of progressive sanctions in the event of failure to correct an excessive government deficit. Two further proposals with Article 136 as their legal basis, have been put forward by the Commission, one on monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits in euro-area Member States, and the other on enhanced surveillance of euro-area Member States experiencing or threatened with, financial difficulties. These are referred to, in the spirit of euro-fun, as "the Two-Pack".

Besides Article 136, I should also mention Article 139 (4) (b) TFEU, which suspends the voting rights of members of the Council not belonging to the Euro Zone, when measures are being adopted in relation to a Euro Zone country under the excessive deficit procedure.

Returning now to the TSCG. As you will remember, it is an inter-governmental agreement, which has been signed by all the Member States other than the UK and the Czech Republic. It hasn't yet entered into force. Apart from the Title on Euro Summits, the substantive provisions of the TSCG consist of a so-called "Fiscal Compact" and of a few measures to strengthen economic policy coordination and convergence. The central feature of the Fiscal Compact is the requirement in Article 3 (2) that budgets be balanced or in surplus. Even with the additional leeway provided by Article 3 (2), which would allow a structural deficit of 0.5 per cent of GDP as a lower limit, the "golden rule", as its admirers call it, seems certain to be more honoured in the breach than in the observance. And sometimes rightly. There are circumstances in which it makes economic sense to borrow. At all events, there's almost nothing in the TSCG that couldn't have been achieved by way of a regulation adopted under Article 136 TFEU. It was the irresistible force of German insistence, that the golden rule be enshrined in primary law, meeting the immoveable object of UK resistance to Treaty change, that led to the negotiation and eventual signature of this not very impressive instrument.

What I've just said about the option of recourse to legislation based on Article 136 may not apply to one of the provisions of the TSCG, namely Article 7. Under that provision, the Contracting Parties accept a binding obligation to support any proposal

or recommendation by the Commission in the context of an excessive deficit procedure set in motion under Article 126 TFEU against a Member of the Euro Zone, unless a qualified majority of Euro Zone countries votes against it. Such an obligation appears hard to reconcile with the language of Article 126, especially its paragraph (6), which suggests that the power conferred on the Council, to decide whether or not an excessive deficit exists, is intended to be discretionary. Article 7 would fetter the discretion of individual Council members and hence of the Council itself. Arguably, therefore, the objective of enabling the Commission's proposal or recommendation to stand, in the absence of a reverse qualified majority vote, could only have been achieved by amending the TFEU.

Finally, a word about the ESM Treaty. This is another instance of Euro Zone Member States going off on a legal frolic beyond the bounds of the Treaties. But the outcome is a happier one. The "bail-out" mechanism created by the Treaty may be drawn upon to assist an ESM Member in financial difficulties, where this is indispensable to safeguard the financial stability of the euro area, and subject to strict conditionality. In the *Pringle* case the Court of Justice held that the Euro Zone countries were perfectly at liberty to take a step of this kind on their own initiative, without waiting for the entry into force of the Treaty amendment acknowledging such a possibility, which had been adopted by the European Council under the simplified revision procedure of Article 48 (6) TEU.

So much then for the legal arrangements that are already in place to cater for the special situation of Euro Zone Member States.

The road map to EMU and how this may legally be implemented

Moving on to the roadmap to EMU and how this may legally be implemented.

Mr Van Rompuy had been asked to develop a "time-bound roadmap" and his Report proposed that EMU be attained in three stages: the first Stage to run from the end of 2012 into 2013; the second to run from 2013 through 2014; and the third Stage relating to an undefined period post-2014.The particular measures envisaged for Stages 1 and 2 are quite precisely delineated in the Report, those reserved for Stage 3 rather less so.

The December Conclusions of the European Council broadly endorse the road map's distribution of subject-matter between Stages 1 and 2. They distinguish immediate priorities, on which action is needed urgently, even in some instances during the first semester of 2013, from other issues on which Mr Van Rompuy, in close cooperation with the President of the Commission and after a process of consultations with the Member States, is to present to the European Council in June 2013 possible measures and a time-based road map.

