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FILE TITLE: <i>GENERAL</i>		SERIES <i>Policy EUROPEAN AFFAIRS</i>
Annex A- Visit to Brussels, 31 October, Briefing		
		PART: <i>2</i>
PART BEGINS: <i>25 SEPTEMBER 2001</i>	PART ENDS: <i>11 JANUARY 2002</i>	CAB ONE:

PART 2 CLOSED

Labour Administration

*PREM 49/2523
Part 1 of 2*

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PART 2

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11 JANUARY 2002

Series : EUROPEAN POLICY

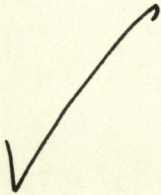
File Title : GENERAL

Part : 2

Date	From	To	Subject	Class	Secret
28/09/2001	FCO	FA/APS	Message from PM for Apeldoorn conference brochure	C	0
28/09/2001	Cab Off	Cab Off	Network Industries	C	0
12/10/2001	Cab Off		Preparations for Ghent European Council, 19 October	R	0
16/10/2001	EU/PS	FCO	Northern Lights	R	0
17/10/2001	EU/PS	Cab Off	Competences	U	0
19/10/2001	FA/APS	EU/PS	The Open Method of Co-ordination	R	0
22/10/2001	Cab Off	Cab Off	Plain Language - Clarifying Euro Law	U	0
22/10/2001	SS/MOD	FCS	Institute Building in EU Candidate Countries	U	0
02/11/2001	EU/PS		To Peter Mandelson : Interstate : Bringing Future EU and US Busine	U	0
02/11/2001	EU/PS		To Lord Brittan : Interstate : Bringing Future EU and US Business Le	U	0
02/11/2001	FA/PS	FCO	(M) Discussions with Polish Prime Minister : 2 November : EU Issues	R	0
05/11/2001	FA/APS	PM	Reactions to Last Night's Dinner	R	0
06/11/2001	FCO	HMT	Enhanced Co-operation	U	
07/11/2001	EU/PS	PM	Sunday Night's Leftovers : Humble Pie	U	0
07/11/2001	Cab Off	FCS	JMC (Europe): 8 November at 0900: Chairman's brief	R	
13/11/2001	EU/PS		To Mr Alec Aalto PM's Office Helsinki : Information and Consultation	U	0
14/11/2001		FA/APS	From Bertelsmann Foundation : Thinking Enlarged : The Accession	U	0
20/11/2001	SS/DTI	FCS	Community Patent	R	
20/11/2001	EU/PS		To Sir Nick Scheele. Interstate : Bringing Future EU and US Busines	U	0
21/11/2001	PPS		Lord Kilcooney of Armagh: Parliamentary Delegation to the Council o	U	
26/11/2001	FA/APS	PD(GN)	Network Liberalisation within Europe	U	0
03/12/2001	FA/APS	SCU	Europe Strategy : Speeches	U	0
03/12/2001	FCO	SCU	Europe Opinion Poll	U	
03/12/2001	FCO	PPS	Europe Opinion Poll	U	
05/12/2001	Denmark / Ambo	EU/PS	Future of Europe/Northern Lights	U	
06/12/2001	France/HMA	FCO	Vedrine and the EU Ambassadors	R	0
06/12/2001	Sweden/HMA	Cab Off	Northern Lights, Stockholm, 7 December	R	
10/12/2001	EU/PS	FCO	Northern Lights	R	
11/12/2001	pd(rl)		The Political Challenges Ahead: Letter to Wolfgang Nowak	U	
13/12/2001	FCO	EU/PS	Plain Speaking 3 : The EU - What's the Score	U	0
14/12/2001	SCU	EU/PS	European communication strategy next six months	C	
10/01/2002	FCO	FCO	Hungarian PM EU topics for bilateral meeting	C	
11/01/2002	EU/PS	PM	The EU over the next 6 months	C	

From: Stephen Wall
Date: 11 January 2002

PRIME MINISTER



cc: Jonathan Powell
Jeremy Heywood
Roger Liddle
David Manning
Michael Tatham
Sir Richard Wilson
Sir Nigel Sheinwald
(UKRep Brussels)
Kim Darroch (FCO)
Martin Donnelly (CO)

THE EU OVER THE NEXT SIX MONTHS

This is a summary of what we can expect from the EU over the next six months during the Spanish Presidency. You might want to read it in conjunction with the attached Annual Review of 2001 from Nigel Sheinwald.

First some key dates:

Early March:	Future of Europe Convention starts
15-16 March:	Economic Reform Summit (Barcelona)
21-22 June:	European Council (Seville)

There will also be a rash of elections:

17 March	Portugal
21 April & 5 May	France (Presidency)
15 May	Netherlands
May (probably)	Ireland
9 & 16 June	France (Parliament)

The Convention on the 'Future of Europe'

We are beavering away, both on developing our priorities and trying to infiltrate the Giscard empire. Moscovici looks like being the French representative on the Convention. The French will be pretty much in baulk in terms of cooperation with us until after their elections but I suspect Chirac and Jospin will vie with each other for the EU high ground during the campaign. Chevènement is

modifying his EU rhetoric in a less sceptical direction, which is a straw in the wind. Strauss-Kahn told us this week that Chirac should be further ahead on past precedent if he was to win. He would say that wouldn't he. But it is clear the race is too close to call at present.

You have not had any substantive discussion of EU issues with Schröder for nine months. We need to remedy that soon.

You should also try to see Aznar before Barcelona, both on economic reform and future of Europe.

It would be useful, too, if you could fit in Amato and Dehaene.

Reform of the Commission and European Parliament

On Commission reform, Neil Kinnock has navigated a substantial package through the Brussels trades unions, and should present the options to the Council in March. On a separate track, the European Parliament is making progress on reforming the systems of expenses and standards in public life to overcome reputations of 'sleaze' and the gravy train. Individually, all these reforms are quite techy, but collectively they demonstrate that it is possible to reform the EU's institutions.

Economic Reform

The public high-water mark will obviously be the Barcelona Council in March: but some of the potential successes may come in the second half of the Presidency. We are continuing to work at securing as bumper a crop as possible at Barcelona, but we should also work hard at branding and selling any progress on key issues – including energy, better regulation and take-overs – before and after the Council as evidence that the process is delivering. You will want to use your proposed meeting later this month with Jack Straw, Patricia Hewitt and a Treasury Minister to focus the political push for progress in the run-up to the Council. The heavy lifting cannot all be left to you at the top, and us at the bottom with little political engagement in between.

Our presentation effort starts next Tuesday with the publication of the Commission's Synthesis Report. It is a good summary of progress and fits well with our and Aznar's assessment of where we need to do more. We have asked Patricia Hewitt to lead the publicity.

Social

The Commission will issue proposals at the end of January, for a directive on temporary (agency) work which may be problematic for our agency work sector. Officials are working hard to get the proposals toned down before they issue - but hard negotiation in Council may be needed thereafter.

The Commission will also issue on 15 January a consultation paper about the social aspects of corporate restructuring. While, following extensive UK lobbying, this emphasises the exchange of best practice and voluntary agreements as the way forward, we will need to be wary of any attempt to take a more regulatory approach.

Enlargement

The Spanish Presidency is due to tackle the agriculture, regional policy and budgetary chapters. We could be in for a bumpy ride here and the Spanish may well have difficulty sticking to the road map. The Commission's strategy paper of November 2001 noted that the budget-related chapters should be negotiated on the basis of the current acquis and the principles of the Berlin agreement (ie the financial framework for 2000-2006). We strongly support this. Strauss-Kahn (who could be very prominent in a Jospin government) reiterated all Jospin's hostility to early enlargement when we saw him this week. If Jospin is elected, and is serious about this, there will be a crisis. I suspect he is looking for a populist theme for the campaign.

Cyprus

We expect Cyprus to be part of the first wave of enlargement. It is too soon to say whether she will accede as a divided island. Negotiations between the two Cypriot leaders start on 16 January and are expected to come to a head over the summer. If talks are going badly we need to make a last-ditch effort then. Either way, by October, when the first accession countries are named, we should have a better idea about what kind of Cyprus will join.

CAP Reform

2002 could see both the end of accession negotiations for some candidate countries, and agreement on some CAP reform. But achieving both is going to

be tricky. The first formal Commission proposals for the 'Mid Term Review' of certain CAP regimes are expected in summer 2002 after the French elections. But there is no certainty that they will deliver the sort of reform required, and they are unlikely to do so before the end of accession negotiations. We are working hard with sympathetic partners, including, increasingly, Germany, to persuade the Commission to come forward with robust forward-looking proposals.

Structural Funds

We will need to agree and set early in the year out an initial UK position on the future of Structural Funds after 2006. The debate in Brussels is likely to begin in earnest in the coming months on the back of a Commission report due later this month and possible attempts by the Spanish and others to reach some form of deal about post 2006 entitlements before the enlargement negotiations are completed.

The next step is a meeting between you, Gordon Brown, Patricia Hewitt and Jack Straw to agree a way forward before approaching the rest of Whitehall and the devolved administrations.

Galileo

Laeken deferred the decision about whether to proceed to the development stage of the satellite project until the Transport Council on 25 March. There will be further debate in ECOFIN in February and quite possibly at Barcelona itself. The Spanish support the project and will press for a positive decision. Key issues for us will be whether to support the project at the final hurdle, and if it gets the go-ahead, the level and source of funding for a further UK contribution to the project via the European Space Agency. We will submit advice.

Sustainable development and the Environment

Preparations for the World Summit on sustainable development (WSSD), to be held in September in Johannesburg, will dominate the next six months. Member States will be co-ordinating their positions, but there will not be a single rigid EU line. EU milestones will be at Barcelona, where there will be conclusions on the EU sustainable development strategy – we are pushing hard for this to be focused on Johannesburg – and the ratification of the Kyoto protocol, which is scheduled to happen under the Spanish Presidency.

JHA Issues

We will want to keep up pressure for faster progress on EU asylum measures, but will face German resistance.

Making the most of Spain's eagerness for increased EU operational action, in particular against drugs trafficking will also be important as well as maintaining momentum on anti-terrorism action, encouraging increased EU-US judicial co-operation.

Terrorism

Led by the UK, the EU made very strong progress on anti-terrorism measures last year (agreeing to measures on: joint investigative teams; a European Arrest Warrant; minimum terrorism penalties and offences; a US/Europol co-operation agreement; an anti-terrorist team in Europol; and a list of terrorist organisations). We will want to keep up the momentum under the Spanish Presidency, including by:

- finalising agreement to an EU decision making it easier to freeze assets and seize evidence across borders;
- making progress on an agreement that will allow the exchange of personal data between Europol and US law enforcers;
- making progress on an EU/US judicial co-operation agreement;
- getting an EU civil protection co-ordinator up and running;
- ensuring we are ready to launch joint investigative teams as soon as the power is implemented in June 2002.

Trade

We will want to:

- work carefully to avoid both Foreign Sales Corporations and US steel disputes ballooning into sources of severe transatlantic tension;

- start making progress winning the case for greater EU/US liberalisation (we are awaiting further HMT ideas on pushing forward a "Cecchini style report" on the benefits of such liberalisation).

You will need to intervene with Bush on US measures against European steel imports, which will hit Corus hard.

Tobacco Advertising

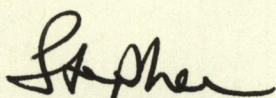
The Council and Parliament will begin negotiations on a directive to ban tobacco advertising and sponsorship. We are aiming to maintain our derogation for certain global sports in line with proposed domestic legislation (Autumn 2006).

BA/AA and Open Skies

Competition authorities on both sides of the Atlantic continue to scrutinise the planned BA/AA agreement. In parallel, bilateral talks with the Americans on Open Skies are due to reconvene before the end of January. The plan remains to reach simultaneous agreements with the Americans on anti-trust immunity and a new bilateral aviation deal. However, the window of opportunity for pursuing this strategy will at least begin to close if, as expected, the Advocate General rules that bilateral deals breach EC law. This Opinion - which will not be binding unless and until it is confirmed by the ECJ - is due at the end of January, around the same time as OFT hope to decide on remedies. So timing will be very tight. If the OFT judgement slips or if the OFT (or US) propose remedies that BA are unwilling to accept, we will need to consider fallback options as a matter of urgency.

EU-Russia

On EU-Russia we will need to keep pushing for a closer relationship which reflects Russia's capacity to deliver reform. A faster track to WTO membership will be the priority. We will also want to see closer political dialogue and better co-operation on JHA including the thorny issue of Kaliningrad, Russia's Baltic enclave. We should also encourage the EU to do more thinking about its new neighbours after enlargement (Ukraine, Moldova, Belarus).



STEPHEN WALL

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CABINET OFFICE PASS TO WALL AND MANNING NO10
FRAME GENERAL

SUBJECT: NOSEC: KEYDOC: ANNUAL REVIEW: EUROPEAN UNION

SUMMARY

1. 2001 made a big bang enlargement in 2004 a practical possibility. The Future of Europe Convention set up by Laeken will be heavy going. The EU needs another dose of structural reform at Barcelona, but the French and German elections will constrain. Despite Doha, EU/US trade and other tensions likely to increase.

DETAIL

POLITICS AND THE FUTURE OF EUROPE

2. Hangovers from the Nice Summit lasted long into 2001. The big/small divisions evident at Nice were never far from the surface, and re-emerged for example in the wake of 11 September. The critics of Nice vaunted the Convention and a wide-ranging Laeken declaration. Belgian persistence, and the realisation that (a) a real debate is needed on running an enlarged Union and (b) the Convention would in practice do its own thing, won the day. The UK insisted on a neutral and enquiring tone, not federalist prescription, and no tying of IGC hands.

3. The Convention will be a real departure, and difficult for member states to shape.

4. The Commission's stock remained low throughout 2001. Prodi's re-launch attempts lacked conviction; and there were the usual gaffes. I don't expect this will change much in 2002, but Prodi does sense that the Commission can make its mark by giving a real lead to the Barcelona Summit, and by exercising its central role in the final stage of the enlargement negotiations, both welcome

PAGE 1

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to us. Meanwhile the main building blocks of Neil Kinnock's internal Commission reform programme are now in place.

5. Whether Pat Cox or David Martin wins, the European Parliament will be led this year by a much more effective President. But it is difficult to see the EP becoming a genuine partner for the Council. They are still obsessed with securing institutional advantage, rather than substance.

6. It is not in the UK interest for everything under the sun to be left to the Convention/IGC process. We should try to get some progress on Council reform (eg in the practical organisation of business after enlargement and opening up the Council's legislative proceedings) and EU governance (including better regulation) agreed this year.

ENLARGEMENT

7. The big story of 2001 was that the enlargement road map became a reality. This was down to the strong Swedish commitment and the clear time-frame agreed at Gothenburg, coupled with progressively cracking the hard nuts, starting with Free Movement of Persons. The Belgians put their shoulder to the enlargement wheel too. By the end of 2001, ten candidates had closed 20 or more of the 30 chapters; and the most advanced (Slovenia) had closed 26 and a half. So concluding negotiations by end 2002 is now feasible.

8. Of course the most difficult bits (mainly to do with money) remain. But for different reasons Spain and Denmark will want to push the process forward. It is possible to see the outline of a deal which preserves the Berlin framework and overall provision, but reflects the fact that enlargement will be both later and wider than then foreseen. There is unlikely to be radical CAP reform before accession, but the Commission are expected to propose worthwhile changes in their mid-term review this summer; and we should use the Danish Presidency to try to get some principles established for the CAP in the medium term. Regional policy should be less problematic in the immediate future, but Spain will want some reassurance about adequate transitional arrangements after 2006.

9. There are wild cards, eg a breakdown in Polish implementation, or a flare up in the Greece/Cyprus/Turkey triangle. There would be a massive grinding of gears if the Irish were to vote No a second time in the autumn: the June 2001 vote jolted the EU and introduced some realism into the Future of Europe debate. The French are still keeping their options open. But the political price of delay has got much higher as a result of momentum generated in 2001. So for now the default option is a first wave

of ten, probably in 2004.

THE EURO AND THE ECONOMY

10. The US slowdown hit the European economy more severely than expected. The Euro rallied briefly in early 2001, but slipped back and surprisingly did not strengthen much after 11 September. Meanwhile the Stockholm Summit modestly pushed forward the Lisbon agenda, but was seen in PR terms as a set-back because of Franco-German obduracy on energy liberalisation. The failure of the Takeovers Directive in the European Parliament in July was another bad sign.

11. The picture in individual negotiations was mixed. In financial services, some successes, but much (including Lanfalussy) bogged down. Despite Belgian effort, the Community Patent remains stalled. But there was progress on competition and state aid policy, and a genuinely liberalising telecoms package passed the EP. Social policy continues to require constant vigilance, but the eventual outcome on Information and Consultation was satisfactory.

12. Tax policy remained a neuralgic area for the UK and some others. The Chancellor fought successfully to protect the Feira legacy on savings tax, but there is likely to be a high noon on this with Austria, Luxembourg, and Belgium in autumn 2002.

13. Where, in this climate, will Barcelona fit in? On the EU Richter scale, somewhere between Lisbon and Stockholm. As the FT keeps saying, the EU needs more structural reform. But I can't see France and Germany giving way on energy or other big public services issues pre-elections. The Spaniards are wisely accentuating the areas where progress is likely, and downplaying energy, to avoid walking onto a French left hook.

14. Most pundits expect the Euro to strengthen against the Dollar (and Sterling) during 2002. Our partners believe that following our election, 11 September and the introduction of Euro notes and coins, UK attitudes towards the Euro are shifting. They want us in, and would be generally helpful on the technical aspects if we decide in favour. But UK entry is not a consuming priority for the rest of the EU. The assumption here is that overall UK political influence (eg on the Future of Europe debate) would be reduced if we stayed out. The question is whether our interests in areas such as financial services, economic reform and financing (including protection of the abatement) would suffer concretely too. In any event, our partners writing their annual reviews will see this as the key UK decision on Europe for 2002.

FOREIGN POLICY AND SECURITY

15. The EU responded robustly to 11 September, agreeing a substantial counter-terrorism programme, notably the ground-breaking Arrest Warrant. In other areas of Justice and Home Affairs (eg Eurojust, people trafficking) we made progress too, but it is slow going and the mud is likely to deepen in 2002 on areas of key concern to the UK like asylum.

16. Elsewhere, Macedonia was an EU/NATO success story, thanks to Javier Solana and his collaboration with George Robertson. 2002 may well see agreement on the first EU ESDP operation, maybe a police rather than military one. In 2001 we got the institutional machinery up and running, and made progress on capabilities. There is still some way to go before the EU can mount substantial operations. But we must also avoid giving an impression that the EU is impotent.

17. The Commission and partners increasingly talk our language on development, but reform of the EU's external assistance is going to take time. Despite the pressures (and getting more money for Afghanistan), we stayed within the Berlin ceilings and maintained discipline in the 2002 Budget.

18. Notwithstanding Doha (a personal triumph for Lamy), EU/US tensions are likely to increase in 2002 - on the trade side (steel, Foreign Sales Corporations, GMOs); and more generally because we look unlikely to get adequate US multilateral engagement in major events such as Monterey and Johannesburg. There will be differences too in handling the war on terrorism if the US seek to extend its ambit.

OTHER ISSUES

19. For the UK, there were other highlights - the Commission's helpful handling of our foot and mouth crisis; the ECJ ruling against France on BSE; resolution of the EU/US bananas dispute; our high success rate in state aids cases; and - for aficionados - the final putting to bed of the directive on Artists' Resale Rights (Droit de Suite) - that is one policy acquaintance we in UKRep won't forget.

SHEINWALD

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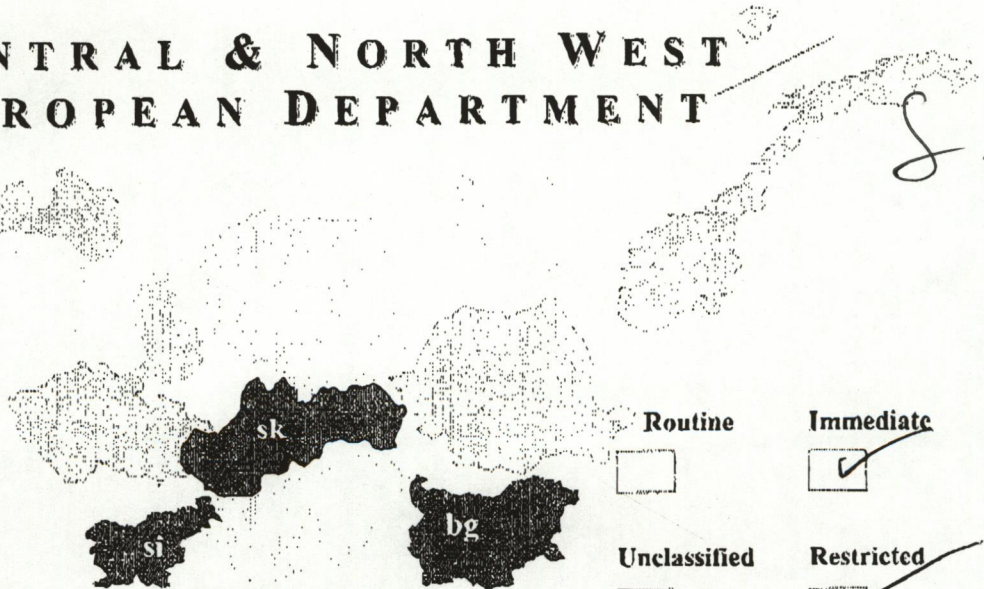
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Date:

To: Michael Tatham, PM's Office 020 7839 9044

Alison Kerr, Cabinet Office 270 0074

*ASW
RC
FC
JB
JAH*

Pages to follow:

Message:

Dear Michael / Alison

HMA Budapest thinks that Orban will raise 3 EU topics – Regional Policy, Structural

Reforms and CAP. I enclose an emailed briefing from EU Dcpt. Happy to discuss.

Yours ever,

Adam

Adam Sambrook
Desk Officer, Hungary
Assistant Desk Office, Poland
Central and North West
European Department

0044 20 72702152

Adam Sambrook

From: Edward Smith
Sent: 10 January 2002 15:56
To: Adam Sambrook
Cc: Rashmi Choudhury
Subject: FW: SCF/CAP

Importance: High

Adam

A few changes to Rashmi's original.

Ed

-----Original Message-----

From: Rashmi Choudhury
Sent: 10 January 2002 15:13
To: Edward Smith
Cc: Adam Sambrook
Subject: SCF/CAP
Importance: High

Ed - I have edited as far as I can - please check and let Adam have final version - thanks.

Rash

If raised:

CAP - UK wants to see new Member States fully integrated into CAP as soon as possible. We oppose a two-tier CAP and second class membership. But, as in previous enlargements, transitional arrangements will be necessary in agriculture. Once transition is complete, new Member States should be fully integrated into a reformed CAP and their farmers should receive same entitlements as those in EU15.

Direct payments- One of the principles agreed at Berlin was that new member states would not be eligible for direct payments during this financial framework (2002 - 2006). Instead, it was considered that they should concentrate on restructuring their agricultural sectors to ensure they are efficient and competitive. We want to offer you all the help we can to achieve these structural reforms.

Structural Funds: The Regional Policy chapter will be negotiated on the basis of the current acquis and the principles inherent in the Berlin agreement (i.e. financial framework for 2000-2006). This framework should determine the eligibility of candidate countries/regions for regional funding and define the amount of money available for such funding. Important that candidates put the structures in place to administer the funds properly. In this way they will be in a position to receive funds soon after accession.

Background

CAP: The Commission has recently been giving firm messages to candidates on what CAP financing they could expect on accession. Commissioner Fischler has stated (i) that if they are to receive any direct payments at all on accession it will only be a small fraction of full entitlements, which would gradually increase, and (ii) that their quota and other entitlements for specific CAP regimes would be based not on "potential" production but on actual production - which is much lower. We would agree with both messages. If additional expenditure is to be found for the Candidates, it would be better (in the light of our CAP reform objectives) for this to be directed at rural development rather than production support (direct payments).

(SCF): The EU noted at Laeken that the regional policy chapter should be negotiated on the basis of the existing acquis and the Berlin financial framework. The acquis will determine the geographical scope of

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per head relative to the EU. The total amounts available for regional funding in the new member states is established in the Berlin financial framework to 2006. However, the Commission has proposed that one-third of regional aid to the Candidates takes the form of Cohesion Funds. This would have advantages; easy to administer - lower co-financing plus better focus on the needs of Candidates. For the period beyond 2006, a new SCF will be negotiated. The UK wishes to concentrate funds on those EU regions that are the poorest relative to the EU.

Rashmi Choudhury
Enlargement Section
EUD(E)
Tel: 020 7270 2826
Fax: 020 7270 3546

COVERING CONFIDENTIAL

From: Julian Braithwaite
Date: 14 December 2001

SIR STEPHEN WALL

cc: Alastair Campbell
Peter Hyman
Roger Liddle
Martin Donnelly

EUROPEAN COMMUNICATION STRATEGY: NEXT SIX MONTHS

Peter and I have drafted a communications strategy for the next six months, which we hope to submit to the Prime Minister next week. I have also attached Phil Budden's grid of news-making events in Europe for the next six months.

We've assumed the Convention is unlikely to work for us with a British audience. We've therefore left it out of this note (although we will need a media strategy). If others think this unduly pessimistic, please let us know!

We'd be grateful for any comments by Monday if possible.

✓ Julian Braithwaite
copy Peter Hyman
Alastair Campbell
Stephen Wall
Martin Donnelly

Julian Braithwaite

JULIAN BRAITHWAITE

Very good BUT
① Economic Reform I don't like the notion that economic reform will peak at Barcelona. The build up should continue through 2002/3: much better chance of getting big results after the French elections in May and German elections in October. I intend to write TB a fuller note on Barcelona handling after our discussions with the French + Germans last week.

② Convention I favour making a lot of our ideas for Council reform - possibly a TB paper. Would put us on the front foot of arguing for more integration rooted in the national state

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EUROPE COMMUNICATION STRATEGY: NEXT 6 MONTHS

Objectives

Our objective in the next 6-8 months on Europe should be:

- To continue to win key arguments in advance of any possible Euro referendum
- To create a mood, following the introduction of notes and coins, that Britain does not want to be left behind

Specifically:

We are doing better than the rest

- To show that the introduction of notes and coins has not made the French less French or the Germans less German
- To show that Britain can lead in Europe:
 - War against terrorism - Britain leader in Europe and a bridge to America.
 - Economic reform - UK agenda wins out over French at summit
 - Enlargement - Expanded EU a more flexible, UK-friendly EU
- To get over the argument in popular terms that European integration has been in Britain's national interest:
 - Britain today compared to Britain in 1972.
 - The economic case. Single market. Inward investment.
 - The peace and security case. Europe today and Europe in 1957
- To show that Britain will benefit from further economic integration:
 - Europe is an economic success (show jobs stats etc)
 - Europe moving in our direction (economic reform agenda, enlargement)
 - Living standards higher in Europe
- To undermine the wider arguments against joining the Euro
- To create the sense that there is a wider, coordinated European campaign led by the Prime Minister but supported by the Chancellor and other ministers

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Messages

- British history in the last fifty years has been one of being left behind and suffering as a result
- The benefits of Europe to Britain have been great. Britain gets more from shared sovereignty than from isolationism
- Britain can benefit from further economic integration. EU has delivered economic success, prosperity, higher living standards for its members
- A successful Euro is in Britain's interests. If the tests are met it could have great advantages for British jobs, prosperity, influence to join
- French no less French because of the Euro. Germans no less German

Audiences

Polling, including the ICM poll carried out by the FCO in October, and the Labour Party poll suggests we should focus on those audiences that consider themselves poorly informed on Europe. Ignorance goes hand in hand with non-ideological euroscepticism, putting these people among the 60% of the British population open to persuasion.

That suggests we should target the following:

- Women. Tend to be more eurosceptic and less knowledgeable about the European Union. Women under the age of 35 are by a significant margin the least well informed category of the British population
- C2s and DEs. Polling shows that knowledge of Europe and the Euro is directly proportion to social category
- Other poorly informed categories include young people (under 24), and regionally, Northern English and the Welsh

In principle we should focus most of our attention on the persuadable majority. According to ICM, another 14% of the population are knowledgeable pro-Europeans, another 17% uninformed but well-disposed, another 14% persuadable

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- 3 -

don't know, and another 14% uninformed mixed views. Many in these categories are likely to read either the broadsheets (both Eurosceptic and pro-European), the Mirror, and the Sun.

According to ICM, "Informed anti-Europeans" make up 14% of the population, "British not Europeans" another 11%. Both groups tend to read the Mail and the Express, and are the groups least likely to respond to attention from us.

Events

There are three key phases to the next 6 months:

Notes and coins

- **Euro notes and coins advertising.** We are looking at whether we can run a TV campaign to correspond with the FCO leaflets explaining what the introduction of the Euro on the continent will mean for British citizens
- **Euro notes and coins photocall.** On TB's next visit abroad, a photocall of him purchasing something in a traditional national setting using Euros. Timing to coincide with the end of national currencies in February/March?
- **French no less French campaign.** Campaign to highlight continuing national diversity across the EU following introduction of the Euro, led by Peter Hain
- **Britain in Europe activity.** We should maintain our distance, letting them make the case for the Euro independently. We should encourage them to develop effective grass-roots activity focusing on women, C2s and DEs, younger people and the regions, particularly Wales and Northern England

Barcelona and economic reform white paper

- **TB speech on economic reform.** Coincide with publication of White Paper on Economic Reform. Use to get up EU's economic success, living standards argument. EU provides mechanism for reform: single market in 1980s, Lisbon process today. Look ahead to Barcelona. Venue should reinforce credibility of message: eg. Goldman Sachs, hosted by Peter Sutherland
- **Pre-Barcelona media strategy.** We want Barcelona to conclude that the UK/Spanish economic reform model has won out over those who wanted to

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- 4 -

relegate it in favour of Social Europe. Also want verdict that economic reform in Europe is on track (ie that it is not going to become a sixth test). Media strategy to focus on our pro-reform alliances with Spain, Italy, Netherlands, Sweden etc. Romano Prodi is scheduled to visit the UK: may be an opportunity to visit the Nissan plant in Sunderland and play up foreign investment (Prodi has written a paper on Sunderland!)

Summer - Ministerial speeches leading into public going abroad and seeing Euros for themselves

- **Speeches by TB:**
 1. Stronger in Europe. Britain today compared to Britain in 1972. Stronger, richer, more self-confident, more respected. Britain's leading role in Europe. Enduring strength of Britain's identity. Growing Scottish identity despite three centuries of monetary union. Venue and style should appeal to core eurosceptic constituencies eg. pub in Sedgefield constituency
 2. The benefits of opening up the EU. Spread stability across the continent, opening up markets and banishing conflict. Role Europe has played in promoting peace and democracy since 1957 including Spain, Northern Ireland. Further expansion will promote diversity, pragmatism and Atlantacism within the EU in keeping with modern vision of Europe. Venue should be in a historic Eastern European venue eg. Prague
- **Speech by GB:** The benefits of EU membership. The economic benefits that Britain has derived from its membership of the European Union. Trade, investment, jobs, economic reform, social protection and rights for women and families. The potential benefits of joining the Euro. Venue to appeal and target core eurosceptic constituencies eg. women's audience
- **Speech by JS:** Promoting Britain's national interests in 21st century. Concept of shared sovereignty. Reclaim control together that we have lost nationally through globalisation. Applies from the environment and trade to monetary policy. But authority and legitimacy derive from nation state. Venue should illustrate the benefits of shared sovereignty in the UK
- **Speech by DB:** The common fight against crime. EU taking practical collective steps to crack down on people smuggling, drugs smuggling and illegal immigration through the Balkans. Could be done in Bosnia during DB's planned visit in the Spring to see results of TB's immigration initiative

Date	Event	Possible headline(s)	Detail
14 December 2001	EU: Laeken European Council to agree follow-up to crisis.	Good: EU leaders agree action. Bad: EU gridlocked.	This European Council should agree the follow-up action in response to 11 September's tragedy, and demonstrate practical solidarity with the US.
1 January 2002	EU: advent of Euro notes and coins.	Good: Europe's currency takes place in history. Bad: Euro's mishandled introduction undermine market confidence.	
15 January 2002	EU: European Parliament to elect new President.	Good: EP elects man we can work with. Bad: EP irrelevant.	The EP is likely to elect either David Martin (UK, Labour) or Pat Cox (Ireland, Liberal) to be President for the next 2½ years: either would give the EP a sensible, English-speaking lead.
End February	EU: end of EU's legacy (eg DM) currencies.	Good: Smooth farewell to DM. Bad: Citizens refuse to hand over old currency or use euro.	
March 2002	EU: Barcelona European Council (economic reform)	Good: EU (back) on track to world beating knowledge based economy Bad: EU flunks economic reform test (again)	
Spring 2002	EU: Convention on 'Future of Europe' to start.	Good: UK sets EU agenda with positive views Bad: UK isolated in its views from start.	Convention starts meeting to discuss the institutional issues of the 'Future of Europe' debate, depending on the UK stance on these topics, HMG could appear positively in the mainstream, isolated or irrelevant.
June 2002	EU: Seville European Council to agree Council reform	Good: governments get a grip of EU with Council reform, including creation of a new Council based in Brussels Bad: governments unable to agree, and the Brussels machine presses ahead	
June 2002	EU: Commission propose Mid Term Review CAP reforms	Good: far reaching reforms broadly in agreement with UK policy Bad: reforms are minimalist and ignore UK wishes	Proposals are expected after the May French elections but before the end of the Spanish Presidency

Date	Event	Possible headline(s)	Detail
Summer 2002 (and on-going)	EU: stories from 'future of Europe' Convention	Good: UK ideas gain support Bad: federalists take the lead	Once the EU_level 'future of Europe' debate starts, there is likely to be a flow of (weekly?) stories from the Convention, that need to be managed.
Summer 2002	France: elections (Presidential then legislative)		
June 2002	EU: environment Council to agree on GMOs.		
September 2002	UN: Johannesburg summit (sustainable development)		
Summer 2002	EU: UK-Spanish deal on Gibraltar.	Good: Hain brokers Anglo-Spanish deal, resolves historical problem. Bad: UK sells out Gibraltar over sovereignty against wishes of the locals.	
24-25 October	EU: Brussels European Council takes stock on tax and enlargement	Good: leaders keep EU on track Bad: EU loses grip on either issue	
October 2002	German elections.	Good: Tony's ally returned to power. Bad: UK backs wrong German horse.	
December 2002	EU: enlargement to be agreed	Good: EU comes good on historic mission to enlarge. Bad: EU fails, enlargement delayed Very Bad: Cyprus problem incites Turkey.	The European Council at the end of the Danish Presidency is due to agree the terms of enlargement for up to 10 applicants. Of these, Cyprus (as a divided island) is the most sensitive internationally.
12-13 December	Copenhagen European Council: enlargement and tax to be resolved		

Europe Strategy: Principal Issues:

1. Euro: UK membership dominates all, but advent of euro notes/coins will be an early highlight
2. Future of Europe debate: picking up with Convention, story will run into 2003, but profile will depend on HMG's approach going into the discussions
3. Economic reform: will peak at March 2002 European Council, which will reveal if the Lisbon process is back on track or permanently de-railed
4. EU enlargement: will gradually build as end-2002 deadline approaches, especially if
5. EU tax package: MSs will try to keep a lid on this, but end-2002 deadline will raise its profile
6. CAP reform: profile will depend partly on outcomes of French and German elections
7. Gibraltar: story already running, will be a rollercoaster building up to Summer 2002 deadline
8. JHA/asylum: follow-up to Laeken's agreement on anti-terrorist measures and asylum
9. EU/transport: EU to continue to tighten airline security against terrorism
10. Foreign policy: EU to remain cohesive in on-going war against terrorism

Regional Training:

GB/73:

Study: road music & announcement
of assessment.

Handling of GR

Recovery:

Futuro of Europe . 2003/4

Financing: ~~2004/5~~ . 2005

Chirac / Schroeder

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Joy Warwick

From: James Bevan
 Sent: 13 December 2001 15:50
 To: Joy Warwick
 Subject: FW: PLAIN SPEAKING 3: THE EU - WHAT'S THE SCORE?

can you check it got to the No10 addressees?. GSI is very dodgy at present. J

Original Message

From: James Bevan
 Sent: 13 December 2001 15:49
 To: 'swall@no10.x.gsi.gov.uk'
 Cc: 'livesey@no10.x.gsi.gov.uk'; 'riddle@no10.x.gsi.gov.uk'; Daniel Puce
 Subject: PLAIN SPEAKING 3: THE EU - WHAT'S THE SCORE?

I attach a draft speech by Peter Hain that he plans to give sometime in the next few weeks. He has approved the text, and asked me to run this by you guys too.

Comments as soon as convenient after Laeken, please.

Thanks, James



PH Speech - Europe
Whats the S...

JSW

cc: TL

RL

JPO

JH

JB

JC

1. DS

2 r.t.m.

9 out of 10

f info market work
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J

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THE EUROPEAN UNION: WHAT'S THE SCORE?

INTRODUCTION

I said when I became Minister for Europe that I'd tell it like it is. No spin. No slogans. Just the facts. An honest debate about Europe and the UK's place in it.

Tonight I want to take that a stage further. I want to do something few Ministers do. I want to tell you, upfront, how I rate the EU. How I rate its major policies and its main institutions. And how I rate this government's performance in Europe – and the Opposition's.

And I want to do it without the normal qualifications and the conditions and the caveats. Without the verbs that don't tell you anything. Without the adjectives that mean everything and nothing. Without the techiespeak that Euroworks use when they want to impress but can't be bothered to explain.

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So I thought I'd do it with numbers. By giving you an end of term report for the EU in 2001 - by marking the EU out of ten on its main activities.

THE COMMON AGRICULTURAL POLICY

First up, the notorious Common Agricultural Policy, which for many people represents the worst of the EU. We still spend more of the EU's money – your money - on the CAP than on any other single policy.

My verdict: 3 out of 10. The CAP is a mess. It makes our food cost more than it should. It causes waste. It's bureaucratic. It distorts world markets – hurting people in the third world and getting in the way of a freer trade with the US. And in return for these dubious privileges, it costs the EU more than 40 billion euros – or £25 billion -per year.

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So why not a round nought out of ten? Because the CAP does have some redeeming features.

First, the original conception was good: to prevent food shortages after the war. Second, we do need to support our rural communities if we want to maintain them. Without some subsidies, the green and clean countryside we cherish will disappear. Third, a collective EU policy is the only sensible basis for running agriculture in Europe in the 21st century. In a Single Market, you can't have free trade in goods in everything except agricultural products. And you can't run purely national policies on animal health when a shift in the breeze or a truck movement or a tourist can spread disease throughout the whole of the UK and continental Europe.

And another reason the CAP doesn't justify a zero is that it is getting better. The reforms Tony Blair and other EU leaders agreed in 1999 are already having an effect. The food mountains and wine lakes have gone. We now spend a good deal less on the CAP than

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we did. And there is the prospect of further reform in the next few years. This government is committed to achieving that.

STRUCTURAL FUNDS

Second, Structural Funds. Boring name, big ticket issue. This is the second biggest item of EU expenditure after the CAP. The Structural Funds are what support the development of disadvantaged regions of the UK and other parts of the EU. They will deliver some £10bn to the UK between 2000 and 2006 to, amongst others, Wales, Cornwall, South Yorkshire and Merseyside.

My verdict: 7 out of 10. I rate the programme because I have seen the benefits. In Wales, where hundreds of small businesses are being helped to flower where there was once industrial desolation. In Western Scotland, where the funds are helping create 53,000 jobs.

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The principle underpinning the structural funds is right: the EU and its member states should join together to help each other's regions develop successfully. Yes, some other member states get more than we do. But that is because we are richer than them. And let us remember: this isn't a favour we are doing them. It is a favour we are doing ourselves.

Because by helping develop all of Europe's regions we make ourselves richer. We create more prosperous consumers wanting more British goods and services. We deliver better infrastructure for us when we travel around Europe, whether as tourists or hauliers. And we reduce the numbers of unemployed and unhappy people gravitating towards richer industrialised centres which can't support them.

But good though they are, I don't give the Structural Funds top marks. First, because they aren't the most efficient way to transfer resources between member states: we need to look at that when we come to review them in 2006. And second, because they still

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aren't administered as efficiently as we would like. That too needs improvement.

SINGLE MARKET

Almost top marks: 9 out of 10. An A for effort and for achievement.

'A' for effort: consider the practical difficulties in removing all barriers to trade across a continent the size of Europe. A continent which has had those barriers in one shape or form ever since the first Phoenician merchant stepped ashore 2000 years ago and met some local tribesman with a big spear demanding a cut.

And 'A' for achievement. The Single Market has helped deliver the highest standard of living in European history. The biggest choice and the cheapest prices for consumers ever. More than three million jobs in 800,000 companies in the UK dependent upon it.

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So the economics are vast and hugely successful. But the Single Market is more important even than the colossal prosperity it has brought. Because the Four Freedoms it embodies – freedom of goods, services, capital and people to move anywhere throughout Europe – have transcended economic liberties. They have become human rights.

They mean that if you don't like life in Britain you can move to Portugal. That if you don't like working in Liege you can try a job in Madrid. That if you can't find the car you want at the price you're prepared to pay in the UK, you can buy a cheaper one or a different one in Denmark or Germany. That whatever your profession – doctor, teacher, plumber – you can offer your services in any country in the EU. That you can invest your money or open a savings account where it works best for you.

In fact there are only two things wrong with the Single Market. It isn't yet single, and it isn't yet a market – at least not a perfect one.

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There remain invisible barriers to trade in some goods and services. In particular, we need to open up the energy and financial services sectors to real competition. When we do, the key beneficiaries will be British consumers, who will get cheaper gas and electricity, and British companies and their workers in these two big sectors. That's why we are pressing for concrete commitments in these areas at the Barcelona summit next March.

CRIME, JUSTICE AND HOME AFFAIRS

7 out of 10. Most people put fighting crime near the top of their priorities. So has the EU. That's why we are developing cooperation between our police forces, so a policeman in one EU country can arrest a wanted criminal on behalf of another EU country. That's why we are setting up a network of prosecutors from each country in Europe, so a magistrate in London can get the evidence she needs from her colleague in Helsinki to nail a drug lord or a bank robber.

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And this works. The seizures of drugs our customs officers make at Dover don't happen by themselves. Many of those drug busts are made possible by quiet and effective cooperation with other European countries. The regularity with which our immigration officers at Heathrow stop people traffickers and illegal immigrants isn't always down to UK law enforcement alone: its success often depends on information from other EU services elsewhere in Europe.

ENVIRONMENT

Clear skies, clean water, clean beaches and a healthy environment. Those come pretty high on most people's priorities too. That's why the EU is tackling them.

My mark? A high 8 out of 10. Environment is one area where even the Eurosceptics can't pretend the UK is an island. Acid rain and global warming don't stop at Calais. They are the most insidious of

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all cross-border threats. Only by co-operating with other European countries can we fight them and win.

And – another point the Eurosceptics don't like much, because it's true – we can only raise environmental standards across Europe by our old friend Qualified Majority Voting. Britain's standards are already high. But consider the mess if we had to agree each European environmental measure by unanimity – with everyone having a veto.

Two things would happen. First, it would take forever to agree anything. The reluctant or slow would Just Say No. Acid rain would have stripped bare our trees and poisoned our lakes long before we agreed any measures to stop it.

And second, when we did finally agree measures, they would almost certainly be too toothless to make much difference. Because the dirty men of Europe would be able to insist on their own inadequate standards. And if everyone had a veto the rest of us

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would just have to settle on that. Every debate would be a race to the bottom.

But this is where the so-called Community method really scores. The Commission make a proposal - pushing for genuinely clean air, water or soil. Member states decide on it by QMV, preventing the reluctant environmentalists and the polluters from blocking sensible agreements. And the European Parliament provides a reality check. The result: tough action to build a cleaner, greener Europe, in a way the member states acting alone could never achieve.

And there in a nutshell you have the argument for the Commission, for QMV, and for the EU itself.

WORLD TRADE

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The same applies to trade with the rest of the world. We don't have just a British trade policy any more. We have a European Community policy. And a good thing too.

In international trade talks, the Commission negotiates on behalf of all the member states, including Britain. The strategic approach to a set of trade negotiations is decided by the member states, usually by unanimity. But the details are usually agreed by QMV. And the Community as a whole does the deal.

What this means is that we get what we want, quicker and better. We are a trading nation. So it's in our interests to have an outward looking, liberalising EU. To open up world trade wherever possible. And to maximise our own influence in those negotiations.

The Community method delivers all that. It encourages the Commission to keep looking for ways to open up international trade. It makes it harder for protectionist member states to prevent the deals we want. It makes it harder for those protectionists to

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make a deal we want hostage to their own special interests. It gives us far more leverage on the world stage, because negotiating as part of the world's biggest single market means we have the real clout we'd lack if we negotiated on our own. And in Pascal Lamy, who leads for the Commission on trade, it has given us one of the best negotiators in the world.

Look at the results. In the last few years we've struck new trade deals with the developing countries, which will also help them develop their own economies. We've kept the always-awkward trade relationship with the US on the rails, avoided any huge trade wars, and agreed to work together on new ways to liberalise transatlantic commerce. We've built new open trading relationships with the countries of central and eastern Europe and with Russia.

And, most recently, at Doha we succeeded in launching a new round of global trade talks: the best possible response to the world economic downturn and the terrorists who attacked us all on 11 September. Better still, the mandate for those talks includes

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something the UK has long wanted: a commitment on reducing CAP subsidies.

Marking? 8 out of 10. And a 9 if Pascal Lamy concludes a good world trade deal. I'm betting he will.

FOREIGN POLICY

I give us an 'A' for effort and seven out of ten for achievement.

Foreign policy isn't like trade. The Community method wouldn't work here. Events on the ground require instant responses. When a corrupt President falls or a war starts, we can't sit around waiting for a Commission proposal in 12 different languages or consulting the European Parliament over what to do. We need instant action.

That's where the intergovernmental cooperation at the heart of our Common Foreign and Security Policy comes into its own. When something happens abroad, the 15 member states can get round a

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table and settle their approach in half an hour. They can agree a public statement over the internet even quicker. The new machinery we have set up in Brussels means EU governments now have the capacity to run and react to international crises in real time.

But there's one thing even more important than speed for successful foreign policy: common purpose. Which is another reason why you can't make good foreign policy by Qualified Majority voting. Successful policies require credibility and commitment. You wouldn't get that credibility if some member states had been outvoted. You wouldn't get that commitment – of money, or troops, or whatever, if the policy that France or Britain had wanted was not adopted.

That's why our current system – foreign policy decisions by the member states, by unanimity – is the right one.

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And it delivers. EU action has helped topple Milosevic and stabilise Macedonia. Helped promote a broad based government in Afghanistan. Helped establish a strong relationship with Russia. Helped keep alive the Middle East Peace process. Helped support the African democrats and undermine the dictators.

THE EURO

I'm not going to give the Sun an easy headline. Nor am I going to disturb the markets by commenting on exchange rates, or indeed making any numerical pronouncement about the Euro. So on this issue and this one only, I will deliberately refrain from awarding a mark.

But I will give you a number. The only one that matters on the Euro – Five. That is the number of tests the Chancellor has set to judge whether it is in our interests to join. If those five tests are met, and the Government and Parliament decide in favour, we will put the

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final decision to the British people in a referendum. If they aren't, we won't. It is as simple as that.

INSTITUTIONS

To finish off my report card, let's turn to another of our old friends, the unelected and unaccountable Brussels bureaucracy - which, as we all know, is a dark continental plot to dictate to Britain and drive us relentlessly to a federal superstate.

I'd give that bureaucracy 0 out of 10 – if it existed. Sadly for the Eurosceptic leader writers, it doesn't.

What does exist is an independent Commission, a Council of the governments of the 15 member states, a European Parliament with 87 MEPs elected by the British people, and an independent Court to ensure everyone abides by the law.

Let's deconstruct this myth of an alien and unaccountable Brussels.