I've no doubt at all that the measures identified by the European Council as immediate priorities can be taken under competences conferred by the existing Treaties. They fall broadly into two categories.

One category consists of measures necessary to complete and implement the framework for stronger economic governance, including the "Six-Pack", the TSCG and the "Two-Pack".

The other category comprises various measures in the banking sector.

Some of these are instruments with internal market legal bases like the Capital Requirements Regulation and Directive. They are part of the project of completing a single rule book for banks in the EU, the implementation of which is the responsibility of the European Banking Authority ("EBA"). Their aim is to help create a level playing field in the internal market and they are intended to apply to all of the Member States.

The first of the building blocks of banking union proper is the political agreement reached at the meeting of the ECOFIN Council on 13 December 2012 on the texts of two proposed Regulations. One of these provides for the establishment of a Single Supervisory Mechanism ("SSM") for credit institutions in the Eurozone. There is a possibility for "outs" to participate in the SSM by entering into close cooperation arrangements. The SSM will be composed of the European Central Bank ("ECB") together with national competent authorities. The ECB will be responsible for the overall functioning of the SSM and will have direct oversight of the Union's bigger banks and the ability to intervene where it detects problems in the management of smaller ones. The legal basis of the proposed Regulation is Article 127 (6). This empowers the Council, acting unanimously, to confer specific tasks on the ECB

concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

The other text agreed on 13 December was a proposal for amendments to the rules on decision-making by the Board of Supervisors of the EBA. It has the internal market legal basis of Article 114 TFEU. The interest of the text for our purposes lies in the double-majority voting arrangements that were adopted, to ensure support for decisions among both Member States participating in the SSM and those not participating. I'll explain how this is to work in a moment.

So no need for any Treaty amendment in Stage 1 on the route to EMU.

I can't say with the same degree of certainty that existing competences under the Treaties will be sufficient to cover all of the measures envisaged for Stage 2, because concrete proposals are lacking. The next building block of banking union, on which the Commission has been invited by the European Council to submit a proposal in the course of 2013, will be the establishment of a Single Resolution Mechanism for banks in difficulties in the Member States participating in the SSM. The Commission states confidently in its November "Blueprint" that the creation of such a mechanism can be realised by secondary law without any Treaty amendment, and I have no reason to doubt it. One of the issues Mr Van Rompuy has been asked to explore in time for the June European Council is the introduction of a system of *ex ante* coordination of all major economic policy reforms, in line with Article 11 of the TSCG. I wonder if that could be made compulsory for the Euro Zone Members on the basis of Article 136 TFEU. Another issue for Mr Van Rompuy is the feasibility of contractual arrangements for competitiveness and growth being agreed between individual Members of the Euro Zone and EU institutions, and of providing an incentive to enter into such arrangements in the form of a financial support mechanism. I'm not clear whether it would be intended somehow to give the "contracts" binding legal effect or to rely on the threat of withdrawing funds in the event of a failure to comply. Once again, however, it seems to me that there is nothing here to require Treaty change

At Stage 3 of his road map Mr Van Rompuy looks forward to the establishment of a well-defined and limited fiscal capacity that would provide the means to help Euro Zone countries in absorbing asymmetric shocks, while encouraging them to pursue

sound fiscal and structural policies. He also suggests that this stage "*could* [note the conditional] also build on an increasing degree of common decision-making on national budgets and an enhanced coordination of economic policies, in particular in the field of taxation and employment". Though still some considerable way short of the full fiscal and political union imagined in the Commission's "Blueprint", that would presumably require amendments to the Treaties.

The upshot of this brief survey of the projected route to EMU is that there seems to be no reason to expect that an intergovernmental conference to negotiate fundamental changes to the Treaties will be launched in the near future. Given the tendency of timetables to slip, my guess would be that such a negotiation, if it happens at all, is very unlikely to begin sooner than in five years' time.

The problems of belonging to the Union, while remaining outside EMU, and what can be about them

I turn now to the problems the UK may encounter, in continuing to be a member of the Union, while remaining outside EMU. And what, if anything, can be done to address them.