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The Commission makes proposals for new laws: it doesn't make the laws. And it monitors existing law to ensure the member states all play by the rule. If you want a level playing field, you have to have a heavy roller.

The Commission has a good many Brits working for it – far too many, say some of our partners. Those Brits include such federalist conspirators as Chris Patten and Neil Kinnock – respected and patriotic men from our two major parties, neither known for their desire to abolish the United Kingdom.

Remember too that the Commission has fewer employees than Birmingham City Council. And that many of those who do work for the Commission are actually translators or interpreters. Pretty hard to run a super-state with those numbers.

Moreover, the Commission doesn't take the big decisions. They are taken by the Council – the Ministers of the member states. The

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biggest decisions of all are taken by the European Council – the leaders of the member states. And when the Council makes laws, they are usually made jointly with the European Parliament.

Not much lack of accountability here. The Council is made up of representatives of democratically elected government. They are accountable to their parliaments and their electorates. They can be sacked by them. The Parliament is made up of democratically elected MEPs also at the mercy of their electorates every five years.

The Commission isn't elected: and that's right, because, like civil servants, they must be independent, acting for the good of everyone in Europe. Politicise them and they couldn't do that. But they are accountable – to the European Parliament directly and to the Council indirectly. And they are eminently sackable – as the whole Commission found out in 1999.

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And the Court. The sceptics like to rant about foreign judges.

Wrong: the Court contains a British judge. They like to say that the Court is biased. Wrong: the Court has often ruled in our favour. The best recent example is the 13 December judgement [JB: we hope] that the French had to lift their ban on our beef. The system works.

So I give the institutions pretty high marks for fairness and accountability. And for efficiency too. When necessary – like on the reaction to September 11th - the EU institutions can agree policies quicker than many national governments or legislatures. Not bad when you consider all the different perspectives and interests involved. And rather better, as Jack Straw has remarked, than the previous European method of deciding things – warfare.

So I give the EU institutions – our institutions – a 7 out of 10.

Where I dock them three marks is on transparency. Nobody understands what's going on. In one sense this isn't the institutions' fault. The idea that Brussels is secretive is – to any journalist based

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there – a complete joke. Everything the EU is doing or planning is in the public domain: almost all of it deliberately. Try www.europa.int, if you want to find out what's going on.

The problem isn't lack of information. It is rather that the institutions, and we, the member states, have failed to convey it simply, and explained what it means. That's why I am encouraging simple language and plain speaking about Europe, in Brussels as well as here.

THE GOVERNMENT

So what about us? How do I rate the Labour Government's own performance on Europe?

7 out of 10.

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It may surprise you that, since I'm awarding the marks, I don't just give us 10 out of 10. Not even Alistair Campbell would try to claim that.

We've done well by getting away from the old story of Britain alone and powerless in Europe. Which we were. Think about Margaret Thatcher's handbagging. John Major's Maastricht opt-outs. Under the Conservatives, we ended up strident and extreme. And that meant we were isolated and ignored.

That didn't in the end do Margaret Thatcher or John Major any good. More importantly, it didn't do Britain any good. If you don't win friends you lose arguments. If you don't start out positive about Europe, you end up with negative outcomes.

That's where I do think this Government has scored. By rebuilding our relationships with other Europeans, we have rebuilt Britain's strength in Europe.

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Look at the facts. The Nice Treaty on enlargement wasn't an argument between the UK and the others, like all European summits under the Conservatives always were. Nor was it a debate we lost, as also happened all the time under the Tories. On the contrary, at Nice we won. More power for Britain, a reformed Commission, a more flexible Europe. Because we had friends and a positive attitude.

And it's that approach that has helped us make Britain's priorities the EU's priorities. The fight against crime and terror, with the action plan we agreed in Tampere in 1999. Economic reform for more jobs and greater prosperity, with the programme Tony Blair promoted at Lisbon in March 2000. The enlargement of the EU, to make us all richer and safer, unlocked by the deal we secured at Nice in December 2000.

So our approach is working. But I don't give us top marks because I don't think we've done everything right. I don't think we've yet done enough in two areas. We have failed to explain the EU in terms the

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British people can understand. And we have failed to convince many of them that the EU matters, and that it works for us.

I don't want to overdo this. Other governments are more guilty than us. And Alistair has my pager number. But I do want to correct the problem. Which is why I've launched my campaign to tell it like it is on Europe, in terms ordinary people will understand. And what all the evidence shows is that the more people do understand the EU, the more positive they feel about it.

THE OPPOSITION

Last, and indeed least, how do I rate the Conservative party on Europe?

I have tried hard to be fair here. But I am afraid that on anyone's scoresheet, even their own, the Conservatives come in where Norway traditionally scores in the Eurovision song contest: "nul points".

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First, they failed in their own terms. They tried to fight the last election on the European issue. They lost. They tried to win hearts and minds with a virulently anti-European approach. They didn't. Perhaps the promotion to the Front Bench of two of their most strident anti-Europeans will help them recover. But there's no sign yet that Bill Cash as shadow Attorney General and John Bercow as shadow Treasury Secretary is generating a Tory revival among the masses.

But more important, they have surely failed Britain too. It's in this country's interests that we should have a proper debate about Europe and Britain's place in it. But today's Conservative party is not capable of having that debate. It is too busy fighting its own wars, and settling its old scores.

And it's in this country's interest that we should have facts not myths about Europe. Here too the Opposition have failed. The superstate myth. The Euroarmy myth. The Euro-won't-work myth. The Johnny Foreigner Is Out To Get Us myth.

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Iain Duncan Smith and his party may believe in fairy stories.

Perhaps they prefer these fantasies to the awful reality facing today's Conservative Party. But the rest of us don't believe in the myths. It's time for them and us to move on.

CONCLUSION: THE EU SCORE

So where do we come out overall? How do I grade the European Union as a whole?

I think a 7 out of 10.

It's not perfect. No level of government is. Not Westminster, not the Scottish or Welsh devolved authorities, not even your local council. But as Fred Astaire said when he was asked how he felt about old age, it's better than the alternative.

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And I mark high for contributing to the longest period of peace our continent has ever known. For delivering the highest standard of living our citizens have ever had. For liberating our citizens to live, work and play wherever they want inside the Union's borders. And for making each nation state safer and stronger in the world we now live in.

Others will no doubt dispute my markings. Fine. Let's have a debate. But let's have one based on the facts. Let's conduct it in clear language. And let's centre it on the interests of Britain and the British people. Because when we do that, the case for a strong Britain in a strong Europe gets an unequivocal ten out of ten.

[3,950 words]



10 DOWNING STREET
LONDON SW1A 2AA

in hand

lie

From the Senior Policy Adviser

11 December 2001

Dear Wolfgang,

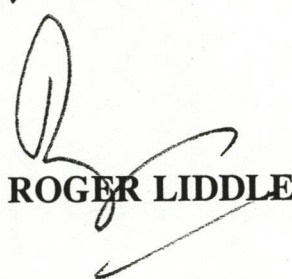
It was good to see you in London today. We agreed on three points of follow up.

First, we will consult here about your imaginative ideas for the Progressive Governance Conference in Stockholm in February, in particular your suggestion of a dialogue between the progressive leaders and either top business people about the responsibilities of business in a world of globalisation or with leaders of some Islamic countries on the question of cultural difference. Secondly, you said you would organise a meeting in Berlin with the German education specialist who is responsible for the OECD work on comparative educational performance in February or March. Thirdly, you will be bringing here some time in February a group of forward planners to debate the political challenges ahead. If you give me a date I will try to organise a good attendance on our side.

We should also plan, for completion after the German elections in the autumn, some joint work on the themes of modernising public services.

I will investigate the question of you joining the Reform Club and be in touch shortly about this.

Yours


ROGER LIDDLE

Mr Wolfgang Nowak

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file (matrix)



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

10 December 2001

Dear Kim,

NORTHERN LIGHTS

Warm thanks to Chris Brealey for the brief for Northern Lights – all the more welcome because I was trying to be self disciplined by not having one. So it provided both useful information and a comfort blanket.

We met in Stockholm. The participants were Lars Danielsson; Per Poulsen Hansen (Denmark), Jeppe Tranholm-Mikkelsen (Denmark); Jari Luoto (Finland) and Wim Geerts (Netherlands). We took as our script, the Laeken agenda.

(i) Laeken Declaration

Everyone, even the Dutch, was on our line. Copies of Swedish and Danish amendments enclosed. Geerts, who had been at the Benelux meeting on Wednesday, was pretty convinced the Presidency would rewrite their text. They knew they had to. I think we will be consulted about it before Friday evening.

(ii) Chair of the Convention

I reported this to you orally.

(iii) Sites of agencies

The only intelligence was a sense that the package might get bigger in order to accommodate all. Could you investigate from our own information what else might be added? Apparently, Schüssel wants to swap the Human Rights Observatory for something else, presumably 'our' police college. The general reaction was (a) this was a cheek and (b) from Austria's recent human rights record, they should be made to keep the observatory.

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I see one problem for us. If the French do not get the chair of the Convention they will go hard for the maritime agency. Portugal will not give way on that. Nor will the Finns on the Food Agency. So the French may turn their attention back to the police college. So we shall need to give the PM some good (repeat good) arguments as to why Bramshill is best.

The Swedes made clear they have given up on the IT agency. At most they now aim for a network.

(iv) Convention

All are thinking in terms of a politician, not a member of the government. The Swedes remain, like us, determined on a pause for reflection. The Dutch can live with one. Nobody took too seriously the EP demand for the IGC to end before the EP elections. The Dutch clearly have a gleam in their eye that they can bring the IGC to a conclusion in their Presidency in the second half of 2004, thus completing their hat trick.

All wanted to be as nice as possible to the 12 negotiating candidates in the Convention and, given that voting is not applicable, think it pointless to differentiate between candidates and member states. The Danes would like to differentiate against the Turks, but will not insist.

(v) Arrest warrant

Everyone was attracted to the idea of starting to speculate about using enhanced cooperation - as a means of putting pressure on Italy.

(vi) Community patent

The Dutch said Verhofstadt intended to spend quite a long time at Laeken trying to solve it. The Swedes are investigating whether enhanced cooperation could be used here if necessary. They seem to think the single market rule would not prevent it.

(vii) Mandelkern report

Everyone supported my plea for Laeken conclusions language to endorse the report.

(viii) Galileo

General agreement: "it shall not pass". Geerts said Verhofstadt seemed to have given up.

(ix) Enlargement

Dutch very gloomy about the scope for real difficulties next year. But all determined to finish on time. I raised CAP. The Dutch supported me in saying we had to find a way of keeping the reform agenda alive and making progress. They want to work closely with us on it. The others remain keen on the agenda but not convinced that anything can be said or done in 2002 without jeopardising enlargement. The Swedes stressed the importance of keeping the Capri group going and maybe recruiting more members to it.

(x) Turkey

Lots of thanks to the UK for sorting out the Turks. "Timeo daneos", I said.

(xi) Cyprus

I said it was important not to lose the Commission report language, which was helping to net Denktash. The Swedes and Finns advised the Danes to get themselves a Cyprus envoy for their presidency: someone who already knew the issues and the people. The Danes also look forward to working with David Hannay. The Swedes said that if we had to offer sweeteners to Turkey to get them to swallow Cyprus accession, they and Denmark would have very little domestic room for manoeuvre. The Dane said this issue was a bit less sensitive for the new government, but the previous government might play it up in opposition.

(xii) Solana

More than one had had the Solana blast following Verhofstadt's visit to London. Nobody thought it sensible to raise now the issue of the future role of the High Representative. It would anyway come up of its own accord in the Convention.

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- 4 -

(xiii) Mediterranean Development Bank

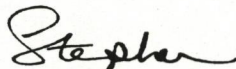
The Dutch are about to reply to Aznar saying 'thanks but no thanks'. The Danes had not had Aznar's letter but no-one round the table liked the idea. It was agreed we would ensure our finance ministers were briefing on the issue before Ecofin on 13 December in case an opportunity arose to pour cold water on it. We must avoid Aznar bouncing something through the Laeken conclusions. I have written separately on this.

Next meeting: 4 March in Helsinki. It would have been a week later but I argued for it to be brought forward so that we would have time to take concerted action as necessary to ensure a successful Barcelona outcome.

The Nordic Group meet next week. I told them to expect a call from Tony Blair demanding to be there.

I am copying this letter to Sir Nigel Sheinwald (UKRep Brussels), our Ambassadors in Copenhagen, The Hague, Helsinki and Stockholm, and to other members of ESG.

Yours ever,



J S WALL

Kim Darroch CMG
FCO

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6 December 2001

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European Secretariat
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Dear Michael

NORTHERN LIGHTS, STOCKHOLM, 7 DECEMBER

1. Just a line or two in advance of Stephen's arrival tomorrow (following the time-honoured principle that very senior individuals should not be left alone with their own thoughts for longer than absolutely necessary, I propose to turn up at the airport and travel with Stephen into town).
2. I have passed on to the Swedes Michael Tatham's proposal that Göran Persson should come to London for lunch on either 14 or 15 January. They will get back to us, possibly tomorrow.
3. Lars Danielsson had lunch with EU Ambassadors today. He gave a magisterial, but entirely predictable, preview of Laeken. He said to me afterwards that the key issue for tomorrow's meeting, notwithstanding the presence of the Dutch, was to forge a tactical plan to resist Verhofstadt's likely efforts to bounce through a damaging Declaration at the European Council dinner.
4. More generally, it was clear that the issues which engage the Swedes are on the post Laeken agenda:
 - how, and how quickly, should we turn up our rhetoric on policy reform over the next twelve months? While the Swedes, on the one hand, think we are a bit too forthright, Lars said at lunch today that Persson would quite like some Laeken language registering,

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subtly and obliquely, that CAP reform might need discussion in the IGC. Not smart, I think;

- the substantive agenda of the IGC, and the timetable for it. Lars made a particular point of speaking against an early deadline for conclusion eg the EP elections in 2004. We needed to take the time it took. He noted that Sweden supported more QMV for JHA. He stressed strong Swedish reservations about more powers for the European Parliament. He did not mention reform of the Council, but the Swedes know in general about our ideas and can, in my view, be brought to support them.

5. On Afghanistan/Middle East, Persson was in Washington, with Lars, earlier this week and was reassured (up to a point) by Bush's awareness of the importance of the international coalition, and the need to take account of it, and especially of the EU.

Yawn ever
J Engdahl

PP John Grant

cc: Michael Tatham, Prime Minister's Office
Kim Darroch, Director EU, FCO
James Bevan, EUD(I), FCO
Alex Ellis, EUD(E), FCO
Chris Brealy, EUD(B), FCO

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Prime Minister's Office

State Secretary Lars Danielsson

Dear Peter,

The draft in SN 4663/01, which you were kind enough to circulate some time ago, represents a high level of ambition and has the right general structure. But as your Prime Minister visits Stockholm late in his TdC and you might want to be aware of preliminary comments earlier than that, we have inserted our more detailed suggestions for changes in your own text in bold or indicated in bold where we find deletions necessary. The result of that exercise you find enclosed.

We have the following general remarks to make:

1. We need a text that can be understood by the public. Thus it should not be too detailed or technical.
2. The convention should have a clear mandate to consider treaty change in regard to policy provisions of the treaty. A convention for institutional matters only would not correspond to the concerns of the public and would put it in a strange light compared to the broader approach we can anticipate in the civil forum. We perceived a great deal of support for this in the Coreper and GAC discussions and are surprised that the Presidency has chosen to abandon its earlier idea to ask the Convention to deal also with "les objectifs et contenus des politiques".
3. We should stay away from leading questions. There has been a general call for neutral language in discussions in Coreper/GAC
4. The four issues from Nice should be reflected by means of separate headlines or points and the Nice Declaration language on the four be used in full. The role of national parliaments must be more clearly mentioned.

Stockholm, ~~5 December 2001~~ 5 December 2001

5. The first part of the text "Europe at the Crossroads" could be "modernised" by highlighting the challenges the EU rather successfully manages at the moment such as the introduction of the euro, enlargement, crisis management, anti-terrorism. The text would benefit considerably from being shortened and more focussed. It should also be more upbeat in tone and neutral in the choice of language. We should refrain from formulations that could appear "nostalgic".

6. We do not accept the assumption in places that "a completely new approach is needed". The aim of the 2004 IGC (that is the time for convening the conference we should stick to) and the convention will be "reform". There is no need to try to prejudice the degree of reform now.

7. The text on the democratic deficit is exaggerated and we do not accept the notion therein that the legitimacy of the EU mainly derives from the EP. The national parliaments are the key to democratic control and legitimacy. A Union dealing with matters that concern the citizens will increase its legitimacy further

8. The candidate countries as participants in the debate/convention - and the enrichment of Europe they will bring -, should be given a much more prominent place. You may have considered the usefulness of sounding them out informally on the content of the text.

9. You may be aware of the importance we attach to the weight of the national parliament contingent in the convention. This is not adequately provided for in your text where the numbers representing the institutions have been increased further. As you can see in the enclosure we have additional problems with the text on the modalities of the convention.

I hope the above has been helpful and will facilitate your drafting and the communication 10 December in Stockholm.

Best wishes

Lars Danielsson

Enclosure

Brussels, 23 November 2001
(OR. nl,fr)

SN 4663/01

UNDER EMBARGO

THE FUTURE OF THE EUROPEAN UNION

- LAEKEN DECLARATION: INPUT PAPER FOR THE TOUR OF CAPITALS

I. EUROPE AT THE CROSSROADS.

For centuries, peoples and states have taken up arms and waged war to win control of the European continent. The debilitating effects of two bloody wars [~~and the loss of Europe's dominant position in the world~~] brought a growing realisation that only peace and concerted action could make the dream of a strong, unified Europe come true. In order to banish once and for all the demons of the past, a start was made in 1952 with a coal and steel community. Other economic activities, such as agriculture, were subsequently added in. A genuine single market was eventually established for goods, services, capital and persons, to which a single currency, the euro, will added as of 1 January 2002.

The European Union has thus gradually come into being, by a process of trial and error, finding its way as it went along. At the outset, it was more of an economic and technical collaboration. [~~Democratic control has only figured in the last 20 years, in the form of a directly elected European Parliament.~~] Over the last ten years, construction of a political union has also begun and cooperation been established on asylum, migration, police, justice, foreign policy and a common approach to security and defence.

The European Union is a success story. For over half a century now, Europe has been at peace. Along with North America and Japan, the Union forms one of the three most prosperous parts of the world. As a result of mutual solidarity and fair distribution of the benefits of economic development, moreover, the Union's weaker regions have made good much of the disadvantage they were at and seen a strong increase in their standard of living.

Fifty years after its birth, however, the Union stands at a crossroads [~~a defining moment in its existence~~]. Except for the Balkans, the unification of Europe is nigh. The Union is about to expand to bring in [twelve] new [Central and Eastern European] **rephrase or delete** Member States, thereby finally closing one of the darkest chapters in European history: the Second World War and the ensuing artificial division of Europe. At long last, Europe is on its way to becoming one big family, without bloodshed, a real transformation [~~clearly calling for a completely different approach~~] from fifty years ago, when six countries first took the lead.

[Europe's democratic deficit.] substitute: A Europe more relevant and open to the citizen.

At the same time, the Union faces twin challenges, one within and the other beyond its borders. Within the Union, there is growing criticism of its operation. [~~After fifty years, the weaknesses of the European edifice are becoming plain to see. There is even talk of a real identity crisis.~~] [~~The results of referendums in Denmark and Ireland and the low turnout at the most recent European elections point at any rate to incomprehension and even uneasiness regarding the European design.~~]

A gap has emerged between the citizen and the European institutions. It is not that the citizen no longer support the Union's broad aims, but [~~he~~] **substitute: she** cannot see a connection any more between those goals and the Union's everyday action. [~~He~~] **substitute: She** no longer identifies with the European institutions, which [~~he~~] **substitute: she** accuses of unwieldiness, rigidity and, above all, a lack of transparency. [~~He~~] **substitute: She** also feels that the Union does not sufficiently involve itself with [~~his~~] **substitute: her** particular concerns, while at the same time excessively intervening, in every detail, in matters by their nature better left to Member States' and regions' elected representatives. This [~~he~~] **substitute: she** perceives as a real threat to [~~his~~] **substitute: her** identity. Most importantly, perhaps, [~~he~~] **substitute: she** feels that deals are all too often cut in smoke-filled rooms, out of [~~his~~] **substitute: her** sight, away from proper democratic scrutiny.

Europe [~~as a beacon shining forth~~] substitute: 's role in a globalised world.

Beyond its borders, in turn, the European Union is confronted with a fast-changing, globalised world. Following the fall of the Berlin Wall, it looked briefly as though we would for a long while be living in a stable world order, free from conflict, founded not so much upon national sovereignty as upon human rights. Just a few years later, however, there is no such certainty. 11 September has brought a rude awakening. The opposing forces have not gone away. On the contrary, religious fanaticism, ethnic nationalism and terrorism are in full swing. Regional conflicts, poverty and underdevelopment still provide a constant seedbed for them.

What is Europe's role in that changed state of the world? Does Europe not, now that is finally unified, have a leading role to play in a new world order, that of a power able [~~both~~] to act as a stabilising factor worldwide [~~and to shine forth as a beacon of morality for many countries and peoples?~~] Europe as the continent of humane values, the Magna Carta, the Bill of Rights, the French Revolution and the fall of the Berlin Wall, the continent of liberty, solidarity and diversity, meaning respect for others' languages, cultures and traditions. The European Union's one boundary is democracy and respect for human rights. [~~The Union is only open to countries that uphold basic values such as free, democratic elections and respect for minorities and for human rights.~~] **substitute: Membership requires that the candidate country has achieved stability of**

institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.

Now that a world riven by the cold war has given way to a globalised yet also highly fragmented one, Europe needs to shoulder its responsibilities. The role it has to play is that of a power resolutely doing battle against all violence, all terror and all fanaticism, but also conscious of the world's heartrending injustices. In short, a power wanting to change the world's proportions in such a way as to benefit not just the rich countries but also the poorest. A power seeking to set globalisation within a moral framework, in other words to underpin it with a bedrock of solidarity and sustainable development.

The expectations of the European citizen.

The image of a democratic Europe and a globally engaged Europe admirably matches the citizen's wishes. There have been frequent public calls for a greater EU role in justice and security, fight against cross-border crime, control of migration flows and reception of asylum seekers and refugees from far-flung war zones. The citizen also wants to see a common approach on environmental pollution, climate change and food safety, in short, all transnational issues which [~~he~~] **substitute: she** instinctively senses can only be tackled by working together. Just as [~~he~~] **substitute: she** also wants to see Europe more involved in foreign affairs, security and defence, in other words, greater and better coordinated action to deal with trouble spots in and around Europe and in the rest of the world.

At the same time, the citizen also feels that the Union is going too far and behaving too bureaucratically in numerous other areas. [~~In harmonising the economic, financial or fiscal environment, the basic issue should continue to be proper operation of the internal market and the single currency, without this jeopardising Member States' and regions' individuality. National and regional differences frequently stem from history or from differing attitudes. They should not be ruthlessly rooted out. On the contrary, they can prove enriching. In other words, besides "good governance", the aim should be to open up fresh opportunities, not impose further red tape.~~] What counts is more results, better responses to practical issues, rather than interfering European institutions inveigling their way into every nook and cranny of life.

[~~In short, the public are calling for a clear, open, effective, democratically controlled Community approach, developing Europe into a beacon giving direction to the future of the world.~~] There can be no doubt that this will require Europe to undergo [~~profound~~] reform and renewal [~~and, as it were, to reinvent itself~~].

II. CHALLENGES AND REFORMS IN A RENEWED UNION – OUTLINE.

The Union needs to become more democratic, more transparent and more efficient. It has also to resolve three basic challenges: how to reconcile the public with the European design and the European institutions? [~~How to organise politics and the European political area in an enlarged Union?~~] How to develop the Union into a stabilising factor [~~and a beacon of morality~~] **substitute: with clear values** in the new, multipolar world. In order to address them, the Laeken declaration needs to put a number of specific questions as input for the Convention's proceedings.

A [new] division of competence in the European Union.

The citizen often holds expectations of the European Union that are not fulfilled. And vice versa - ~~[he]~~ **substitute: she** often has the impression that the Union takes on too much in areas where its involvement is not essential. Thus the important thing is to ~~[clarify, simplify and, where necessary, adjust the division of competence between the Union and the Member States.]~~ **substitute: establish and monitor a more precise delimitation of powers between the European Union and the Member States, reflecting the principle of subsidiarity.**

The Convention could accordingly consider the following questions:

- How to make a clearer distinction between the exclusive competences of the Union, the competences of the Member States and the competences shared by the Union and the Member States? ~~[According to the principle that any competence not expressly conferred on the Union by the treaties falls within the sphere of competence of the Member States?]~~
- At what level is competence exercised most efficiently? ~~[Should the point of departure be that the Union can act only in compliance with the principle of subsidiarity?]~~
- ~~[How, in the light of the citizen's expectations regarding goals and policy areas, can competence be adjusted, both in the direction of the Union and the Member States? What are the criteria? In what areas?]~~
- How to guarantee the flexibility of the system of competence and the evolutionary nature of the European Union? How can the Union respond in the future to new developments and challenges?
- ~~[How to prevent the Union, by improper use of the Treaty, from moving into areas for which the Member States are competent?]~~ How can the political and judicial supervision of the exercise of competence be organised?

Simplification of the Union's policy instruments.

[Some of the questions raised below pertain to issues that suitably should be handled in the Solana report on the reform of the Council expected during the Spanish Presidency.]

Who does what is not the only important question. The intensity and reach of the Union's action are equally important. What policy instruments should it have? Successive amendments to the Treaty have culminated in a proliferation of policy instruments.

The Convention could accordingly consider the following questions:

- How to better define and rationalise the Union's policy instruments?
- How to enhance transparency of the Union's action? By a clear distinction between legislative and executive measures? By a distinction based on the degree of the various legislative initiatives: directly enforceable rules, framework legislation and non-enforceable rules?
- Can a clearer link be created between the various categories of competence and the various forms of policy instrument? Should greater use be made of framework legislation so as to give the Member States greater room for manoeuvre in implementing policy objectives? For which competences are open coordination and mutual recognition the most suitable policy instruments? Does the principle of proportionality remain the starting point: to attain an objective, must the Union always opt for the least binding instrument that makes this result possible?

More democracy in the European Union.

Citizens are chiefly attracted by a Union that derives its legitimacy from the values it projects, the aims it pursues and the powers and instruments it possesses. However, the European design also needs [~~legitimate~~] institutions that give shape to it in a democratic, transparent and efficient manner. Here, consideration should also be given to the role of national parliaments, [~~because they can contribute towards~~] **substitute: since they are the basis of the legitimacy of the European design and the European institutions.**

The Convention could accordingly consider the following questions: **[The five turrets below are full of leading questions which would have to be reformulated or deleted.]**

- [How] can the institutions' democratic legitimacy be enhanced? **add: E.g. by separating legislative and executive powers? By giving the Commission a pivotal role as regards executive powers? By making the Council and the European Parliament into the two chambers forming the legislature? By making the European Parliament's co-decision right generally applicable?**
- [~~How can the formation of truly European political parties and of a European political area be promoted? By introducing a European constituency for the election of a proportion of European MPs?~~] [Through direct election of the President of the European Commission or of the European Council? By having the President of the European Commission designated through a majority system within the European Parliament?] **move up to previous paragraph.**
- [How] can our institutions' efficiency be **add: further** increased in a Union composed of about 30 Member States? **add: E.g. by generalising legislative decision-making based on qualified majority voting? By simplifying and speeding up the co-decision procedure involving the European Parliament? What should be done about the half-yearly rotation of the Presidency and the structure of Councils? What should be the future role of the European Council and the General Affairs Council?**
- [How] can our institutions be made more transparent? **add: E.g. by having the Council meet in public session when it legislates?**
- Which role can be played by national parliaments? Should they form the third legislative institution, alongside the Council and the European Parliament? Do national parliaments need to monitor the Council in those areas of European activity where the European Parliament does not yet have any competence? Should national parliaments concentrate on observance of the division of powers between the Union and the Member States, e.g. through *ex ante* checking of compliance with the subsidiarity principle? How?

[Towards a Constitution for the European citizens.] substitute: The constitutional framework for the future Europe.

The Nice European Council **add: agreed the process should address the question of a simplification of the Treaties with a view to making them clearer and better understood without changing their meaning [recognised the need to simplify the Treaties in order to clarify them and make them more understandable].** Within these simplified Treaties, consideration should be given to the status of the Charter of Fundamental Rights of the European Union.

The Convention could accordingly consider the following questions:

- The European Union currently has four Treaties. Would simplification involve reorganising

them into a basic treaty and one or more implementing treaties? What should be embodied in a basic treaty? The Fundamental Rights Charter for instance?

- Could the basic treaty and the implementing treaties have different modification and ratification procedures?
- Can the distinction between the Union and the Communities be maintained?
- Could the simplification of the Treaties trigger an evolutive process culminating in a fundamental text for the European Union? [~~Could the European Union evolve from a Treaty between Member States to a social pact between citizens?~~] Could this be a way for citizens to regain control over the European design?

III. CONVENING OF A CONVENTION ON THE FUTURE OF EUROPE.

In order to prepare the next Intergovernmental Conference as broadly and openly as possible, the European Council has decided to convene a Convention composed of the main parties involved in the debate on the future of the Union. It will be the task of that Convention to consider the key issues arising for the Union's future development and try to identify the various possible responses.

The European Council has appointed Mr/Ms ... to chair the Convention.

Composition.

In addition to its Chairman, the Convention will be composed of 15 representatives of Member States' governments (one from each Member State), 30 members of national parliaments (two from each Member State **add: plus two effective alternates**), 16 members of the European Parliament and one Commission representative. [~~The accession candidate countries/ The~~] Candidate countries [~~with which accession negotiations are under way~~] will be fully involved in the Convention's proceedings. They will be represented in the same way as members proper (one government representative and two national parliament members). [~~Only representatives of applicant countries which have signed an accession treaty will be able to take part in approving the final document.~~]

The Praesidium of the Convention will be composed of the Convention Chairman and [~~four~~] **substitute: six** members drawn from the Convention (the representative of the **add: three** governments holding the Council Presidency **during the Convention**, one national parliament representative, one European Parliament representative and the Commission representative).

Six representatives of the Economic and Social Committee, three of them to be nominated by the European social partners, six members of the Committee of the Regions [~~three of them to be nominated by regions with legislative powers,~~] and the European Ombudsman will be invited to attend as observers. The Presidents of the Court of Justice and of the Court of Auditors may be invited by the Praesidium to address the Convention.

Length of proceedings.

The Convention will hold its inaugural meeting in March 2002, when it will appoint its Presidium and adopt its rules of procedure. Proceedings will be completed in time for the Chairman of the Convention to present its outcome to the European Council in June 2003 at the latest.

Working methods.

[~~The Chairman will prepare the opening of the Convention's proceedings by drawing conclusions from the public debate. The Praesidium will serve to lend impetus and will provide the Convention with an initial working basis.~~]

The Praesidium may consult [~~Commission~~] officials and experts of its choice on any technical aspect which it sees fit to look into. [~~It~~] **substitute: The Convention** may set up ad hoc working parties.

The Council will keep itself informed of the progress of the Convention's proceedings. The Convention Chairman will give an oral progress report at each European Council meeting, thus enabling Heads of State or Government to give their views at the same time.

The Convention will meet in Brussels. The Convention's discussions and all official documents will be in the public domain. The Convention will work in the Union's eleven working languages.

Final document.

The Convention will consider the various issues and draw up recommendations. [~~It will be for the Convention Chairman, in close consultation with the Praesidium, to find a sufficient consensus on the document within the Convention. He will establish the final document after one last plenary meeting of the Convention.~~] [~~That document may~~] **substitute: The final document shall** set out a number of options [~~to be shown in order of preference,~~] and any comments deemed of assistance for readier understanding of the text.

Together with the outcome of national debates on the future of the Union, the final document will provide [~~the~~] **substitute: a basis** for further work, without [~~formally~~] binding the parties involved in the future Intergovernmental Conference.

Forum.

In order for the debate to be broadly based and involve all citizens, a forum will be opened for organisations representing civil society (the social partners, the business world, non-governmental organisations, academia, etc.). It will take the form of a structured network of organisations receiving regular information on the Convention's proceedings. Their contributions will serve as input into the debate. Such organisations may be heard or consulted on specific topics in accordance with arrangements to be established by the Praesidium.

Secretariat.

The Praesidium will be assisted by a Convention Secretariat, to be provided by the General Secretariat of the Council. [~~Commission and European Parliament experts may be incorporated.~~]

Danish comments to the Presidency's input paper on the Laeken declaration

As indicated at the meeting between the Belgian and the Danish prime ministers on Wednesday 28 November 2001, the Danish government has a few comments to the Presidency's input paper on the Laeken declaration:

Part I: Europe at the Crossroads.

Page 2, "Europe's democratic deficit", first part, line 3, 4 and 5:
Please delete the sentence on Denmark (and Ireland).

Page 3, "The expectations of the European citizen", third part, line 2, 3 and 4:
The phrase should read "There can be no doubt that this will require Europe to undergo [*delete* profound] reform [*delete remaining part of the sentence*]."

Part II: Challenges and reforms in a renewed union – outline

Denmark can accept a broad agenda for the convention. But we should pose the questions without giving the answers and the balance must be right. Therefore:

- It would be preferable if questions were more general and did not point to specific proposals. This goes in particular for questions under the subheading "More democracy in the European Union".
- If detailed questions are included, they must be truly open and not prejudge the result of the convention. Example: We cannot ask "How can the formation of truly European political parties and of a European political area be promoted" but rather "Is there a need for truly European political parties?"
- The four issues from the Nice declaration should be given a more prominent place, not least the role of national parliaments.

If the word "constitution" is to be found in the paper, it should be defined. We should stress that a constitution (or rather a constitutional treaty) is about defining the rights of citizen vis-à-vis the Union and is about the rights of Member States in terms of a clearer division of competencies. In consequence last bullet under Part II should be deleted or adjusted and the chapeau should be changed. Wording could be as follows:

Page 5, "Towards a Constitution for the European Citizen", Chapeau:

The Nice European Council recognised the need to simplify the Treaties in order to clarify them and make them more understandable. Within these simplified Treaties, consideration

should be given to [~~delete~~ the status of the Charter of Fundamental Rights of the European Union and *replace* with the rights of citizens through a charter of fundamental rights as well as the rights of Member States through a new division of competences as mentioned above.]

Part III: Convening of a convention on the future of Europe

Page 6, "Composition", first part, line 2 and 3:

The phrase should read: "[~~delete~~ 30 and *replace* by 45] members of national parliaments [~~delete~~ two and *replace* by three] from each Member State)".

Page 6, "Composition", third part, line 2 and 3:

The phrase should read: "...six members of the Committee of regions, [~~delete~~ three of them to be nominated by regions with legislative powers..."]].

Page 7, "Final document", first part, line 2:

The phrase should read: "It will be for the Convention Chairman, in close consultation with the Presidium, to find a [~~delete~~ sufficient] consensus..."

Page 7, "Final document", first part, line 4:

The phrase should read: "That document [~~delete~~ may] and *replace* with "should" set out a number of options..."

Page 7, "Final document", second part, line 1 and 2:

The phrase should read: "...the final document will provide the basis for further work, without [~~delete~~ formally] binding the parties..."

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JSW

cc: VM

Davis
per copy to

- Stephen Wight
- Kia Darnoch
- Alan Grant
- Stephen Wall
- Nigel Shepherd
- Karen Pierce

From: John Holmes

Date: 6 December 2001

cc: (e-mail)
 David Frost
 Andrew Page
 Jo Kuenssberg

JPB
 MT
 AN
 PRESS
 RL!
 FC
 JB

SSB/12

Simon Fraser (e-mail)

VEDRINE AND THE EU AMBASSADORS

1. When EU Ambassadors had lunch with Vedrine on 4 December, he said quite a lot in a number of areas, both CFSP and EU. I would be grateful if this record could be copied further as appropriate, including in Whitehall. You may even think it useful to convert one or two parts, eg on US policy, into separate telegrams.

Afghanistan

2. The Belgian Presidency had coped well with the inevitable wrecking of their planned agenda. He did not share the gloomy view taken by some of the EU's performance post-11 September. In fact the EU had reacted quickly and well in the areas of relevance to it, and had shown 'solidarité sans faille'. It was not the EU's role to mount rival expeditionary forces to the US, and if only some European military offers had been taken up, that was the US choice. Meanwhile CFSP and ESDP were continuing to progress through steady, patient work. I asked him about French chances of participation in a new multinational zone if the need for one emerged from the Bonn process. He said that Brahimi had so far done extremely well, and the various Afghan groupings had also 'behaved well'. A new force could only come into being at the request of the Afghans themselves, and it was best to await the Bonn outcome. He could say nothing about French participation without having discussed it with the President and Prime Minister first. But many people, including

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within the UN system, were cautious about putting forces into these situations. In any case there were many other ways of helping the Afghans other than militarily - that was the point of the Quai's Afghan day.

MEPP

3. Vedrine developed at some length a very pessimistic analysis of the position, dwelling on "la politique du pire", which he has also mentioned publicly. He did not see what Europeans could do for the moment. All the possible messages had been put to the Israelis but Sharon was simply not listening. US policy had been a bit better post-11 September but every terrorist attack gave the initiative back to Sharon, who now had an effective green light from Washington and was pursuing "la politique du pire", by attempting to destroy the Palestinian Authority, while Hamas were doing the same by making Israel unlivable in for ordinary people. Israel should be allying with the PA against the terrorists, rather than pushing the PA and the terrorists together. Driving Palestinian youth wild with despair and making them easy prey to terrorist recruiters was crazy but now deliberate Israeli policy. Israel was also deliberately fostering a false view of the Camp David talks, under which Arafat had rejected an incredibly generous Israeli offer, and was clearly not interested in peace. There was now an "engrenage fatal", and he could see no solution. Israeli public opinion had now followed Sharon. It was hopeless for the foreseeable future. Even if the US suddenly changed policy, and tried to impose a new approach on Israel, they would not succeed.

US

4. To say that the US had predominant power in the world was a statement of fact, not a criticism. 11 September had shown its potential vulnerability to certain kinds of attack but the US had come out of it stronger, and it had not fundamentally changed the way the US viewed, and dealt with, the rest of the world. They would remain unilateralist, although the word was not quite right - self-sufficient might be closer to the mark. In any case they were not ready to subject the exercise of their power and the defence of their interests as they saw them to

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multilateral processes. They would get what they could out of others, as in the post-11 September coalition, but this was not a truly multilateral approach. Bush had been surprisingly friendly and engaging as an interlocutor, and Powell was good. He often gave the impression that he was picking up European arguments to use with his colleagues. But Powell was not in control, and others were more difficult. Talking to Condi Rice about Iraq was like talking to a brick wall. We had to go in for permanent dialogue with the Americans – they did not mind it when asked though they rarely offered it – and hope that they would sometimes listen. For example, it was scarcely worth other countries having a view on NATO enlargement, since the Americans would impose their view anyway, as they had done at Madrid. Meanwhile they did not really care whether Europe was unifying or not as long as they had allies, willing or forced. In these circumstances, Europe simply had to get on with its own project, irrespective of US views. He repeated, and I think meant it, that he was not particularly criticising the Americans, just observing the way things were.

Future of Europe

5. Dealing with the post-Nice leftovers and related issues would be very difficult, not least with the German Laender insisting on a new division of competences. This would be explosive if Germany sought to limit existing EU competences or even repatriate some policies. Meanwhile there were some very different philosophies around – the German federalist approach and others such as the “Federation of nation states” label, which suited France because different French factions could read what they wanted into it. The Laeken process would be difficult to launch but even more difficult to close. The GAC paper had been well balanced but the Presidency still wanted to be more ambitious. The first part of the Verhofstadt paper was too gloomy and the second had too many leading questions. But the Presidency was doing reasonably well in general. There would at least be no difficulty about the convention process. It was crucial that the decisive role of the IGC and therefore governments had been preserved. He also fully supported Michel's efforts to beef up the GAC's coordinating role. He hoped and expected the Spanish Presidency to continue this.

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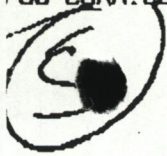
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6. Asked about avant garde/noyau dur etc, Vedrine said that for CFSP it was obvious that small groups of countries should continue to take a lead on certain issues after enlargement, as long as it was not the same countries all the time, and this was not used to obstruct the development of common policies. For the rest, it was impossible to talk about noyau dur without causing huge problems for the present. No-one would agree on who should be in the noyau dur, and nostalgia for the founding 6 was just silly. Nevertheless after 2004, in an EU of 25 plus, the issue was bound to come back. There could easily be insoluble institutional problems, which would lead to a crisis and paralysis. At that stage, the issue would resurface properly and a smaller group would take some things forward even if others did not like it. This would be OK as long as those concerned were doing things additional to the EU acquis ("en plus"), not as a parallel or rival EU.

Enlargement

7. Vedrine made a long and at times impassioned, if somewhat defensive, explanation of his GAC remarks about Romania and Bulgaria. All he had been doing was asking the Commission for clarity about their policy - was it differentiation or a political approach? He had not sought publicity for his comments - the fact that others had showed the weakness of the GAC at present. He was not shocked if the Commission approach was political, but they should be open about it. There was no hidden agenda of delaying the enlargement process or currying favour with Bulgaria/Romania. And he was pleased that neither of the two had sought to use his remarks for their own ends (comment: not my impression). But if the approach was political, it made sense to factor in the political need for stability in southern Europe. Of course it was true that the costs and consequences of enlargement would be much greater than most thought. And chapters were being closed not because countries had made the necessary changes but because they said they were ready to do so - not at all the same thing. But, he repeated, although French press and public opinion might not like enlargement, he was not opposing it or trying to delay it. He went round this course more than once: he had not been

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proposing a solution, only asking a question and seeking clarification.

John Holmes

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In DCO Inbox

file

From: Roger Liddle
Date: 3 December 2001

PETER HYMAN

cc: Alastair Campbell
Andrew Neather
Stephen Wall
Julian Braithwaite
Martin Donnelly
Philip Budden
Jonathan Powell
Sally Morgan

EUROPE STRATEGY: SPEECHES

I think the most important speech the Prime Minister could make in the next six months is a heavyweight lecture on the "Economics of Euro Entry" (another Mais lecture?).

The purpose of this lecture would not be to change Government policy on Euro entry or "pre-judge the tests", but to demonstrate to the markets that the PM has a firm grip on the steering wheel of government strategy.

Why is this necessary? There is real problem of financial market perceptions at the moment. Traders don't take too much notice of the Prime Minister's high-flown rhetoric of European commitment because they believe the decision on entry is going to be taken by the Treasury. The markets think that HMT has a stranglehold over the assessment of the "five tests" and whatever we may think, all the body language from HMT has been negative. As long as this feeling in the markets persists, sterling may stay too strong against the Euro which makes satisfying the tests and Euro entry that much more difficult. If it weren't for this artificial perception that "Britain is not going in", the likelihood is that sterling would adjust to an entry rate that makes entry much more feasible. (Such an adjustment is justified anyway because of the imbalances anyway between the trading and non-trading sectors of the economy and the growing balance of payments deficit.)

So the right speech by the Prime Minister would make an enormous difference to the prospects of Euro entry being taken seriously – and therefore happening.

Apart from financial markets, what are the other constituencies that need convincing?

Women: a much more difficult group about Europe than men. We need a number of initiatives targeted at women that enables us to bring out what Europe is doing/has done for women – in terms of equal pay and equal opportunities, consumer rights, a better living environment. One peg for this might be the Equal Treatment Directive. TB might make a speech to one of the women's networks around which lots of magazine articles could be written.

Small business: Gordon did a rather good pro-enterprise speech to the IOD. TB could do the "enterprise case for Europe".

Armed forces: TB could do a RUSI lecture on European Defence – overcoming the forces' understandable suspicions and laying out plans for British leadership to make European defence a success in a NATO-friendly way.

Police: I favour a Police Federation lecture on the rapidly developing European dimension to fighting crime – drugs and illegal immigration in particular. Lots of potential here for making a big splash.

World Poverty lobbies How about a churches or OXFAM event on Europe and sustainable development. I don't think that people in this area make enough connection with the key role of the EU in promoting sustainable development.

Other thoughts: I am keen on TB doing European sister party events like the SPD Conference. He is received like a hero and it demonstrates that the rest of Europe wants us to be playing a leading role. There is nothing about European commitment of which we need to be afraid. **The next invite is by Wim Kok to do the Van Uyl lecture in the Netherlands in January: in my view we should accept.**

I also think visits to the enlargement countries have big potential. TB is supposed to be going to visit Prague next year before Havel retires. Havel is a hero in Britain. This is an opportunity to make a "vision of Europe" speech which demonstrates that the European Union does not involve loss of national identity. "Why should small countries like the Czech Republic that have suffered so much to win their independence be prepared to commit wholeheartedly to the European Union? Because the EU is a guarantee of their national sovereignty and won identity – not a threat to it!

ROGER LIDDLE



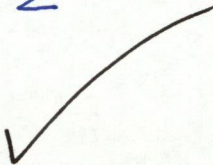
10 DOWNING STREET

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Rox

Quite interesting facts loc.

Gen



From: Kate Reynolds

Date: 4 December 2001

✓cc: PS/ Mr Hain
PS/ Baroness Symons
PS/ PUS
Michael Arthur
Kim Darroch
John Williams, News Dept
Heads: EUD(E), EUD(B), CFSPD,
PRDD
Colin Crooks
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Liza Burdett, WSERG
Sir Stephen Wall, No 10
Alastair Campbell, No 10
Peter Hyman, SCU, No 10
Tim Livesey, No 10
Ed Balls, HMT
Christina Scott, European Secretariat
Giles Paxman, UKRep
Danny Puce, UKRep
Ed Owen, Special Adviser

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Jeremy) interests of
on Euro.

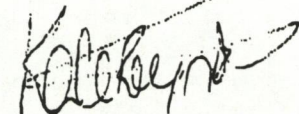
Roger L.
Lance.
Timothy B.
Godwin/Tom.

✓ Mr Bevan
PS

Agreed in draft Tim 4/12

EU OPINION POLL - PUBLISHING RESULTS

1. I attach briefing on ICM's opinion poll that we will publish this week. A written PQ has been tabled for answer in the Commons and the Lords (attached) and the polling results - two volumes of tables and ICM's report - will be placed in the libraries of both houses on Wednesday 5th December.
2. The Foreign Secretary intends to refer to the polling in his evidence to the FAC and in the pre-Laeken debate on 5th December.
3. News Department are considering whether Mr Hain should brief selected media on 5th December, and are developing a media script.



Kate Reynolds
EUD(I)

0171 270 3896

EU OPINION POLLING: BRIEF

BULL POINTS

- What the British people think about Europe is important.
- That's why FCO recently commissioned an opinion poll. It was run by ICM. It surveyed over 2000 people, up and down the country. It cost less than £30,000. And we published the full results on 5 December.
- The main findings are that:
 - Twice as many people think our membership of the EU is "a good thing for Britain" (47%) rather than "a bad thing" (25%).
 - A clear majority (60%) agree that the EU "promotes peace and security in Europe" (22% disagree); and that "it is good for British jobs and trade" (59% agree; 21% disagree).
 - The British people's priorities for the future work of the EU are:
 - maintaining peace and security (47%)
 - fighting poverty (46%)
 - fighting unemployment (40%)
 - fighting crime (40%)
 - They are not interested in institutional reform for its own sake: only 13% think that should be an EU priority.
- The poll shows that most British people are practical Europeans. It is this practical Europeanism that this government is seeking to advance.

KNOWLEDGE OF THE EU

- Most people say they know little about the EU (21% say they know nothing at all; only 2% say they know a great deal). More people know that Germany is a member of the EU (82%) than know that the UK is (76%). One in fifteen think that the US is also a member.

Survey this is the key finding & a crucial pointer to possible Ewo referendum success.