The problems, it seems to me, are of two kinds – a more immediate one and a longer term one.

The more immediate problem is how to manage the risk of caucusing by the Euro Zone countries. I'm referring to the risk that the outcome of negotiations within Council bodies may be determined in a way that damages our national interests by the Euro Zone Members' voting as a bloc, on the basis of pre-arranged positions.

The longer term problem which, in the light of my analysis of the road map, appears unlikely to manifest itself for at least five years, and maybe a lot more, will be how we should react to any demand that the institutional structure of the Union Treaties be altered fundamentally, in order to adapt to a situation in which decisions on the tax and spending policies of those participating in EMU will effectively have been centralised.

I shall consider those problems separately.

First, caucusing. The problem is potentially most acute in the adoption procedure for internal market legislation, especially on the regulation of financial services like banking, since this is an area of particular importance to the UK economy, and where there is an evident interaction with the functioning of EMU.

The problem mustn't be exaggerated. The institutions are acutely aware of it and repeatedly stress the need to ensure respect for the integrity of the single market and to maintain a level playing field between those participating in EMU and those not participating. The solution on voting arrangements for decisions by the EBA's Board of Supervisors, that was found by the ECOFIN Council on 13 December 2012 (and which I'll be coming back to in a moment) bears testimony to this. Also, it shouldn't be assumed that the interests of every Euro Zone Member will always be the same and different from ours. But the problem is a real one. Not only because, where the interests of the UK are in conflict with those of one of the more powerful Euro Zone countries, the latter may prevail upon its partners through appeals to solidarity or through financial pressure, but simply on account of the increasing convergence of interests within a deepening EMU.

What concerns me particularly is the development of parallel fora in which Members of the Euro Zone, away from the eyes and ears of the "outs", meet and discuss, with each other and with representatives of EU institutions, matters that may affect the interests of all Member States. Despite the description of Euro Summits as "informal", the meetings are to be organised in a way that largely mirrors the European Council. There must be a danger that they may, in practice, partially usurp the European Council's agenda-setting function. Similarly, Euro Group meetings provide an opportunity for concerting positions in preparing the business of the forthcoming Council. The involvement of the institutions also carries the risk that they may, over time, transfer their loyalty from the Union as a whole to this select group.

The existence of separate fora is a factor that distinguishes Euro Zone cooperation from enhanced cooperation as provided for by the Treaties. This take place within the normal Council bodies in which all the Member States are represented. As Article 20 (3) TEU provides explicitly: "All members of the Council may participate in its deliberations, but only members of the Council representing the Member States participating in enhanced cooperation shall take part in the vote".

Again, though, one mustn't exaggerate. The informal character of Euro Zone bodies means that decisions can only be taken after proper debate within the Council, at a meeting that will have been prepared by Council Working Groups and by the Committee of Permanent Representatives ("COREPER"). So there are plenty of opportunities for interaction between Euro Zone countries and "outs" in the course of the decision-making process.

This is the moment to say a bit more about the double-majority voting system that was part of the compromise on the SSM hammered out by the ECOFIN Council on December 13. As I have mentioned, the arrangements are intended to apply in relation to all key decisions of the Board of Supervisors of the EBA, which is the EU's regulator for the banking industry. The concern was that the establishment of the SSM, as the first major step in the construction of a banking union, might in time lead to a trend in EBA decision-making harmful to the interests of the Member States remaining on the outside. The solution that was found essentially involves ensuring that any decision commands majority support among those participating in the SSM (including "outs" that have concluded close cooperation arrangements with it) and those not participating. There are essentially two kinds of arrangement. For matters which the Board of Supervisors determines by a qualified majority, the majority achieved must include the votes of a simple majority of the Board's members from participating Member States and a simple majority from non-participating Member States. While for other matters, decisions are taken by a simple majority of Board members from participating Member States and a simple majority of those from non-participating Member States.