- But the poll also shows that the more people know about the EU, the more they are likely to support it. 78% of those the poll defines as 'super-knowledgeable' about the EU say our membership is good for Britain. 20% of 'not at all knowledgeable' people agree, and a majority (61%) group do not know whether EU membership is good or bad for

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The poll shows that people want to know more about the EU. The main issues about which they want to more facts are:

- The Euro (40%)
 - local impact of EU activities (32%)
 - tackling crime (28%)
 - trade & jobs (27%)
 - security & defence (27%)
 - citizen's rights (26%)
 - and consumer benefits (25%)
- Most people are not interested in:
 - the treaties (6%)
 - enlargement (9%)
 - how EU institutions work (10%).
 - And most people also think schools need to teach more facts about the EU: 65% think it important to teach more facts about the EU to primary school children; the figure rises to 88% when asked about secondary schools and 91% when asked about sixth-forms.

AREAS OF CONCERN

The poll also confirms the areas in which we know there is concern among the British people about Europe. People are worried about red tape and bureaucracy (67%). They fear the UK is losing the ability to make its own decisions (61%) and losing our national identity (58%).

THE EURO

- The poll asked two questions on the Euro: how well informed people felt about it, and what they thought about the UK joining.
- The majority of people (65%) say they don't know much about it.
- Just over a third (36%) say the UK should join (7% as soon as possible, 29% when the government says the economic conditions are right).
- More, but still less than half (47%) say the UK should not join (23% never, 24% for the foreseeable future).
- Nearly one in five (17%) just don't know.
- This confirms what we already know: that a majority are not at present convinced that the UK should join. But it also suggests that joining the Euro

has more supporters, and opposition to joining is softer, than other polls and the eurosceptics would have us believe.

- It also shows that what most people want is more information about the Euro: more people put this top of the list of EU issues which they wanted to know about than any other single issue.

OTHER POINTS TO NOTE

- The survey reveals a significant gender gap on some key questions. For example, men are evenly divided on whether to join the Euro (44% in favour, either ASAP or when govt says time is right; 46% against); but women divide 48-30% against.
- An open-ended question, what's good about being in the EU?, shows that men are far more likely than women to give instrumental answers (above all *trade*, but also *jobs*), while women more likely than men to give idealistic answers (*co-operation*, *neighbourliness*)
- ✓ There are also some significant class differences. ABs divide 3-2 in favour of joining the euro; DEs 2-1 against. 61% of ABs, but only 36% of DEs think membership of the EU is good for Britain. These figures reinforce the need for the debate to be less remote, less elitist, and less obsessed with institutional arrangements, if people outside the professional and managerial classes are to be engaged.
- There are only minor differences by age. Over 55s are slightly more hostile to EU and the euro than other age groups.
- Television is (not surprisingly) the main way people find out, and want to hear more, about Europe (followed by newspapers, leaflets & the radio). People appear to trust TV, newspapers, Government, trade unions and business people on a fairly equal footing.

WHY DO THE POLL?

- It is the Government's job to explain the EU clearly and honestly to the British people, and to give them the information they need to make sense of their own place in Europe's future.

- We want to hear what people think. The Minister for Europe has been pursuing this through public discussions and his tour around Britain. And we want a better understanding of what people in Britain know about Europe, and what they want to know.

commissioned this opinion poll to tell us what the British public know about our membership of the European Union, what issues they – not the politicians and bureaucrats – believe are important, what information they want, and how they want it delivered.

- Promoting better understanding of the merits of EU membership is a publicly stated objective of this Government. By highlighting gaps in knowledge, and establishing what people want to know, this research will help us deliver a better service, responsive to the public's needs.

- We also hope it will encourage wider and better informed public debate about Europe. That is in everyone's interests, whether they are eurosceptics, eurozealots or - like this Government - practical Europeans.

THE FACTS (SCALE, COST, TIMING)

Scale of poll?

- ICM interviewed ICM interviewed 2,182 members of the public aged 18+ throughout Great Britain between 9 and 18 October.

- Probably the most detailed study in recent years on British attitudes towards the European Union.

How much did the poll cost?

- £24,100 (+VAT) = £28,317.50

When was the polling commissioned/carried out?

- September/October.

Where?

- In 150 different locations throughout the UK (except N.Ireland).

DEFENSIVE IF ASKED

Waste of public money?

- No. Our polling is considerably more detailed than any we see published elsewhere.

- Government must serve the public efficiently. The poll helps us see where information needs are greatest, and how to deliver this best.

Consistent with HMG guidelines?

- Yes. The exercise is in line with the Cabinet Office guidelines on Government polling, and with the Government's public commitment to provide information to the British public about the EU.

- The contract went to tender in accordance with the standard Government guidelines. ICM won the contract on merit.

- Publishing the results in the interests of open government, and to stimulate debate.

ICM biased?

- No. They are a respected polling organisation. They have also done work for the Conservative Party.

The start of a propaganda exercise / stealth euro campaign?

- Not the start of a propaganda exercise. The FCO, and other Government Departments, have been providing information to the public on European issues for years. We want to establish how to give it to them better.

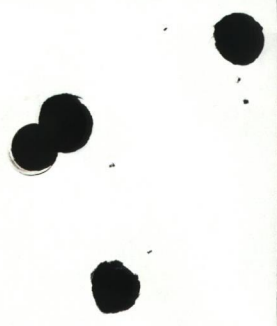
- Nor the start of a stealth euro campaign. Our policy on the euro has not changed. Nor has the timetable – assessment of the five economic tests within the first two years of this parliament. The euro was only one element of the polling questions (2 questions on the euro out of a total of 32 questions):

Isn't this kind of polling a new initiative?

- No. In 1997 the FCO commissioned a survey to assess public opinion on Europe in advance of our EU Presidency. Many Government departments do polling. So did the Opposition when they were in government.

Any further polling planned?





INEX: SUMMARY OF THE RESULTS

Q1: How well informed do you feel about the EU?

Answer: 2% know a great deal, 21% know nothing at all; mean score of 4.13 on scale of 1-10 where 10 means know a great deal & 1 means know nothing at all.

Q2: How well informed do you feel about the euro?

Answer: 3% know a great deal, 18% know nothing at all, mean score of 4.44 on scale of 1-10 where 10 means know a great deal & 1 means know nothing at all.

Q3: How well informed do you feel about the British Government's policy on the EU?

Answer: 2% know a great deal, 21% know nothing at all, mean score of 4.10 on scale of 1-10 where 10 means know a great deal & 1 means know nothing at all.

Q4: Which of the following countries do you think are members of the EU?

Answer: 76% say Britain, 82% say Germany, 65% say Ireland, 36% say Norway, 4% say Russia, 20% say Poland, 54% say Greece, 7% say USA.

Q5: Which one do you think Britain does most trade with?

Answer: 44% say other EU countries (23% say USA, 13% say Commonwealth, 20% don't know).

Q6: How much do you trust the television and radio news to tell the truth about the EU? (Scale where 10 means completely, 1 means not at all)

Answer: 1% completely, 12% not at all, mean score: 4.71.

Q7: How much do you trust your usual daily newspaper to tell the truth about the EU? (Scale where 10 means completely, 1 means not at all)

Answer: 1% completely, 12% not at all, mean score: 4.50.

Q8: How much do you trust the Government to tell the truth about the EU? (Scale where 10 means completely, 1 means not at all)

Answer: 1% completely, 17% not at all, mean score: 4.25.

Q9: How much do you trust trade unions to tell the truth about the EU? (Scale where 10 means completely, 1 means not at all)

Answer: 1% completely, 12% not at all, mean score: 4.46.

Q10: How much do you trust businessmen to tell the truth about the EU?

Answer: 1% completely, 13% not at all, mean score: 4.33.

Q11: Do you think Britain's membership of the EU is... [select answer]

Answer: 13% say 'a very good thing for Britain', 34% say 'a fairly good thing for Britain', 13% say 'a fairly bad thing for Britain', 12% say 'a very bad thing for Britain', 29% don't know.

Q12: What is the single most important reason you can think of why British membership is a good thing? [To all who answered 'fairly / very good thing...' for Q11]

Answer: 34% say trade, 14% say cooperation, 7% say we cannot afford not to be, 7% say more chance of peace / militarily stronger.

Q12: What is the single most important reason you can think of why British membership is a bad thing? [To all who answered 'fairly / very bad thing...' for Q11]

Answer: 25% say lose our independence, 13% say don't need it, 11% say costs too much, 9% say lose our culture.

Q13. Here are some things that other people have said about the EU:

It is good for British jobs & trade.

Answer: 59% agree, 21% disagree, 19% don't know.

Britain's national identity is being lost.

Answer: 58% agree, 30% disagree, 12% don't know.

Britain is being pushed around by other countries like Germany and France.

Answer: 57% agree, 30% disagree, 13% don't know.

It means lower prices.

Answer: 34% agree, 37% disagree, 29% don't know.

It makes it easier to live or work in other EU countries.

Answer: 66% agree, 15% disagree, 20% don't know.

Britain pays in more to the EU than it takes out.

Answer: 51% agree, 14% disagree, 34% don't know.

The EU makes decisions in an undemocratic way.

Answer: 44% agree, 25% disagree, 31% don't know.

It helps give Europe a cleaner environment.

Answer: 39% agree, 26% disagree, 34% don't know.

It promotes peace & security in Europe.

Answer: 60% agree, 22% disagree, 18% don't know.

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Britain is losing the ability to make its own decisions.

Answer: 61% agree, 26% disagree, 14% don't know.

Britain has more influence as part of the EU.

Answer: 46% agree, 31% disagree, 22% don't know.

The EU is full of red tape and bureaucracy.

Answer: 67% agree, 12% disagree, 21% don't know.

Q14: How does EU membership affect your daily life?

Answer: 15% for the better, 13% for the worse, 50% not much difference, 22% don't know.

Q15: What is the single most important way in which the EU affects your daily life?

Answer: 5% say rules & regulations eg weights, 3% say losing independence, 3% say cost.

Q16: Which 3 or 4 things should be a priority for the EU in the future?

Answer: 47% say peace & security, 46% say fighting poverty, 40% say fighting crime, 40% say fighting unemployment.

Q17: What is your view about Britain and the euro?

Answer: 7% say 'join as soon as possible', 29% say 'join when the Government says the economic conditions are right', 24% say 'not join for foreseeable future', 23% say 'never join', 17% don't know.

Q18: How do you feel about your national identity?

Answer: 66% feel 'British not European', 8% feel 'equally British & European'.

Q19: How many times have you travelled to another EU country in the last year?

Answer: 20% say once, 26% say twice or more, 50% say never.

Q20: What do you think public services are like in other major EU countries compared to Britain?

Answer: 42% say better, 25% say the same, 10% say worse, 23% don't know.

Q21: What do you think the standard of living is like in other major EU countries compared to Britain?

Answer: 34% say better, 35% say the same, 9% say worse, 22% don't know.

Q22: What would you most like to know more about (the EU)?

Answer: 40% say euro, 32% say impact of EU in local area, 28% say tackling crime, 27% say trade & jobs, 27% say security & defence, 26% say citizens' rights, 25% say consumer benefits.

Q23: Where do you get your information on the EU currently?

Answer: 74% say television, 51% say newspaper, 4% say government publications.

Q24: Which information initiatives on Europe or organisations have you heard of?

Answer: 15% say Britain in Europe, 8% say debate on Future of Europe, 7% say Business for Sterling, 7% say Government's website on Europe.

Q25: How would you like to receive information about the EU?

Answer: 56% say television, 39% say newspaper, 30% say leaflets, 21% say radio, 14% say talks/debates...6% say speeches/articles by politicians.

Q26: Where would you like to find the information?

Answer: 59% say radio/TV news, 23% say post offices, 19% say libraries.

Q27: How important is it for the EU to be taught in primary schools?

Answer: 65% say very/quite important, 31% say not very/at all important.

Q28: How important is it for the EU to be taught in secondary schools?

Answer: 88% say very/quite important, 9% say not very/at all important.

Q29: How important is it for the EU to be taught in sixth forms?

Answer: 91% say very/quite important, 5% say not very/at all important.

Q30-32: Factual questions on access to the internet, influence on which internet sites you visit and daily newspapers.

DRAFT RESPONSE TO WRITTEN PQ

PQ: To ask the Secretary of State for Foreign and Commonwealth Affairs what steps he has taken to survey public attitudes to the European Union; and if he will make a statement.

Response:

The Foreign and Commonwealth Office commissioned ICM to conduct opinion research to find out what the British public know about our membership of the European Union, which issues they believe are important, what information they want, and how they want it delivered.

I will place the full results in the Libraries of both Houses on Wednesday 5 December.

Stephen Wall

cc. Martin Donnelly
 Michael Roberts
 Rachel Green
 DOs

For information only
 at this stage. More
 tomorrow.

Christina Scott
 3/xii/01

From: David Whineray

Date: 3 December 2001

Ref:

cc: John Williams
 Andrew Patrick
 Tim Livesey
 Libby Green
 Tim Livesey

a. B. Liddle
 Sarah Patel
 ✓

Julian Braithwaite, No 10

EUROPE OPINION POLL

1. You asked for brief details of our thinking on publishing the FCO poll.

Media handling

2. The Foreign Secretary will announce in a PQ tomorrow that we will make the available to the House information on the FCO opinion poll on Wednesday. He will then announce the findings during Wednesday's pre-Laeken debate or Foreign Affairs committee.
3. We would make available all the findings in the poll (not just a summary) – this will help to get out the entire message (see below) and reduce the (inevitable) focus on the Euro.

Findings

4. Main points of the poll are:
 - A majority of two-to-one think the UK's membership of the EU is "a good thing for Britain" rather than "a bad thing".
 - Clear majorities agree that the EU "promotes peace and security in Europe" and that "it is good for British jobs and trade"
 - The people's priorities for the future work of the EU are: maintaining peace and security, fighting poverty, fighting unemployment and fighting crime
 - Lowest priorities are: enlargement and reforming EU institutions.
 - Similarly, when people are asked what they would like to hear more about, far more people say: euro, local impact of EU activities, citizen's rights, tackling crime, consumer benefits, defence & security, and jobs, than: treaties, enlargement and how EU institutions work.

- Attitudes to British membership of the single currency suggest the issue is wide open. "Join as soon as possible": 7%; "join when the Government says the conditions are right": 29% (total pro: 36%); "not for the foreseeable future": 24%; "never join: 23% (total anti: 47%). Don't knows: 17%.
- These figures suggest a closer race than that depicted by conventional polls asking "how would you vote if a referendum were held now". This is because many who think we should join "when conditions are right" are likely to say "against" when asked how they would vote "now".
- 65% think it "very" or "fairly" important to teach more facts about the EU to primary school children; the figure rises to 88% when asked about secondary schools and 91% when asked about sixth-forms.
- Most people acknowledge that they know relatively little about the EU.
- More people know that Germany is a member of the EU than Britain.
- The survey reveals a very significant gender gap on some key questions. For example, men are evenly divided on whether to join the euro (44% in favour, either ASAP or when govt says time is right; 46% against); but women divide 48-30% *against*.
- An open-ended question, what's good about being in the EU?, shows that men are far more likely than women to give instrumental answers (above all *trade*, but also *jobs*), while women more likely than men to give idealistic answers (*co-operation*, *neighbourliness*)
- Other answers also suggest that many women are put off by "male" agenda of much of the discussion about Europe.
- There are also some significant class differences. ABs divide 3-2 in favour of joining the euro; DEs 2-1 against. 61% of ABs, but only 36% of DEs think membership of the EU is good for Britain. These figures reinforce the need for the debate to be less remote, less elitist, and less obsessed with institutional arrangements, if people outside the professional and managerial classes are to be engaged.
- Television is (not surprisingly) the main way people find out, and want to hear more, about Europe. Television news is also the *most trusted* source of news by the population as a whole; although broadsheet newspaper readers trust their own paper even more. Few readers of red top paper readers trust their own paper, though it makes little difference whether they are readers of the Mirror (pro-euro) or Sun (anti).
- There are only minor differences by age. Over 55s slightly more hostile to EU and the euro than other age groups; but it is NOT true that the young are "pro" and the elderly "anti".
- People living in the Midlands and northern England are slightly more hostile than GB average to joining the euro; people living in the south slightly more favourable.

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From: Roger Liddle
Date: 26 November 2001

GEOFFREY NORRIS

cc: Jeremy Heywood
Stephen Wall
Martin Donnelly
Andrew Adonis
Brian Hackland
John Alty (DTI)

NETWORK LIBERALISATION WITHIN EUROPE

I attach an article by Dieter Helm from the latest Oxford Review of Economic Policy. Dieter's piece raises some pretty fundamental questions about our present approach to network liberalisation in the EU.

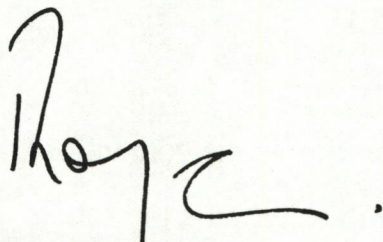
The part of his argument that most caught my attention is his contention that our (and the Commission's) present approach to liberalisation puts too much emphasis on opening up national markets, not enough on the regulatory steps required to secure interconnection across borders in order to create a liberalised European market. To secure this latter objective, Dieter argues that European public policy should put more emphasis on the creation of Europe-wide regulatory authorities on the US model where Federal and State regulators complement their roles.

Dieter's focus on interconnection between national networks parallels the emphasis of the Spanish Presidency.

Would it be a good idea to invite Dieter to discuss his ideas further with us in Downing Street?

My thinking is that a proposal from us to establish a Europe-wide regulatory authority for energy would expose the self-interestedness of French and German positions. French and German politicians would find the case for a Europe-wide regulator difficult to argue against on political grounds. Such a proposal might find a fresh basis for a breakthrough on energy at Barcelona or later in 2002.

My view is that we should explore this idea quickly with a view to putting it to Patricia, Gordon and the Prime Minister. But please read Dieter's piece first. It raises lots of other interesting issues.

A handwritten signature in black ink, appearing to read 'Roger Liddle', with a stylized flourish at the end.

ROGER LIDDLE

THE ASSESSMENT: EUROPEAN NETWORKS—COMPETITION, INTERCONNECTION, AND REGULATION

DIETER HELM

New College, Oxford¹

Recent events, such as the California energy crisis, the failures of the UK's railways, and the consequences of the third-generation (3G) mobile licence auctions, have called into question the European reliance on a strategy of network industry liberalization. Substantial concentration in energy and telecoms markets has also raised the issue of the consistency of competition policy with the creation of internal energy and communications markets. The paper considers the multiple market failures in these industries, and the problems raised by a series of national policy approaches which fail fully to reflect the economies of scale and scope and the European-level public goods. Security of supply in energy, the roll-out of broadband, and the gains for an overarching approach to climate change require a more European focus. This in turn will require institutional reform at the European level. Failure to address this Europe-wide agenda will leave Europe behind the USA.

I. INTRODUCTION

Infrastructure networks provide the frameworks within which modern industrialized countries function. The energy, communications, and transport networks are complementary to the rest of the economy: over-provision at the margin wastes resources, but under-provision can seriously disrupt economic activities. The recent failures in the Californian electricity industry illustrate the severity of

these costs, as does the experience with the railway industry in the UK.

In the 1980s and 1990s, it became fashionable to rely increasingly on markets to provide infrastructure. This was partly a reaction to the limits on public borrowing and finance, but it also reflected a more fundamental shift in economic policy. Where the private sector had previously been restricted to the production of state-owned infrastructure, now it

¹ Comments from Christopher Allsopp and Margaret Stevens are gratefully acknowledged. The errors remain the author's.

increasingly was relied upon to own and *allocate* it, too. The old notions which had justified state intervention—notably security of supply—gave way to an optimism that markets could provide incentives to create and sustain more efficient assets. The development of mobile phone and Internet networks provided the example *par excellence*, as had the railways in the nineteenth century. But in energy, too, the old rationale for state ownership, vertical integration, and monopoly—that only a centralized integrated monopoly could secure long-term fuel supplies and invest in the right overall balance of capacity—gave way to the ideas of competition, spot markets, and financial risk hedging.

California, British railways, doubts about the speed of broadband roll-out, the problems arising from the third-generation (3G) licence auctions, and the growing dependence on imported gas in Europe have separately contributed to an overall sense of unease with the degree of reliance on market forces across Europe. For those who never really embraced the liberalized competition model, this represents a welcome return to their preferred corporatist model. For those who did—including, notably, the UK—the doubts that have emerged have been accompanied by a vacuum of ideas about how to respond.

There is, behind this unease, a coherent set of policy questions which need to be addressed, and by addressing them, some answers in terms of appropriate policy responses can be gleaned. The questions are: will markets deliver sufficient infrastructure capacity? does it matter much if infrastructure is over-provided? does market failure require direct intervention (and possibly state ownership)? what kind of regulatory framework should be created to deliver policies? and what sort of sectoral policies should be developed? These are the issues which confront the European Commission and member states, especially in the energy sector.

The answers depend upon context and historical circumstances. In periods of surplus—such as the 1980s and 1990s in energy—the policy priorities were quite different from during periods of excess demand. In periods of rapid technical change, such as the 1980s and 1990s in telecoms and information technology, competition to develop technical and market dominance tended to produce excess supply and excess investment. Network policy, however,

tends to be good at solving the problems of yesterday's context: and it is far from clear that these broad features of the last 20 years will characterize the first decades of the twenty-first century.

This assessment focuses on this new context, and on how the insights which economic theory provides can assist the Commission and member states to design policies for infrastructure networks relevant to the next couple of decades. Its focus is primarily on energy, but with examples from other infrastructures, notably telecoms. The structure is as follows. Section II looks back at the liberalization policies of the 1980s and 1990s and the legacy they have created. The conventional wisdoms of these decades are scrutinized critically. Section III turns to the underlying multiple market failures and explains why the market will not provide optimal networks in the absence of regulation and sectoral policies. Section IV considers the content of European liberalization and regulatory policies, and the continued lack of consistency between national approaches. Section V discusses the appropriate regulatory institutions, and section VI concludes.

II. THE LIBERALIZATION APPROACH OF THE 1980S AND 1990S

In 1980, the network infrastructures of Europe were overwhelmingly provided by nationalized industries under conditions of monopoly. Most countries had national champions in each sector. In electricity, Britain's Central Electricity Generating Board (CEGB) and France's *Electricité de France* (EdF) were among the largest electricity utilities in the world. Telecommunications were provided by the Post Office (UK), the Bundespost (Germany), and the *Direction Générale des Télécommunications* (France). (British Telecom, Deutsche Telekom, and France Télécom were formed in 1981, 1989, and 1988, respectively.) The pattern was repeated for the railway, gas, and postal industries. At the local level, municipalities were extensively involved across Europe in the provision of electricity and gas distribution and water supply.

These predominantly state-owned companies were, generally speaking, legally responsible for providing universal services and a secure supply. They planned network developments with government, and policy

was typically organized through their business plans. To an important degree, the system worked: energy supply expanded to meet the growing demands of the post-war economic boom, and the newer utility services, such as natural gas and modern telecoms, were developed along coherent national lines.

In the 1980s and 1990s, this model came under sustained attack. In energy, the fall of the oil price in the mid-1980s, together with an abundance of supplies, shifted the economic priorities from investment to cost reduction. With little extra capacity needed, economic efficiency focused on sweating the existing assets.² Competition was advocated as a necessary part of the solution. Where investment continued—as with the French nuclear programme and, in Britain, in new telecom exchanges—the state found that the competing demands on public finances increasingly forced trade-offs between current and capital expenditures. Rising unemployment in the 1980s, together with a shift towards more conservative governments with tax-cutting agendas, led to more radical solutions to investment, and (outside France) encouraged more reliance on the private sector.

Privatization provided a way forward, first in Britain and then subsequently across much of Europe. By selling assets to private investors, governments gained three advantages: they raised money to pay for other public expenditure (or to finance tax cuts); they created balance sheets for the privatized companies which could be geared up to pay for future investment; and, through regulation, they created vehicles for transferring wider policy objectives on to utilities and, hence, customers' bills rather than through their tax returns. Of these, the second—private-sector balance sheets—was to emerge as the most important, giving rise to what has been described as the *private-sector borrowing requirement* (Helm, 2001a).

None of these three advantages to the governments in power was necessarily one which enhanced efficiency. That remained an empirical issue. The proceeds from sales represented a capitalization of

future dividends from nationalized industries. The financial restructuring of balance sheets would allow gearing, but at a higher cost of capital than that at which government could borrow, and with the requirement that customers would have to repay the debt at some future date. And the transfer of obligations changed the distribution of the costs between customers and taxpayers, but not necessarily their levels. Only if the private sector is more efficient than the public sector in creating and managing infrastructure assets, and sufficiently more efficient to offset the higher cost of capital, would there be net welfare gains from the policy of privatization. Though there are a number of industry studies on post-privatization performance, it is too early to reach any firm conclusions, given the nature of the assets.

In practice, the effects of privatization have been complex. There have been significant reductions in costs. Staffing levels have fallen, in some cases dramatically, and with these reductions in operating costs, prices have typically fallen too. Some of these reductions have been due to the incentives created by regulation, some by new management practices, some by the reduction in union power, and some by the application of the new information technologies which were particularly relevant to networks.

It is impossible to estimate with much precision how great the changes would have been in the state sector had privatization not taken place. However, some comparisons are instructive. In the public sector, EDF's work-force remained at a stable (high) level throughout the period. The British Post Office, too, maintained its employment levels. This resistance to cost reduction in the public sector is not surprising: theories of public enterprise predicted a labour bias, relative to the capital stock, and with respect to wages (see Rees, 1984a,b). Political theories of union behaviour and the influence of interest groups on political parties pointed in a similar direction. Indeed, the unions have opposed privatization for precisely these reasons—as in recent examples in Britain of the Post Office in the mid-1990s and, more recently, the London Underground.

² In England and Wales, the peak demand on the electricity system at the end of the 1990s was about the same as in 1980. The 1980–2 recession in the UK also changed the composition of energy demand, as heavy manufacturing industry declined in its share. See Helm (2001b).

The change in ownership changed the incentives with respect to cost reductions. It also changed the cost of capital, as noted above, and with it the discount rate applied to new investment projects. For infrastructure this was particularly important. Long-term R&D conducted by nationalized industries effectively ceased with privatization. The CEEB's significant programme of R&D into nuclear and renewables technologies was a particular casualty, to be contrasted strongly with the continuation of such R&D in France. Investment itself was also affected: a higher cost of capital shifted the emphasis towards projects which matured quickly and, where possible, asset replacement was slowed down by substituting maintenance spending on existing assets.

These trends towards a more short-term perspective were reinforced by the regulation of privatized monopolies. This took two forms—rules covering prices and the introduction, where possible, of competition. In the UK, and increasingly elsewhere, incentive regulation replaced the traditional rate-of-return approach. In practice, this meant 5-year fixed-price contracts, and utilities and regulators focused on a shorter-term horizon and on how to minimize costs within these limited periods. RPI-X regulation encouraged a management style based upon cost minimization rather than investment. (In the next section, this is examined in greater detail.)

Regulators and governments also used competition as a policy instrument to encourage economic efficiency. In most networks, competition was restricted to inputs—to competitive tendering and contracting out. Franchising was also employed, notably in water (France) and in railways (the UK). However, some commentators went further, questioning whether there were *any* natural monopolies at all, and for a while the telecoms sector seemed to indicate that the costs of infrastructure networks might become so low that many could be provided. Mobile phone networks challenged the incumbent fixed-link network operators, and the Internet threatened to undermine them further. In practice, however, the scope for network competition proved

limited, and, even where network competition emerged, natural oligopolies tended to dominate. In most cases, these were interdependent, in the sense that the new entrants required access to the incumbents' networks to sustain their businesses.³

By the end of the 1990s, although much privatization had taken place across Europe, there still remained a significant number of state-owned companies. Furthermore, although many new entrants had contested the core utility markets, consolidation and concentration had reaffirmed the role of (very large) dominant incumbents. These may have had different configurations, with firms such as Vodafone joining the major telecoms players, and E.ON (formed out of VEBA and VIAG) contesting the European energy market alongside EdF, RWE, and Enel. The policy-induced unbundling and disaggregation created through the privatization processes and subsequent regulatory initiatives are now arguably more than offset by this merger and acquisition activity. In the energy sector, most of the largest firms in these markets are larger than they were in the 1980s. All the large telecom companies have a pan-European presence, and a trend towards further consolidation is widely anticipated.

To these consolidating developments should be added the policy response to the most significant network failures in the 1980s and 1990s. Two stand out as examples which have had direct impact—California and the British railway industry. The energy crisis in California, where the lights went out, has widely (and usually simplistically) been seen in Europe as the logical consequence of using British-style competitive market structures without a clear obligation to supply. The argument, to which we return in section III, is that the British electricity model only 'worked' in the 1980s and 1990s because there were abundant cheap energy supplies, and the gas bubble encouraged a building programme of gas power stations (the so-called dash-for-gas) while the government tried to protect coal production.⁴ The British model, on this argument, did not *solve* the security of supply issue. It merely ignored it, because in this historical period it could afford to do so.

³ Local-loop unbundling is a case in point (see Oftel, 2000).

⁴ On the California experience, see the article by Paul Joskow in this issue, and also Sioshansi (2001). On the gas bubble, see the article by Alexander Kemp and Linda Stephen in this issue.

The British railways example, where a single accident at Hatfield in October 2000 reduced the entire network to semi-paralysis (and put Railtrack eventually into receivership), focused attention on the ability of privatized and fragmented structures to maintain existing networks. Critics have argued that the separation of track from train operation, paralleling the split of electricity and gas networks from supply, has raised costs and blurred responsibility for maintaining a safe railway system. Relying on a network of contracts to provide the coordination that integrated monopolies had previously delivered has been argued to have been a policy mistake.

In the case of 3G licences, the auctions were designed to allocate spectrum to the most efficient users. It was argued that the revenues raised represented sunk costs to the acquirers, and hence would not affect their behaviour (see Klemperer, 2001). Critics here point to the consequences of the higher levels of borrowing this has entailed, the fall in share prices which has in part resulted, and the knock-on effects on capital expenditure (see the article by Martin Cave and Luigi Prosperetti in this issue). Other auctions, such as that for capacity in the gas transmission system in Britain, have also been controversial, albeit for somewhat different reasons. It has been argued that auctions may have a considerable role in allocating *existing* capacity, but are less good at determining investment (see below).

In retrospect, the 1980s and 1990s policy approach has not provided a settled consensus on the network infrastructure policy. In several European countries there has been a reappraisal, and a return towards the more monopolistic model. In the 3G licence case, Germany has actively encouraged the winning bidders to cooperate in sharing network development costs, and France has now reduced the price *ex post*. In Germany and the UK, consolidation in energy markets has been permitted. These trends have been augmented by a recognition of the need for policy intervention to facilitate new network developments—such as the roll-out of broadband networks, and the gas infrastructure networks for

the import of gas from Russia. The European Commission has now begun to address this new agenda—notably in the Security of Supply Green Paper (EC, 2000).

Many of the policy discussions are clouded by lobbying from particular interests—notably the dominant incumbents. Where there are large economic rents at stake, very considerable asymmetries of information between the companies on the one hand, and governments and regulators on the other, and where companies have direct linkages with politicians and the political process, the outcomes will be as much the result of political processes as economic analysis.⁵ But to see how much economic content there is to the new approaches, and to elucidate further the economic border between the state and private sectors in network infrastructure industries, we need some economic theory, to which we now turn.

III. MARKET FAILURES AND OPTIMAL NETWORKS

Utilities and utility networks display *multiple* market failures, and hence the optimal network (and the optimal form of regulation) depends upon a simultaneous solution to each. This is especially important since the 'right' regulatory response to one sort of failure, considered in isolation, can worsen the misallocation of resources with respect to another. The most obvious example is the interaction between natural monopoly and environmental concerns. Interventions to curb the abuse of dominance encourage regulators to lower prices, while the inclusion of environmental externalities tends to lead to increases in price. This example has a direct application: in the British system, the duties laid on the regulators have led them to focus almost exclusively on the former, with the result that the latter has been neglected, in turn requiring the provision of formal government guidance to regulators through the Utilities Act 2000. The result has been an attempt to combine lower electricity prices with interventions to promote specific technologies.⁶

⁵ There are numerous examples of these interactions in the energy sector, notably the appointment of ex-ministers to boards of regulated monopolies, ex-company directors to political positions, ex-regulators to industry consultancies, and, in the French example, considerable switching between civil servants and state-owned industries. The extreme example is provided by Gazprom in Russia. Young (2001) provides a detailed account of the way politics has determined British regulatory practice.

⁶ The Department of Trade and Industry (DTI) has a public service agreement with the Treasury to keep UK electricity prices below the European average, while simultaneously reserving 10 per cent of the generation market for renewables.

The focus on the problem of natural monopoly has dominated regulatory practice (and the associated economics literature), and, in turn, explains the emphasis on the setting of prices through two main mechanisms, price-cap or rate-of-return constraints, almost to the exclusion of the other market failures. There is now an extensive literature on the relative merits of these forms of control,⁷ and, not surprisingly, economists have tended to favour RPI – X over rate of return on the grounds that the former puts most weight on incentives while the latter focuses on the financial protection of utility returns. But, surprisingly, little research effort has been applied to the trade-offs between the two—between the lower costs of capital under rate of return as opposed to the claimed efficiency gains under price-cap regulation. The reason for this empirical neglect is in part that efficiencies are hard to measure and in part because, for many privatized utilities, investment was not a priority in the 1980s and 1990s, as noted in section II above.

In practice, the sharp theoretical differences between the two regimes have not been reflected in practice because neither has been applied in its pure form. US rate-of-return regulation has always been supplemented by efficiency reviews of one form or another, and British RPI – X regimes have witnessed repeated interventions *within* periods, thereby undermining incentives (Helm, 1994). In the case of the latter, in addition to changes in capital investment requirements and claw-backs in returns within periods, there have been windfall taxes, customer benefits payments in exchange for permitting mergers and demergers, and new social and environmental obligations. Furthermore, in a period of falling inflation, price changes in the USA have lagged, replicating some of the features of the fixed-period approach in the UK. It is therefore hardly surprising that there is little evidence to suggest that US utilities are *in general* less efficient than their British counterparts, and some support for the opposite conclusion. A theoretical preconception, tied to a receptive political and economic context, encouraged policy conclusions to be drawn in advance of the empirical investigation.

⁷ The literature focuses on critiques of rate-of-return regulation—notably Averch and Johnson (1962). The price-cap literature is reviewed in Armstrong *et al.* (1994).

⁸ At Heathrow, which is one of the world's busiest airports, landing fees are very low. In gas transmission, Ofgem argues that Transco, as owner and operator, has little incentive to invest optimally.

⁹ See Newbery (2000). This is distinct from their role in balancing *existing* networks and allocating *existing* capacity.

The mechanism for the capping of prices in one form or another does not in itself *solve* the natural monopoly problem (or, indeed, the other market failures). In order to set prices, some assumptions need to be made about the level of capital and operating costs required to provide the services. The former creates formidable regulatory problems, for at least two reasons: the normal linkage *from* prices to investment is reversed; and the natural monopoly is typically a complementary good to the rest of the economy.

In a competitive industry, firms are price-takers. As capacity margins become tighter, it is to be expected that prices will rise. Higher prices in turn raise the expected returns from new investment, and this then is induced, bringing supply back in line with demand. Prices then fall back. Where capital is lumpy, this 'saw-tooth' profile of pricing might be expected to be marked.

The market approach to this problem has been to propose the introduction of capacity auctions. Recent examples include the proposals from the Economic Regulation Group of the Civil Aviation Authority (CAA) to auction landing slots at Heathrow, and the gas capacity auctions introduced by Ofgem (CAA, 2001; Ofgem, 2000a,b, 2001a; Helm, 2001b; and, more generally, Newbery, 2000).⁸

Some have argued that the use of capacity auctions might be *sufficient* to reward existing infrastructure owners and to ensure optimal investment. There are, however, at least two major flaws in this argument: that auctions provide little protection for sunk costs; and that the network owner will have an incentive to exploit its monopoly by keeping capacity tight *if* it receives the revenues from the auctions. In other words, auctions undermine the incentive to sink capital by raising the risks that assets will be stranded, and encourage monopoly to be exploited. Auctions are therefore no guarantee of optimal investment.⁹ Regulators have therefore had to circumvent the signals which such auctions give with price caps on total revenue (so that incumbents do not receive the full revenues dictated by the auction

outcomes), and by engaging in investment planning. In the British gas industry example, a belt-and-braces regime has emerged, involving long-term auctions, price caps, and a duty to secure supplies.¹⁰

The perverse investment incentives created by auctions would be of concern in any industry where there are monopoly assets effectively standing *between* producers of goods and services and their customers. These assets are strategic, in the sense that they are the gateway (and, possibly, the bottleneck) between producers and consumers. But in utility networks, they are of special concern because the activities are complementary to the rest of the economy. Failure to supply has asymmetrical costs on the whole economy relative to over-provision. The costs imposed by the failures to supply in the California and British railways examples, in the presence of demand uncertainty, imply that the optimal networks are those which are somewhat gold-plated and with somewhat excessive operating resources.

The importance of this point was much neglected by the advocates of RPI-X regulation. In their enthusiasm to focus on the costs of rate-of-return regulation, the question of whether gold-plating and excess costs might actually be desirable was largely ignored.¹¹ And there was a good reason for that neglect in most utilities in the 1980s and 1990s, as noted in section II above. Excess supply (in electricity and later gas) and rapid revenue growth (in telecoms) meant that these concerns were not relevant, apart from in the water and railways industries, where, not surprisingly, RPI-X was much less successful.¹²

These mechanisms for 'solving' the natural monopoly market failure have, over time, been less successful than some envisaged, and the benefits confined largely to sweating the existing assets and to increasing information, rather than *solving* the

investment and pricing problems.¹³ In the end, the need for detailed appraisal of operating costs and investment plans cannot be evaded, and some element of planning has been increasingly seen as essential.

One regulatory response to this recognition has been to try to drive competition as far as possible into the networks themselves—by arguing that the natural monopoly is confined to the *coordination* of networks, rather than producing the outputs—and by unbundling as much as possible of the networks themselves.¹⁴ This strategy has had some successes, particularly as information technology has changed the cost structures (and hence the domain) of natural monopolies, but it runs into yet another market failure—the public goods problem.

Unlike most economic activity, networks display interdependencies such that the sum of the individual parts is not the same as the whole. Put simply, changing any one part of a network can potentially affect all the other components. For example, if a power station is added to the north-east of the national grid, it will cause changes in power flows throughout the network, requiring investments in reinforcements in its different parts.

It follows from this public-good dimension that users of the network benefit from the network *as a whole*, and not just the disaggregated part to which they immediately have access. Therefore, the basis of charging to recover network costs cannot be easily disaggregated. Networks are necessary to ensure that the actions of any one user do not unduly limit those of others. By providing a *system*, they in effect provide the insurance that, should a consumer need the service, it will be available on demand. The correct charging mechanism therefore is, in an important sense, a matter of regulatory choice, given that the service is provided by a monopoly with a monopolist's tax base. (On network pricing struc-

¹⁰ Ofgem (2001b) sets out proposals for this approach.

¹¹ The classic reference here is DTI (1983), known as the Littlechild report after its author. It is here that RPI-X is first advocated as a regulatory tool in the context of British Telecommunications.

¹² See Helm and Rajah (1994) and Cowan (1997) on water, and Helm (2000) on rail.

¹³ Note, too, that RPI-X takes the existing price level as *given*, making no attempt to address the serious mispricing inherited from the public sector.

¹⁴ This approach is to be distinguished from that of separating out natural monopoly from competitive activities, such as electricity grids from generation.

tures, see the articles by Claude Crampes and Jean-Jacques Laffont and by Robin Mason and Tommaso Valletti in this issue.)

The existence of a tax base allows revenue to be raised to meet the costs of the network on a variety of criteria. If efficiency is the sole objective, then access pricing regimes divide in practice between those that focus on long-term investment incentives and those that focus on the efficient use of the existing networks. In theory, as we saw above in discussing auctions, the two should be connected, but in practice they are often not. A good example is the development of new infrastructure networks. In the case of the building of the natural gas networks in Britain, a *shallow* connection charges regime was used, such that new customers joining the network paid approximately the short-run marginal costs. This encouraged the growth of the customer base, yielding an externality benefit to existing customers through a wider base to spread the fixed costs. Something similar has been provided by the mobile phone and Internet start-ups in recent years. By contrast, the treatment of additional small-scale embedded generation on the British electricity network has been rather different. Given that the existing network is based on large-scale power stations, the costs of small intermittent suppliers in the distribution network are considerable, with the result that *deep* entry charges (i.e. charging the *full* system costs of connection) have been advocated by some interested parties. However, had the network been built to accommodate diffuse embedded generation, the deep costs would have been much lower. Indeed, such a network might actively want to encourage new entry to increase the portfolio diversity, leading to a focus on shallow-entry costs.¹⁵

Efficiency is not, however, the sole objective of network provision and pricing. Most have universal service obligations which entail requirements to discriminate in favour of more isolated geographical locations and poorer customers. (Industrial policy may also play a part.) The extreme version of this

approach is the postage stamp—a universal price and service provision, independent of the costs of providing the different components of the service.¹⁶

The merits of an approach to distributional issues through cross-subsidization depend upon the ranking of objectives (which is ultimately a political matter) and the relative efficiency of cross-subsidy as against other ways of achieving the distribution objective, such as social security. This is a complex matter because the form of the cross-subsidy has a number of distinct efficiency consequences. For example, the universal service obligation in postal and telecoms services provides a positive externality to other users: the fact that a customer can send a letter to anyone in Britain within 1–2 days is a valuable option; and the fact that a customer can be telephoned by people in remote areas adds to the value of them having a telephone.¹⁷ In other words, a distributional policy in favour of rural customers might approximate the setting of short-run marginal cost prices, which could be advantageous in efficiency terms if these more remote customers are also more demand elastic.

A final major source of market failure is the environment. Most utility networks convey pollutants to customers, or create or facilitate pollution. The users of road and rail networks generate emissions, and take up large tracts of land to the detriment of biodiversity. The conversion of fossil fuels by energy industries is responsible for much global warming and acid rain. Other networks—such as telecoms, the Internet, and postal services—potentially reduce the need to travel and can reduce energy demand. Any environmental policy will therefore have a substantial impact on network utilities.

These examples illustrate the complexity of the environmental impacts. In the case of energy, it is cars, power stations, and domestic boilers which transform energy and lead to emissions. Transport of gas and transmission of electricity themselves lead to energy losses, methane leakage, and land use.

¹⁵ These costs are also reflected in the new electricity trading arrangements (NETA), through higher balancing charges. See Ofgem (2001c) regarding NETA and renewables. On the role of spot markets and NETA, see the article by Richard Green in this issue.

¹⁶ As its name implies, postal services have typically been provided on this basis, creating considerable problems for the introduction of competition—see Postcomm (2001).

¹⁷ See Armstrong (1998). See also the article by Mason and Valletti in this issue.

The demand for these products is determined by a combination of the component prices which customers face *in aggregate*. Thus, charging for road usage will reduce the amount of car pollution, and higher transmission and transportation charges will reduce electricity and gas demand. There is also a locational aspect to pollution: inner-city car use has different environmental costs to rural use. Any regulatory regime for network infrastructures should incorporate these effects into final prices—but few, if any, actually do so.

The conclusions that emerge from this brief review of the various sources of market failure are that it is the *interaction* of market failures which provides the source of many of the difficulties in network regulation. First-best solutions to each failure considered separately will not necessarily produce optimal networks or optimal prices. Seductive though it is to imagine a set of prices which provide a 'solution' for each failure, there is little practical escape from the need for detailed regulatory oversight and an element of network planning. Market-based approaches *complement* the traditional network focuses of regulatory control, but they cannot on their own provide a complete substitute.

Important, too, for policy purposes is to note that *none* of these market failures is *solved* through liberalization and competition. Thus much of the thrust of European policy, to which we turn in section IV, has had implications for networks, but has not addressed them directly.

These interactions between the market failures have an institutional context: they take place *between* governmental and regulatory bodies. Monopoly regulation has typically been part of the apparatus of controlling cartels, the province of industrial policy and ministries of finance, whereas environmental regulation has typically been dealt with through environmental agencies and separate 'green' ministries. The ways in which these political and institutional interests are played out is largely unresearched in the economics literature, and poorly researched in the political literature. Government failure is typically modelled as a principal-agent

problem, with a difference in objectives and asymmetric information between the regulated and the regulator. Perhaps more important are the games between the principals—between departments and regulatory offices within countries, and between national governments at the European level.

IV. POLICY IN PRACTICE AND SECURITY OF SUPPLY

European Commission policy towards network utilities has had two broad dimensions: the promotion of the liberalization agenda; and the encouragement of network construction and interconnection. In practice, in the 1980s and 1990s, the former has had priority, while the latter has been left largely, but not exclusively, to companies and governments.

The liberalization agenda has its origins in the EC's 1986 White Paper on *Completing the Internal Market* and its manifestation in the 1992 programme.¹⁸ Concerned that Europe was lagging behind the USA economically, and with progress towards monetary union in some difficulty in the mid-1980s, the 1992 programme was ingeniously designed to bring together a host of different liberalization measures within a single package, which would *in aggregate* make every member state a winner, even if there were losers for each of the individual components.¹⁹

The utilities were initially excluded from this programme for the very good political reason that agreement was unlikely to be forthcoming among member governments. Instead, a separate set of initiatives was launched, centring on the completion of the internal energy market and the liberalization of telecoms. (Postal services and transport were regarded as politically 'too difficult' at this stage, and were to be added later.)

Although there are close parallels between the energy and telecoms initiatives, we here concentrate on energy. The draft energy directives were designed upon classic Commission policy lines. There was to be a series of stages which would

¹⁸ See the article by Jacques Pelkmans in this issue for a comprehensive analysis of the host of liberalization initiatives in each of the sectors.

¹⁹ See the issue of this journal concerning the European internal market: *Oxford Review of Economic Policy*, Vol. 9 No. 1, 1993.

'peel the onion' gradually back, exposing the natural monopoly core, and introducing competition in generation and supply. Crucially, these early draft directives recognized that negotiated third-party access (TPA), by which the dominant players entered into bilateral arrangements on a contractual basis with each other, themselves typically vertically integrated, would be unlikely to result in significant actual competition, and that regulated TPA would be preferable.²⁰

These draft directives ran into very considerable political difficulties, because of the combination of powerful incumbent resistance and the more general climate of the debate about European integration. Thus, opposition from dominant incumbents, such as EdF, Ruhrgas, and RWE, was reinforced by concerns about European security of supply and subsidiarity. In this latter case, it was recognized that the creation of a well-functioning set of energy markets would require regulation at the European level to set tariffs for grid access and to police conduct. This was strongly opposed by member states wishing to limit the accumulation of power in Brussels and the transfer of sovereignty from national governments and regulatory institutions.

Most of the 1990s were spent in attempts to gain acceptance from France and Germany for liberalization in energy markets and eventually a weak electricity directive and an even weaker gas directive were agreed in 1996 and 1998 respectively.²¹ Indeed, while national governments failed to agree at the European level, the main impetus came from their own domestic liberalization plans. Britain gradually opened up its supply markets in a transition plan from 1990 through to 1998/9; Germany allowed full supply competition in 1998; and there were initiatives in all the European member states, with the exception of France. At the end of the decade, the Commission tried once more to bring in further European legislation to speed up the process and to establish a degree of harmonization to the internal energy market. Proposals for new directives were taken to the Stockholm Summit in 2001, but a combination of French and German interests defeated the initiatives.

In the meantime, changes in market conditions had begun to shift the emphasis away from the competition model towards one of oligopoly. At the industry level, a series of mergers took place which reduced the number of players. Large-scale mergers occurred notably in Germany, where, as noted above, VIAG and VEBA merged to create E.ON, which in turn gained a major stake in Ruhrgas, which in turn was the leading foreign company allied with Gazprom. The German market now has two overwhelmingly dominant players in the electricity market (RWE and E.ON). EdF, the largest electricity utility in the world, has also expanded its position in the European market, with significant acquisitions in Germany, Italy, Austria, Hungary, Switzerland, and the UK.