This seems eminently sensible. However, scenes of jubilation would be premature because, as an internal market measure, the Regulation on the EBA has to be adopted under the ordinary legislative procedure and the European Parliament has yet to give its approval to the voting arrangements. I note also that there is a review clause applicable to the voting arrangements, which will be triggered on the date when the number of Member States not participating in the SSM has fallen to four. The review is to be carried out by the Commission, which must then report to the European Parliament, the European Council and the Council. So the loss of this safeguard wouldn't be automatic and there would be an opportunity to design a replacement.

Could the double-majority solution be applied more widely? In principle, yes, but only as a formal element of decision-making under secondary powers. In other words, the EU legislator may provide for such a voting rule in legislation conferring powers on a body like the EBA's Board of Supervisors. Primary powers, on the other hand, which are directly conferred upon the EU institutions by the Treaties, must be exercised in accordance with the procedures the Treaties themselves lay down. There could, I suppose, be an informal, purely political arrangement – a benign version of the old Luxembourg Compromise – under which Eurozone Members and other participants in the SSM might agree with non-participating Member State that neither would press for an internal market measure to be put to the vote, unless it was supported by a simple majority of the Member States in each group. However, the likelihood of this seems remote. So the double-majority solution is perhaps of limited scope. Though it might be an item to be kept in the pocket of the UK Government, and brought out in a future negotiation on Treaty change.

That's a cue for me to move on to the longer term problem that will arise if the deepening of EMU reaches a point where fundamental change in the institutional structure of the Union – its re-formation – is felt to be necessary. There are two issues I propose to examine.

A first issue is how strong the bargaining position of the UK would be in such circumstances. The appropriate procedure for the requisite Treaty amendments would surely be the ordinary revision procedure, which involves the common accord of a negotiating conference of the Member States and subsequent ratification in accordance with their respective constitutional requirements – in our case parliamentary approval and probably a referendum. So the UK, like any other Member State, would have a veto over the proposed amendments.

But could such a veto be circumvented, as it was in the case of the TSCG, by an intergovernmental agreement concluded outside the Treaty framework by a coalition of the willing? I think not, if what was proposed was the re-organisation of the EU institutions and the conferral of new competences upon them.

The issue as to whether new tasks can be given to the institutions by a group of Member States, without the agreement of all 27 of them, was finessed in the case of the TSCG by very careful language making sure that no duties were being imposed

on the Council or the Commission going beyond those to which they were already subject. The only institution given a novel role, and matching powers, by the TSCG is the Court of Justice, which will have jurisdiction under Article 8 of that Treaty to enforce the golden rule in Article 3 on balanced budgets. However, the TSCG passes this off as an application of the Court's existing jurisdiction under Article 273 TFEU for the resolution of disputes between Member States relating to the subject-matter of the Treaties, which are submitted to it under a special agreement between the parties. Though transparently incorrect, that explanation obviated the need to obtain authorisation from the whole body of Member States for the conferral of a novel jurisdiction upon the Court.

I'm very clearly of the same view as my former boss in the Legal Service of the Council, Jean-Claude Piris, that when some of the Member States wish to conclude an intergovernmental agreement while making use of the EU institutions, they need the authorisation of the other Member States. That's because, as he puts it in his book on *The Future of Europe*, "the EU institutions are 'common property'". But even if this were not so, an intergovernmental agreement amending the Union's present institutional arrangements would be incompatible with the EU Treaties and liable to be struck down by the Court of Justice.

So I do believe that a fundamental re-negotiation that was sought, not by the UK itself but by Member States pressing for the completion EMU, would provide an opportunity for a future Government to seek Treaty amendments in areas where it found existing provisions irksome, such as employment law and fishing.

The other long-term issue is trickier. The UK and other remaining "outs" could hardly fail to be affected by radical changes, sought for the purposes of deepening EMU, to the powers and perhaps the composition of certain institutions, or to the methods of appointment or election of their members. Suppose, for example, the Member States participating in EMU were willing to grant the Commission executive powers in the area of taxation and spending, subject to enhanced democratic accountability – say, by a requirement that the President of the Commission be directly elected, or that all the Commissioners be chosen by majority vote of the European Parliament. There's no way in which the impact of such changes could be confined to participants in EMU. Among other things, there would certainly be calls for the UK's Commissioner

and for MEPs from the UK to play no part in the exercise of what would have become the Union's most far-reaching competence. Nor could the Commission President be directly elected for the purposes of EMU but appointed by the European Council for other purposes.