These consolidations have been facilitated by benign neglect from the Directorate-General for Competition in the European Commission, which has tended to treat each separate country market as the basis for assessment of dominance. Thus, when EdF bid for London Electricity and then for SWEB's supply business, the Commission considered the British market as the relevant domain, including only the value of electricity exported from France through the interconnector as additionally relevant in estimating market share. Similarly, when EdF bid for a share of the Germany utility, EnBW, it was argued that, since EdF did not have a presence in the German market, its acquisition would increase competition *in the German market*.

Although this approach was no doubt legally correct, there was a disconnect between the policy of *creating* an internal *European* market in energy, and the *facilitation of greater concentration* by the dominant players in the name of increased competition in markets. The result in electricity is that around seven companies now dominate a European market of some 350m customers, and that further liberalization will probably be confined largely to a game between a small number of dominant (regional) monopolists or oligopolists. In an important sense, this will be a competition with not enough players, and the lesson is that policies aimed at promoting competition in particular sectors need to

²⁰ See the issue of this journal on energy: *Oxford Review of Economic Policy*, Vol. 7 No. 2, 1991.

²¹ COM 96/92/EC and COM 98/30/EC.

have a supporting merger policy regime. It is now probably too late to create a competitive electricity and gas market in Europe along the Commission's original model of the early 1990s.

There are two broad defences to the twin failures (weak directives and allowing concentration) which have been put forward. These are: first, to claim that the *European* gas and electricity markets are immature compared to *national* markets, because the former lack an integrated infrastructure, while most of the latter typically have well-developed electricity grids and gas systems and hence it is not surprising that little European-level competition has developed; and, second, to claim that the priority for Europe is to address security of supply, in the context of growing gas dependency and environmental constraints.

Let us start with the claim for immaturity and the focus on interconnection. On the development of greater interconnection, the Transit Directive 1990²² was designed to encourage the building of new electricity transmission and gas pipeline assets, but has had only limited success. The benefits from interconnection are twofold: it should increase the resilience of any particular national market to shocks; and the portfolio effect of more power stations and gas fields interconnected means that the overall capacity margins can be reduced. In electricity, this is likely to result in a significant economic gain.²³

Interconnection is not, however, necessarily in monopolists' interests. Connections *between* regional or national geographic monopolies are the route through which not just electricity or gas, but also competition is transmitted. For this reason, the creation of national electricity and gas systems has either been the task of public bodies—as through the Central Electricity Board in the 1930s and the Gas Council and British Gas in the 1970s and 1980s in Britain, and through EDF and Gaz de France in France—or through collusive oligopolies, as in Germany. Interconnection does not happen spontaneously in liberalized markets: it requires intervention. On this argument, as with the creation of a competi-

tive market, the role of the Commission is not one of facilitation, but rather a more proactive one of intervention. And, as with the competition approach, that runs into political objections on the grounds of subsidiarity.

In practice, in energy markets, the Commission has had to rely on 'soft' legislation, building on a series of methodological papers and working with national regulators to try to gain acceptance of the need for a more regulated approach to TPA, to unbundling and the creation of separate system operators acting independently of generators and suppliers.²⁴ The weakness of the 1996 and 1998 directives, and the failures at Stockholm have given it little choice.²⁵ The main institutional instruments have been the so-called Florence and Madrid processes, whereby the individual member states' regulators try to form a coalition of interests at the European level. This, however, has been painfully slow, not least because there is, as yet, no German energy regulator in a context in which Germany accounts for around a quarter of the European population and even more of the European economy, and where France's nuclear interests need to be taken into account. Without further legal powers to create markets and market institutions, progress is bound to be limited.

The second policy response to the failures of the directives and to increased concentration has been to shift the focus to security of supply. In 2000, the Commission published a Green Paper entitled 'Towards a European Strategy for the Security of Energy Supply' (EC, 2000). It has two key points: that Europe will be 60 per cent dependent on imported gas by 2010; and that emissions of carbon dioxide (CO₂) are set to rise sharply in the next two decades. The gas dependency has a political dimension, since the main sources of supply will be Russia and, to a lesser extent, Norway. The CO₂ growth has led to further advocacy of specific technologies, notably nuclear power and renewables, neither of which is likely to prosper in the British style of liberalized electricity markets. It is argued that Europe ought to change tack from the Stockholm draft directives to a more interventionist policy. In

²² Council Directive 90/547/EEC, 29 October 1990.

²³ See Helm (1991, 1993).

²⁴ See DG TREN (2000) and European Transmission System Operators (2000, 2001).

²⁵ See EC (2001a,b,c).

this context, it is further claimed that large firms with market dominance are more likely to be able to carry the investment costs of nuclear and renewable projects, because of the ability to impose the costs on consumers (implicitly, rate-of-return regulation) and because of economies of scale and portfolio benefits.²⁶

The problems posed by gas dependency and the development of nuclear and renewables are often ignored by advocates of the competitive markets approach. It is argued that markets will price in security-of-supply concerns, and that with the development of capacity auctions and energy trading, futures markets will enable the risks of dependency to be hedged. However, in the current context, with significant market power and consequently thin futures markets, this route is unlikely to be available. Furthermore, the long-term take-or-pay contracts which nuclear and renewables would need will not be forthcoming from the kinds of energy trading markets being developed, notably in Britain. Long-term take-or-pay contracts will need active policy intervention, as demonstrated by renewables policy across Europe. Nuclear risk will ultimately need to be underpinned by governments, since the liabilities cannot be contained within the limited-liability status of private firms.

It does not, however, follow from these remarks about the need for a proactive European energy policy that markets and competition have little or no role to play. On the contrary, market mechanisms are generally likely to be the most effective policy instruments. In the case of gas dependency, the problem is that there is no price placed upon system diversity. Yet diversity is not an absolute constraint, but rather one with costs and benefits. Electricity network owners and operators typically have a duty to ensure supply and, in meeting this, they face a number of competing options. There is no reason why these cannot be priced. On CO₂ and related greenhouse gases, there are a number of supply-side options (including, but not limited to, renewables and nuclear), as well as opportunities to increase energy efficiency and bear down on energy demand. The carbon tax is the first-best instrument to sort of which of these options is least-cost, and

emissions trading a second-best in the context of pre-set supply-side quotas (Helm, 2001d).

These considerations of the energy sector indicate an important role for policy institutions at the European level. The alignment of competition policy with the liberalization process needs to be set in the wider context of (i) increasing interconnections and (ii) policies aimed at properly rewarding diversity and non-carbon technologies. Solutions to these problems will not occur naturally, through a policy solely based upon liberalization and *laissez-faire*. They require an active energy policy. To achieve this, new institutions will be needed to address these multiple market failures in a consistent fashion, and it is to these which we now turn.

V. EUROPEAN REGULATORY INSTITUTIONS

As discussed in section III, the widespread prevalence of multiple market failures, combined with the importance of these network industries to the European economy, means that network utilities will need regulation for the foreseeable future. Private-sector natural monopolies or natural oligopolies will not set optimal tariffs or access prices, and where these are vertically integrated, competition may be inhibited. Furthermore, and crucially, monopolies are unlikely to invest optimally.

These economic theoretic insights have, as we saw in section IV, been poorly reflected in the practice of network policies at the European level in the 1980s and 1990s. The energy networks remain fragmented and largely nationally based, grouped together around a small number of very large dominant companies. Environmental costs have not been fully met. The conclusion that follows is that the Commission's attempts to create competitive or environmentally reflective European energy markets have largely failed. In other network utilities, the record is more mixed, but the presence of rapid technical change and strong demand growth has no doubt been a significant factor in encouraging competition to develop. Nevertheless, the roll-out of broadband and the

²⁶ For a critical note, see Helm (2001c), a submission to the House of Lords inquiry into the Green Paper.

consequences of the (nationally organized) 3G licence auctions are hard to regard as optimal.

It is tempting to blame this failure on mistakes in the design of specific policies and directives. Market design and the details of legal rules matter greatly—as Paul Joskow illustrates in his review of the California crisis in this issue. However, markets do not exist in a vacuum, but rather in the context of complex sets of property rights, themselves represented in conduct rules placed on market participants. Some of these are defined by general competition and contract law, but in utility markets, where access to network facilities is a necessary condition for supplying services and the effects of pollution are complex, sectoral regulation is an essential prerequisite. Regulators need to set the rules and police the consequent conduct.

As noted above in section IV, regulation of networks has been largely a national affair, particularly in energy, while competition policy is increasingly at the European level. The inconsistencies between the sectoral and general policies have, as also noted above, resulted in a level of concentration which prejudices a competitive energy market. This is, however, less a mistake by the Directorate-General of Competition, or the Directorate-General of Energy and Transport (DG TREN)'s failure to exercise proper influence, but rather a reflection of the disconnect between the *location* of regulatory institutions.

For these reasons, there is a case for the creation of European regulatory institutions, where primary duties relate to the Europe market *as a whole*, rather than to the special interests of member states. Common rules with regard to transmission rights and access terms would considerably improve both the location and form of investment in infrastructure assets. The gains from interconnection accrue *between* countries rather than to individual markets, providing a European public good. For example, the gas interconnector between Britain and the Continent improves the security of supply in *both* Britain and on the Continent in Germany, the Netherlands, and Belgium. Interconnection of EDF's base-load nuclear power stations would allow other countries to invest more in peaking plant and yield the benefits of a wider European portfolio.

A European regulatory body would not necessarily need to carry other implementation functions. It could be focused narrowly on the setting of regulatory rules and have a role in adjudicating in cases where agreement is hard to reach by national regulatory bodies. It would operate within the context of an overall energy policy created by the Commission through the usual political channels.

As with energy, communications also needs European regulation. Both sectors have seen their natural monopoly networks migrate to the European level, and as a general proposition, regulation ought to be co-extensive with the domain of the natural monopoly. In the inter-war period, most networks were local, and regulated at the local level. After the war, most migrated to the national level, and in consequence, most countries developed a national focus to regulation, often through nationalized monopolies. The changes in the underlying cost functions now dictate a further, upwards, migration.

Consistent regulation of network utilities at the European level would assist in promoting efficiency in the use of the existing networks, and promote interconnections. But, as noted in section III, the market failures are multiple, and include environmental and social components. Where the different concerns are dealt with by different political and regulatory bodies, the outcomes are likely to reflect the relative powers of overlapping institutions, rather than the optimal policy mix.

For these reasons, there has been considerable interest in the further coordination and integration of sectoral bodies with environmental departments and regulatory agencies. In the UK, the Department of the Environment was merged with transport in 1997 to form a Department of the Environment, Transport and the Regions. In 2001, environment was taken away from transport and merged with agriculture to form the Department of Environment, Food and Rural Affairs. These restructurings were dictated as much by politics as by the need for policy coherence, but there remains an unease about the sectoral linkages with environmental policy. It has also been reflected in the placing of environmental objectives on energy and transport regulators across Europe—in the UK by the placing of formal govern-

ment guidelines on environmental and social matters on Ofgem in the Utilities Act 2000.

In the economics literature, there have been a few attempts to analyse the effects of competition between regulatory institutions. The idea, advanced notably by Siebert and Koop (1993), is that the performance of regulatory bodies will affect the competitiveness of the regulated industries, and differences in performance will thereby feed back to regulatory reform. In time, there will be convergence on the 'correct' model. Harmonization of regulation should, in Siebert and Koop's view, be the *outcome* of a competitive process between regulatory bodies, not imposed from above.

Regulatory competition is not, however, as transparent as competition in product markets. There are myriad factors which determine outcomes in network industries, and the gains and losses accrue to different interest groups. Bureaucratic bodies acquire their own objectives, typically involving a growth in budgets and staff levels. These tensions are reflected particularly strongly when different institutions compete for influence over a particular variable—such as the price of electricity or the level of environmental capital expenditure. Although there are many drawbacks to the creation of large overarching institutions cutting across market failures, the absence of defined trade-off between objectives leaves the allocation of resources to be determined in terms of institutional bargaining. The outcomes are unlikely to be optimal.

At an early stage in the development of both sectoral and environmental regulatory institutions at the European level, it may be premature to suggest anything more than an attempt by the different bodies to engage in joint research, consultation exercises, and cooperative working procedures. However, as the environmental constraints increasingly bear down on energy and transport, in a very real sense energy and transport policy become sub-sets of environmental policy. Institutional change to reflect these new concerns is likely to follow.

VI. CONCLUSIONS

After a decade of excess supply and low oil prices in energy markets, and an explosion of telecoms-

related technologies, the focus of network policy has begun to shift away from liberalization and a primary reliance on competition towards a greater concern for investment. It is increasingly being recognized that network utilities comprise a significant complementary component of the European economy, and that a legacy of leaving policy to a large extent to nation states has stunted the development of internal markets for the energy sector, and, to a lesser extent, telecoms, and resulted in inefficiencies and lack of interconnection, and undermined some network integration economies of scale. The European networks are, in these senses, inefficient, and this conclusion has a significant, though difficult to quantify, effect on the productivity and competitiveness of the European economy.

Network policy is inevitably complex because there are multiple market failures. Yet the interactions between monopoly, competition, and environmental policy are often ignored. The results have been detrimental in energy—with merger policy reducing the scope for future European competition very significantly, and liberalization favouring gas-fired power stations over non-carbon fuels.

Because market failures are multiple, a coherent policy for energy is, therefore, inherently hard to design, and inevitably policy will require detailed implementation and regulatory oversight. General competition policy is unlikely to be sufficient, being narrowly focused on one market failure and poorly designed to address natural monopoly. Sector-specific policy is therefore required, which in turn requires appropriate institutions.

For as long as the creation of European regulatory bodies to oversee European networks is resisted, the incoherence of current policies is likely to remain, and therefore the focus will continue to be on the national interests of member countries. The current Energy Policy Review in the UK is an example of this approach (as were the different national approaches to the 3G licence auctions). The result is the loss of the additional economic benefits which potentially arise at the European level. The failure to capture these European benefits will in turn continue to undermine European attempts to compete with the more integrated, yet still federal, structure of the US economy, where the Federal Energy Regulatory Council and the Federal

Communications Commission play analogous roles to those advocated here for the European Commission.

Such institutional reform is a necessary condition for greater policy coherence, but it will also need to incorporate environmental and other concerns. The political resistance to further concentration of regulatory powers at the European level also inhibits such developments, and will probably continue to do so. However, it is important to recognize that it does this at a price to the European economy as a whole.

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File

not in MTR.



10 DOWNING STREET
LONDON SW1A 2AA

From the Prime Minister's Chief of Staff

21 November 2001

Dear John,

Thank you for your personal letter of the 8th November regarding the Parliamentary delegation to the Council of Europe. I can understand your frustration.

But as you know the decision on the split between full and alternate places for minor parties on the delegation is in the gift of the Liberal Democrats, who represent all the minority parties in matters such as this. The recommendation was made by the Leader of the Liberal Democrats, who unfortunately did not feel able to respond to the representations made to him regarding your membership.

The Leader and other senior members of the group greatly value the contribution you have made to the work of the UK delegation since you have been a member of it. I do hope you will find yourself able to continue to play a significant role in the deliberations of the Council, which the Prime Minister would warmly welcome.

We had a go again this time, but the Libs
were not having it. I am sorry.

Yours
✓

JONATHAN POWELL

The Lord Kilclooney of Armagh,
House of Lords



House of Lords
London SW1A 0PW

Clarke
Date of

[Handwritten flourish]

8 Nov 00.

STRICTLY PERSONAL

Dear Jonathan,

The PM's Parliamentary Reply denotes myself to being an Alternate Member of the UK Delegation to the Council of Europe.

As 3 years ago, when this also happened, this may be on the recommendation of the Liberal Democrat Chief Whip. Although he speaks usually for the Minority Parties this time he had not the unanimous support of all Minority Parties. It seems unfair that his Dems, with 65% of Minority MPs, get 100% of Full Membership of Full Minority Party Representation and 75% of Alternate Minority Party Representation. If the decision is made, after consideration, by the PM then naturally it is accepted. On the other hand if, as 3 years ago, it has slipped through the system on the unfair recommendation of the Lib Dem Chief Whip then once again it would be good if it were recorded as before.

Sincerely,
[Signature]

P.S. Sorry to mention this with so many other things happening at present!

The Rt Hon Patricia Hewitt MP
Secretary of State for Trade and Industry

RESTRICTED - POLICY



The Rt Hon Jack Straw MP
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20 November 2001

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OJ
cc: GW
SSW
MT
FL
MB
SH
SP.

Dear Jack,

COMMUNITY PATENT

I am writing to ask for colleagues' approval (by 23 November) for my proposed approach to negotiations on the Community patent at the November 26 Internal Market Consumers and Tourism Council. The Community Patent is a key Lisbon deliverable, and our objective is to deliver a workable system that is attractive to business. But we also need to be prepared in case we and allies are unable to reach a package at this IMC which provides for the efficient, affordable and legally certain system which business needs.

The Community patent discussions have been complicated and intensive. For this last meeting of the IMCTC before the end of the year, the Belgian Presidency seeks agreement on a common approach covering all the main issues. This would enable implementation through revision of the European Patent Convention and adoption of the Community patent regulation, together with other necessary instruments.

We do not yet know exactly what will be in the final package, but current indications are that moves away from the original Commission proposal are causing industry alarm. The main areas of industry concern are costs, which will be heavily influenced by any requirement for multiple translations, and litigation arrangements. The Spanish may try to reinstate links with a utility model system, which industry strongly rejects (on grounds of legal certainty).

UNICE's latest position paper says they would rather have no Community patent than a bad one. Our view is that a unitary patent system for the whole Community, which is less attractive than the existing alternatives - national patents and the European system which bundles together national patents - is unlikely to contribute to research and innovation in Europe.

RESTRICTED - POLICY



We are working closely with like-minded colleagues and the Commission to ensure a satisfactory outcome in November. I will be attending the Council and will need to have room for manoeuvre on the day. However, we need to be clear about our bottom lines, in particular those elements which would be essential if we are to accept a common approach at the Council. Our key requirements are set out in the attached note. If we cannot secure an acceptable package, we should be prepared to withhold our support.

The patent requires unanimity to proceed. It is highly likely that any deal we find unacceptable will also be unacceptable to others including the French, Germans, Dutch and Danish for broadly similar reasons. It would also be heavily criticized by business. While it would clearly be desirable to meet the Lisbon deadline, I am convinced that our primary objective must be to deliver a Community patent which genuinely encourages innovation, even if this means delaying agreement.

A failure to agree at the IMC would not be the end of the matter – the Belgian Presidency already have Laeken in mind (as a remote safety-net) and the Spanish are keen to achieve results under their Presidency. The Community Patent Regulation and the negotiating lines with the European Patent Organisation will still need to be finalised under the incoming Spanish Presidency. The present Belgian Presidency package should give the overall steer to the subsequent work. Equally, if EU States collectively agree not to pursue the Commission proposal, there are intergovernmental routes to a unitary patent which could be explored. But our preference should still be to deliver a Community Patent which fulfilled the remit we set at Lisbon and thus was welcomed by the business community.

As we need to finalise lines and fall-back options for the 26 November Council, I would be grateful if colleagues could reply **by 23 November at the latest**, allowing time for any discussion. I am sorry for the short deadline, but this is a consequence of the speed and complexity of negotiations as the Presidency strives to meet the Lisbon "deadline" of the end of this year.

I am copying this to the Prime Minister, members of EP Committee and to Sir Richard Wilson, Sir Stephen Wall and Sir Nigel Sheinwald.

Best wishes,

A handwritten signature in black ink, appearing to read 'Patricia Hewitt', with a horizontal line extending to the right.

PATRICIA HEWITT



ANNEX – COMMUNITY PATENT NEGOTIATING LINES

The Common Approach package has to offer an attractive alternative to the existing European patent system. We will need to scrutinise closely the full package to ensure its high quality, competitiveness and legal certainty. The Community Patent's crucial and unique feature for industry is its unitary effect within the EU; because of this we need to find a non-discriminatory language regime which does not upset legal certainty or drive costs up beyond what industry can accept.

2. In line with these requirements we are looking for a package which **ideally** would have the following characteristics:

- no translation requirements for the patent to take effect after grant by the EPO (Commission proposal)
- flexible and non-discriminatory arrangements for involving national patent offices in processing, subject to independent quality assurance mechanism applying equally to the EPO
- Community jurisdiction over disputes (validity and infringement) at first and second instance (Commission proposal)

and only if discussion gets this far

- distribution scale for renewal fees which does not unduly penalise the UK.

3. As a **fall-back** position we could accept the following:

- EPO three-language regime + one extra translation
- (in extremis) no national office participation, but must have quality assurance mechanism as above
- Community jurisdiction including decentralisation so far as to allow for a regional presence in Germany (but not national jurisdiction/judges as such)

4. If the package contains any of the following elements, we may need to **reject** it:

- translation of any part of the patent into all Community languages, especially if no cap prior to EU enlargement
- NPO participation without quality assessment, or discriminatory NPO participation
- national jurisdiction at first instance for validity/infringement cases
- excessively skewed disbursements to small states making the patent uneconomic (though some may be pay-off for a satisfactory language regime)
- commitment to introducing a utility model system

In considering our stance our overriding consideration should be whether the resulting arrangements are likely to deliver the efficient, affordable and legally certain system which business needs.



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

20 November 2001

Dear Nick,

**'INTERSTATE': BRINGING FUTURE EU AND US
BUSINESS LEADERS TOGETHER**

Many congratulations on your appointment. You really are paying the price of success. I hope it is not proving too disruptive to your family – or your enjoyment of your SS100.

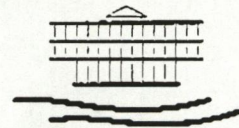
/ I wanted to commend to you the 'Interstate Programme' (a non-profit venture), which brings together the future leaders of business from the EU and the US. In short, 'Interstate' brings together in Brussels future business leaders from the best MBA programmes in America and Europe. For three days each Spring, the participants in the Programme discuss issues of relevance to the EU/US transatlantic relationship, ranging from future economic priorities to shared interests in international security. Backed by the Financial Times, 'Interstate' has met for the last two years, and will meet again in Brussels in April 2002. The individuals who come together in this annual programme will be future leaders on both sides of the Atlantic, and it struck me that this is something in which Ford might be interested in as sponsor or participant.

If you thought it worthwhile, perhaps you could pass it on to the right quarter. I know Jim Whittell, the director, from his British Council days and he is a true professional.

*Yours ever,
Stephen*

STEPHEN WALL

Sir Nick Scheele KCMG
Ford (USA)



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Mr Roger Liddle
Policy Unit
Prime Minister's Office
10 Downing Street

UK-London SW1A 2AA

via fax: 0044- 20 7930 5520

*Pl let them
have Roger's
new fax no.
✓ AC*

14 November 2001

Dear Roger,

With regard to our discussion we had yesterday, please find enclosed the executive summary of our strategy paper "Thinking Enlarged" and the list of content. We will launch this report on November 26th in cooperation with Commissioner Verheugen. Maybe it can give you some "food for thought" for your current projects.

I would like to thank you for the great pleasure to meet you yesterday and that it was possible to share a few thoughts with you on European integration knowing quite well that you are extremely busy in these uncertain times.

Looking forward to stay in touch and sending you best regards from Brussels,


Annette Heuser

Enc.: 11 pages

Bertelsmann Foundation and Center for Applied Policy Research

(eds.)