The only viable solution from the viewpoint of the UK, it appears to me, is one which again I owe to Jean-Claude Piris. His fourth option for the future structure of the Union would involve the establishment of a new administrative authority distinct from the Commission, to carry out the functions assigned to it by a vanguard group of Member States. This would be accountable to a new parliamentary organ, which, given the "relative failure of the European Parliament", as Piris puts it – a judgment that, regrettably, I can only share – should be drawn from the national parliaments of the participating Member States. My proposal would be that the remit of these new organs be confined to the specific elements of EMU calling for centralised authority and enhanced democratic control. Everything else – and it would be plenty – should remain in the hands of the existing institutions.

I can already hear the howls of desecration rising to the heavens. As some in the audience know, I was once described by an arch-federalist in the European Parliament as "*un juriste illustre mais perfide*", and this would be deemed perfidy of the first water. However, as I have said, I can think of no other solution that would enable the UK to remain a Member of the EU, if the institutional needs of "complete" EMU were to be met. What is more, it would allow for a greater degree of democratic accountability than the European Parliament has shown itself capable of providing.

However, I have to admit to some scepticism that the completion of EMU as envisaged in the Commission's "Blueprint" will occur this side of the Greek Kalends. In which case, the long-term problem for the UK, which I have been wrestling with, won't materialise.

The options for organising withdrawal from the Union

Finally, and quite briefly, the options for organising withdrawal from the Union. The obvious models are a far-reaching and multifarious association like the EEA Agreement or a pick-and-mix bundle of agreements like the one between the EU and Switzerland.

Both of those options seem to me deeply unattractive. If we exited the Union, we should certainly want to remain in the internal market. A large measure of the UK's discontent with membership of the Union has to do with a sense that we aren't able to influence the shape of EU legislation sufficiently to suit our political economy; and, more recently, by the fear that caucasing by Euro Zone Members may make this situation worse. What rational case could, then, be made for putting ourselves in a position where we should have to accept the EU's internal market legislation lock, stock and barrel without any opportunity to influence its shape in the smallest way? Swapping our EU membership for that kind of client status would only begin to make sense if we found ourselves being systematically outvoted within the Council by the Euro Zone, so that our position outside the Union wouldn't seem any worse. But I've explained why I don't believe that need happen.

And there's a more profound reason why the relationship that Norway and Switzerland have with the EU wouldn't suit us. We aren't a country with a small population and immense natural advantages. We have to live by our wits and our industry in an increasingly competitive global environment. We need the weight that the Union is able to give us in international trade negotiations. And more than that. We're a nation that's used to playing a part, sometimes the villain's but always a major part, on the world stage. The only way in which we shall be able to maintain that role is as a leading member of the EU, which has the potential to become the greatest force for good among the great powers.

Conclusion

To conclude. I don't think our problems as a non-member of even a quite highly integrated EMU are insoluble, though it will take patience and commitment to sort them out. But we won't have to do this alone. We shouldn't take too seriously the grumbles in some EU institutions, and indeed among some national politicians, about how much better off the EU would be without us. Serious politicians, when they are being serious, know that isn't true. The EU would be a lot worse off financially without the huge net contribution that we make, and have always made, to its budget. Without us at the table, the forces that favour an open and competitive socio-economic model for the EU would be seriously weakened. And, the loss of our diplomatic influence, our international connections and arguably the best armed

forces in the Union would make the common foreign and security policy seem a lot less viable. So our fellow Member States have as much cause as we do for reaching a reasonable accommodation, whether by way of ingenious procedural devices and incremental changes to legislation or as part of a grander re-formation exercise.

And what about the referendum the Prime Minister has promised? When the moment comes, I say bring it on. I have a belief in British people, which I don't think is naive, that if you have a good case to make and you make it well, they will listen.

As you have done, very patiently. Thank you for your attention.

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