Thinking Enlarged

The Accession Countries and the Future of the European Union

A Strategy for Reform

by the Villa Faber Group on the Future of the EU

Contents

Foreword

The Villa Faber Group on the Future of the EU

Executive Summary I

Overcoming the East-West Gap in EU Discourse 1

1. Democratic Governance 5

1.1 The Perspective of the Accession Countries 5

1.2 Key Elements of Democracy in a Future EU 8

1.3 How to Improve Democratic Governance in the EU 9

 Opting for a Constitutional Treaty 10

 Clarifying European and National Competences Prudently 13

 Involving National Parliaments 15

 Reforming EU Institutions and Decision-Making 16

2. Comprehensive Security 21

2.1 The Perspective of the Accession Countries 21

2.2 Key Elements of Comprehensive Security 22

2.3 Developments in the EU's Foreign and Security Policy – Opportunities and Problems in View of Enlargement 24

 Strengthening the EU's Foreign and Security Policy 24

 Direct Neighbourhood of an Enlarged EU 26

 Coping with Areas of Dissonance 27

2.4 Internal Security Issues – Towards Coherence and Community Action 30

<u>3. Solidarity and Co-operation</u>	37
<u>3.1 The Perspective of the Accession Countries</u>	37
<u>3.2 Key Elements of Solidarity in a Future EU</u>	38
<u>3.3 How to Orient EU Policy-Making Towards Solidarity</u>	39
<u>Reforming Spending Policies</u>	39
<u>Institutional and Political Dimensions of Solidarity</u>	42
<u>3.4 Potential for Enhanced Co-operation</u>	43
<u>From the Convention to Ratification – Involving Future Member States</u>	49

Members of the Villa Faber Group on the Future of the EU

Acknowledgements

Executive Summary

This paper develops a position the prospective new member states might take on the future of the European Union. It has been written by a group of EU experts from the accession countries and the current EU member states who are concerned about the gap between the EU-15-centred views of the current 'future' debate and a public debate in the twelve accession countries that is preoccupied with negotiating and preparing accession. The Group seeks to overcome this gap by formulating three main priorities the new member states will and should address in an enlarged EU: *democratic governance, comprehensive security, solidarity and co-operation.*

Democratic Governance

The Group advocates that enhancing a democratic political process, improving citizen participation and reinforcing the Community method (see 1.2) are general aims that should guide the approach of the accession countries towards the agenda items of the so-called post-Nice process: the simplification of the Treaties, the status of the Charter of Fundamental Rights, the delimitation of competences, and the role of national parliaments. In view of these aims and items, the Group proposes the following actions:

- To enhance the democratic political process, citizen participation and transparency, a *Constitutional Treaty* should be elaborated. The Treaty should be 'constitutional' in the sense that
 - Europe's public and citizens are involved in its formulation;
 - the Treaty reform outcomes go beyond a mere editorial simplification;
 - the new Treaty integrates all the essential, constituent provisions of the current Treaties in a first 'constitutional' part. A separate non-constitutional section should include procedural and implementation-related provisions and should be subject to an easier procedure for changing its provisions.
- The new Constitutional Treaty should
 - replace the current Treaties;
 - integrate the Union and the three Communities into an entity with a unified legal personality;
 - abandon the pillar structure of the EU;
 - define the EU's objectives, competences and institutions;
 - incorporate a revised Charter of Fundamental Rights.
- The Constitutional Treaty should contain a *competence structure* making the allocation and scope of EU and national responsibilities more transparent and enabling citizens to hold the respective level politically accountable.
- A *clarification of competences* should not, however, be used to stipulate a concluding, definite catalogue of competences, to merely re-nationalise policies or to relieve European integration of its political and solidarity dimensions. Rather, the dynamism of

- European integration needs to be maintained, and competences should be redefined in view of whether the EU can perform a task effectively.
- *National parliaments* must become more involved in the EU policy process, since their current marginalisation both causes and indicates a deficit of democracy in the Union. National parliaments should be involved in the clarification of and political decision on competence assignments. This could be organised at an early stage of policy formulation through stronger consultation mechanisms. In cases of competence disputes a monitoring *Parliamentary Subsidiarity Committee* of national and European deputies could function as a body of appeal.
 - To improve policy deliberation and political accountability of the Council and the European Parliament and to reinvigorate the Community method
 - co-decision should be extended to all issue areas now decided by qualified majority voting;
 - the combination of qualified majority voting in the Council and co-decision by the Council and Parliament should gradually become the general rule governing EU decision-making;
 - the complicated system of triple qualified majority voting should be abolished;
 - qualified majority voting should be extended to the areas of cohesion policy, social policy and indirect taxation.
 - The European Parliament, the Commission and the Council should be strengthened by
 - extending the powers of the European Parliament to the full budget;
 - introducing an All-European list of candidates to the European Parliament;
 - entitling the Parliament to elect the Commission and the Commission President;
 - enhancing the co-ordinating functions and powers of the General Affairs Council with respect to other Council formations (including the European Council).
 - Extending qualified majority voting, eliminating triple majority, endowing the European Parliament with the right to elect the Commission and its President and the further communitarisation of both Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (see below) will in effect *strengthen the Commission* as a driving force for integration.

Comprehensive Security

The Group has identified four key aims to guide developments in the areas of internal and external security:

- (1) Deepen the involvement of the future member states in the formulation and implementation of the EU's external and internal security policies in the pre-accession phase.
- (2) Strengthen the EU's role in international affairs by further deepening integration in the area of the Common Foreign and Security Policy (CFSP).
- (3) Improve coherence between the EU's external action and its internal security policies.
- (4) Build bridges to the direct neighbourhood of an enlarged EU.

In view of these aims, the Group proposes the following actions in the areas of CFSP and Justice and Home Affairs:

Common Foreign and Security Policy

- Effective decision-making, common external action and the need to overcome the out-moded pillar structure will require the enlarging EU to *partially communitarise CFSP*. The traditional civilian aspects of the EU's foreign policy, including non-military crisis management, should be brought closer to the Community method by
 - increasing the role of the Commission with regard to non-military elements of CFSP and linking the offices of the High Representative and the Commissioner responsible for external relations more closely;
 - fully involving the European Parliament in all non-military aspects;
 - striving for more qualified majority voting in the Council concerning the non-military aspects of CFSP;
 - bestowing the right of initiative upon the High Representative and the Commission.
- To strengthen the EU as a holistic international security actor, the Union needs to further develop its *operational assets and capacities*. Current and future EU members will have to intensify their efforts, streamline their overall military structures and increase both their national defence budgets and developmental aid spending.
- The accession states should become more involved in the strategic formulation of EU policies with respect to countries in their direct neighbourhood. The future member states will advocate and contribute to the adoption of an *Eastern Dimension*, modelled according to the EU's Northern Dimension initiative of interregional and cross-border co-operation.
- The EU's security and defence efforts should neither weaken *transatlantic solidarity* nor lead to a de-coupling from the United States, although the possibility of US disengagement must remain part of European strategic calculations.
- EU enlargement has the potential to strengthen the *Euro-Atlantic partnership*. However, transatlantic burden- and power-sharing should lead to a more equal and enhanced partnership from which both sides will profit.
- The future new member states should be offered a *higher degree of inclusion* concerning the EU's European Security Defence Policy (ESDP). The EU should create mechanisms of consultation and co-operation enabling the accession states to contribute to the debate on the development of Europe's security and defence architecture and to participate effectively in decision-shaping.
- To overcome uncertainties, concerns and even confusions over the course of future developments, the current and future EU member states should jointly formulate a *strategic concept* for CFSP/ESDP. Such a concept should define the strategic and operational objectives of the EU's security and defence efforts.

Justice and Home Affairs

- To improve the coherence and co-ordination of CFSP and Justice and Home Affairs (JHA), the EU should take into account the neighbourhood aspects of existing border regimes, visa and immigration policies when designing, implementing and revising common strategies. Proposals on JHA legislation should contain a '*neighbourhood impact assessment*'.
- The *Eastern Dimension* initiative should include a strategy of controlled permeability of the accession countries' eastern borders, a particular focus on their borderland regions, and a co-ordinated approach to manage migration flows together with the accession countries and their neighbours.
- A *European Border Guard* should be established, consisting of border guards from all member states, and based on the principles of equal partnership and reciprocity among new and old EU members.
- Following the fusion of the Single Market and the Schengen zone, there is a rationale for creating a *European Customs Service* composed of customs officers from all member states.
- The EU should develop a *regional approach* to the border control regime. The EU should support the establishment of Schengen-type border controls in countries joining later rather than between an early and a later entrant. Applicant countries not joining the EU in the first round of enlargement could be enabled to join the Schengen Information System on the same basis as Norway and Iceland.
- The EU should commit itself to lifting internal border controls as soon as a new member state meets a *specified set of criteria* regarding the operation of the Schengen regime.
- EU countries should no longer impose *visa restrictions* as an instrument to stop the emigration of Roma from the accession countries. The damage caused to trade, cross-border exchange and human relations is much greater than the possible benefit for the internal security of EU member states. The Union needs to develop a Europe-wide policy for improving the treatment of the Roma minorities and promoting their integration into societies.
- To increase the transparency of EU policies and to improve the conditions for public and political deliberation, the *co-decision procedure* should be applied to all issue areas of Title IV of the Treaty of the European Communities: border controls, asylum, visa, immigration, residence and freedom of travel of third-country nationals, judicial co-operation in civil matters and administrative co-operation.
- Issues of *police and judicial co-operation* in criminal matters should be transferred into the First Pillar and gradually be taken under the co-decision procedure. This reform would help overcome the high degree of distrust between member states' internal security bureaucracies and the concomitant bilateralism.

Solidarity and Co-operation

The Group advocates the concept of a developmental community for the EU that entails: (1) shared values and strong commonalities in models of democracy, rule of law and society among the members, (2) increased support for the less well-off members and (3) functional pooling of state sovereignties, increasingly subject to democratic control.

- The *Community method* is a key element of solidarity in the EU, as it generates solidarity-oriented policy outcomes and filters out the unilateral pursuit of national interests.
- Solidarity should become a *general evaluation principle* (comparable to the subsidiarity principle) orienting the (re-) allocation of EU competences and the necessary scrutiny of the EU's main spending policies, the Common Agricultural Policy and the Cohesion Policy.
- What constitutes a *public good* or a *public policy* to be delivered by the EU needs to be reconsidered and decided by the EU institutions.
- EU institutions should be able to autonomously assign the *revenues* received from the member states, whose contributions to the EU budget should correspond to their economic capacity (Gross National Product).
- The future new member states will expect the EU to demonstrate *strong solidarity and openness* towards applicant states that aspire to join the EU. The EU must include the accession countries in the elaboration of new and the reform of existing policies, and the same rules should be applied to all member states – new or old.
- While it is the task of the future new member states to create the enabling conditions for their economic catch-up process in the Single Market framework, the EU should reform and *refocus* its *spending policies*. Member states should be made responsible for spending EU resources.
- The *Structural Funds* support should focus on the less developed member states in order to better target EU assistance. The current eligibility threshold should be maintained, national co-financing rates more widely differentiated, and the ceiling on Structural Funds inflows increased if a state has a higher absorption capacity. Rural development expenditures that are currently part of the Common Agricultural Policy should be integrated into the Structural Funds.
- The principle of solidarity should guide the use of the instrument of *enhanced co-operation*. Enhanced co-operation based on solidarity between the participants and 'outsiders' of an enhanced co-operation requires
 - the continuous openness of those fields subject to a higher degree of differentiation;
 - the provision of solidarity mechanisms to latecomers enabling them to catch up and join a group of countries that have started an enhanced co-operation.
- The provisions on enhanced co-operation should be changed at the next Intergovernmental Conference. Enhanced cooperation should
 - apply also to policy-fields not covered by the Treaties;

- not remain subject to a possible veto from one or more member states in the area of CFSP;
- also relate to matters having military or defence implications.
- 'Wider-closer' co-operation, as the external dimension of the concept of flexibility, should be explored as an instrument to involve states outside an enlarged EU into the CFSP or other policies.

From the Convention to Ratification – Involving Future Member States

- The decision to grant the applicant countries an *observer status* does not coincide with the future member states' claim to participate as full and equal members in the Convention and might be the source of further disappointment. Based on the perception that their views and positions would not be taken seriously, the accession countries could lose their true interest in the debate.
- The *Convention's agenda* must include the four issues on the post-Nice agenda as well as other pressing institutional concerns. The accession countries should have the opportunity to express their views on which topics should be included in the deliberations.
- The accession countries should be represented in the Convention's *Praesidium*.
- Due to the significance of a next reform as part of an overall constitutional process, the outcome must have priority over the rigidity of any *timetable*. If necessary, a reasonable delay should be preferred to a sub-optimal outcome and yet another Intergovernmental Conference fairly soon afterwards. The Convention must avoid formulating proposals on the lowest common denominator.
- Following the next Intergovernmental Conference, *national referenda* and the *ratification vote* in national parliaments should be held approximately at the same time.
- While no EU member is obliged to ratify the new Treaty, *dissenting states* cannot have veto power and durably harm the integration process. Therefore mechanisms should be designed to attach specific costs to the repeated rejection of a new treaty. In addition, constructive mechanisms should be created to accommodate the concerns of dissenters.



f.

10 DOWNING STREET
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020 7930 4433

13 November 2001

Dear Alec,

INFORMATION AND CONSULTATION

When I spoke to you on the telephone on 8 November I mentioned our concerns about the Information and Consultation Directive.

We very much want to reach agreement on a practical and flexible framework for the information and consultation of workers and believe that the Common Position text provides the basis for doing this. We have significant difficulties with the European Parliament's proposed amendments, which would undermine the compromises we reached in the Council and alienate business.

For example, it is very important that smaller businesses in those Member States that do not have a tradition of information and consultation have more time to adapt to the new requirements. We also think that employers and employees should be free to agree on whatever voluntary agreements they wish. And we are also concerned about the provisions that would allow employees' representatives the ability to delay the implementation of restructuring decisions if proper information and consultation has not taken place.

I hope we can count on your support in maintaining the Common Position as being the best way to ensure an eventual outcome reflecting the Council's objectives.

Yours ever,

J S Wall

J S WALL

Mr Alec Aalto
Prime Minister's Office
Helsinki

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FROM: MICHAEL ROBERTS
DATE: 7 NOVEMBER 2001

→ MR
do you want
to keep?

FILE JMC

FOREIGN SECRETARY

cc: Stephen Wall, No10
Roger Liddle, No 10
Kim Darroch, FCO
John Williams, FCO
Nigel Sheinwald, UKRep

JMC(EUROPE): 8 NOVEMBER AT 0900: CHAIRMAN'S BRIEF

1. I attach a Chairman's brief for the second meeting of JMC (Europe) which you will chair on Thursday 8 November at 9.00am. We are meeting in Conference Room A of the Cabinet Office.
2. Attendance, as on the attached list, is the same as for EP plus two from each of the devolved administrations. **Rhodri Morgan** alone will represent the NAW. **Dermot Nesbit** (UUP) and **Denis Haughey** (SDLP), Joint Junior Ministers in the NI Office of the First Minister and Deputy First Minister will represent the NIE - David Trimble has had to fly to the US. On present plans, **Jack McConnell** and **Nicol Stephen** (Lib Dem) will participate by secure video link: the meeting coincides with the Scottish Parliament's opposition debate on the First Minister's expenses.
3. There are **two agenda items**, both of which were prepared by officials at Wall-Sheinwald on 2 November. The first, **on the future of Europe debate**, is intended to allow the devolved administrations (DAs) an opportunity to contribute to the debate before Laeken and for us to ensure that their public line does not get out of kilter with HMG's. This should occupy the bulk of the meeting. The second item, on the **UK's record on transposition of EU single market legislation**, is intended to be a short wake-up call, inviting Ministerial colleagues (particularly in the DAs) to give this issue high-level attention before

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next March's Barcelona European Council. I do not expect other devolution issues to be raised. But attached to the brief are three short annexes covering topical issues that devolved Ministers might be tempted to raise.

4. You attended the inaugural JMC(Europe) under Robin Cook's chairmanship in March. Joint Ministerial Committee meetings feel in most respects like Cabinet Committee meetings. But there are some differences:

- the "**Memorandum of Understanding and supplementary agreements**" (attached at back of this brief) is the bible on how liaison arrangements between the devolved administrations and the UK Government are supposed to work, and often prayed in aid by the devolved.
- technically, the **secretariat** to this meeting is provided by the Cabinet Office and officials from each of the devolved administrations. Stephen Wall, however, will be at your side.
- as a **purely consultative body**, JMC (Europe) cannot take collectively binding decisions. I shall prepare a record in the normal way. But any **operational conclusions** may need to be tied down following the meeting by means of an EP minute to the Prime Minister, with a separate letter to the devolved.
- the devolved will be keen to win acceptance to the **principle that JMC (Europe) should meet regularly, and particularly before European Councils**. Robin Cook offered "another meeting in the Autumn". You may want to give yourself some room for manoeuvre. Having JMC (Europe) meet before a divisive European Council might force UK Ministers to air their differences in front of devolved Ministers of a different party. An alternative would be to offer a meeting of officials under Stephen Wall's chairmanship in JMC(E)(O).
- the **media** are not usually interested in meetings of EP. But JMC (Europe) is newsworthy at least in Scotland. No 10 are happy to make wider capital out of the opportunity, and in agreement with John Williams will brief the lobby after this meeting. The DAs will no doubt be similarly briefing their media. Your summing up of the

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discussion on the future of Europe debate should include a possible line for use with the media (see para 9 of the brief).

Michael Roberts

Michael Roberts
European Secretariat
Room 342, 70 Whitehall
Tel: 270 0059

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JMC(Europe) (2001) 2nd Meeting

COPY NO:

JOINT MINISTERIAL COMMITTEE ON THE EUROPEAN UNION

MEETING to be held in Conference Room A
Cabinet Office, 70 Whitehall
On Thursday 8 November 2001 at 9.00 am

AGENDA

- 1. The Future of Europe and the Laeken European Council**

Memorandum by the Foreign and Commonwealth Office
JMC(Europe)(2001)2 - to be circulated
- 2. Transposition in the United Kingdom of EU Single Market Legislation**

Cabinet Office
Scottish Executive
National Assembly for Wales
Northern Ireland Executive Committee

2 November 2001

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JOINT MINISTERIAL COMMITTEE ON THE EUROPEAN UNION

MEETING ON 8 NOVEMBER 2001 AT 09.00

TO CONSIDER THE DEBATE ON THE FUTURE OF EUROPE

ATTENDANCE LIST

Jack Straw	Foreign Secretary
Rhodri Morgan	First Minister, National Assembly for Wales
Jack McConnell	Scottish Executive
Nicol Steven	Scottish Executive
Dermot Nesbitt	Northern Ireland Assembly
Denis Haughey	Northern Ireland Assembly
Robin Cook	Leader of the House of Commons
David Blunkett	Secretary of State for the Home Department
Alistair Darling	Secretary of State for Work and Pensions
Paul Murphy	Secretary of State for Wales
Helen Liddell	Secretary of State for Scotland
Lord Williams of Mostyn	Leader of the House of Lords
Patricia Hewitt	Secretary of State for Trade and Industry
Lord (Peter) Goldsmith	Attorney General
Peter Hain	Minister for Europe
Charles Clarke	Minister without Portfolio
Barbara Roche	Minister of State, Cabinet Office
Ruth Kelly	Economic Secretary, HM Treasury
David Jamieson	PUSS, DTLR
Hazel Blears	PUSS, Department of Health
Margaret Hodge	Minister of State, DES
Baroness (Tessa) Blackstone	Minister of State, DCMS
Michael Wills	Parliamentary Secretary, LCD
Alan Michael	Minister of State, DEFRA
Ivor Caplin	Assistant Government Whip
Officials	Sir Stephen Wall, No. 10
	Michael Roberts, European Secretariat
	Will Haire, Northern Ireland Executive
	Barbara Doig, Scottish Executive
	Des Clifford, National Assembly for Wales
	John Williams, FCO.

Item 1: The 'future of Europe' debate

References

- A: FCO paper on the 'future of Europe' debate and Laeken;
- B: Jack McConnell's letter of 14 October;
- C 'Flanders Declaration' of April 2001;
- D: Central Local Partnership (joint DTLR and LGA) paper on European Governance and Future of Europe debate
- E: Nice Declaration on the Future of the Union;
- F: Your letter of 5 September to the Prime Minister on 'The Future of Europe Process: handling the Debate in the UK';
- G: Stephen Wall's reply to Mark Sedwill of 25 October.

Objective

- To allow the Devolved Administrations (DAs) to express their views on both the EU-level and UK national debates on the 'future of Europe', and to consider how they might be involved in formulating the UK Government's policy line;

Handling

You might **introduce the discussion** by saying:

- Welcome to this second meeting of the JMC(Europe). The first, back in March, usefully covered preparations for the Stockholm European Council which focused on economic reform.
- This is an opportunity to consider the so-called 'future of Europe' debate and the Convention (whose details will be decided at the Laeken European Council) which will take forward the EU-level debate.

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- JMC(Europe)s – in line with para A1.9 of the MoU – are to “operate as one of the principal mechanisms for consultation on UK positions on EU issues which affect devolved matters”. We are today fulfilling that function:
- Laeken will be primarily about process: Heads are clear that the Belgian Presidency must not get into the substance of ‘future of Europe’ issues. It will therefore be about agreeing the terms for the Convention, its chair, Praesidium and Secretariat, with a set of open questions as a form of mandate. We shall be working to ensure it does not prejudge the debate that will take place next year in the Convention:
- On the ‘future of Europe’ debate itself, there are two distinct elements:
- First, the **structured EU-level debate**: on this, the FCO paper (Flag A) sets out where discussions on the debate have got to, and options for involving the DAs. I have already noted the modest task assigned to Laeken: we shall have plenty of time to discuss the substantive detail in future, and the FCO will keep all informed about developments at the EU-level. This is likely to end up focused on EU institutional questions about the separation of powers, the extent of co-decision, and the use of comitology - not what most people care about;
- Turning to the **national debate on the ‘future of Europe’**, the debate in the UK has traditionally generated more heat than light. This is an opportunity to shift the terms of that debate, focusing it on the future that we want for Europe – the sort that our constituents want to see. These are the issues that matter to British people – what Europe delivers for them, how it respects national and regional differences in the process, how it overcomes the ‘disconnect’ that is so obvious today:
- I know this debate has already started in certain circles, eg the Commons’ European Committee, the Scottish Parliament, the Welsh Assembly, the Local Government Association and among UK academics. The Scottish Executive has also launched its own debate:
- As politicians, we should work together to get across a shared message about constructive engagement in Europe. We shall be more effective the more we sing together. The FCO paper includes a Core Script, setting out a line for us to take in public: comments welcome.

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You might then ask Ministers from the Devolved Administrations to comment first:

- **Rhodri Morgan** (NAW), well-informed about the EU-level 'future of Europe' debate, and who may revert to the point he made at last week's JMC Plenary, that the DAs should be allowed to attend EU meetings that cover the 'future of Europe' debate, eg Laeken;
- **Jack McConnell** (SE), who signed the Flanders Declaration and is going to Liege on 15 November; *See also @kpt*
- **Denis Haughey** (NIE) will express enthusiasm for DA involvement in the 'future of Europe' debate, but is unlikely to comment on the detail.

You might then invite Whitehall colleagues to comment:

- **Helen Liddell** (Scotland Office) is suspicious of DA intentions and aspirations. She will stress the importance of the DAs sticking to agreed UK lines.
- **David Jamieson** (DTLR) may describe the outcome of DTLR's 7 November Central Local Partnership with local government leaders, and how he will ensure this fits with HMG's overall approach;
- **Peter Hain** will want to describe the debate in MINECOR on 6 November, and what he saw of Scotland's 'future of Europe' debate while in Edinburgh on 5 November.

You might **work through the FCO paper**, inviting questions and comments on each section, ie paras 1-6, 7-10 etc.

You might then focus on **how the DAs are to be involved** and to be associated with Laeken (para 17 of the memorandum), **presenting these as an offer:**

- further **JMC(Europe)s**: or alternatively, **meetings of the officials' committee, JMC(E)(O), chaired by Stephen Wall**, as input to Laeken and subsequent European Councils;

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- via participation in **Minecor**:
- via the **Committee of the Regions** (which will have an observer at the Convention, and where the DAs can play a role in informing the CoR input);
- via the "**structured network**": we shall work to have the DAs formally involved;
- via **Mr Hain** (his visits to Edinburgh and Cardiff):
- via the **national debate** in the UK.

[Defensive:]

- **Attendance at European Councils** is governed by the Treaty: Heads of State/Government plus Foreign Ministers only. Finance Ministers on sufferance. German Laender representatives attended Nice and Amsterdam (ie at conclusion of IGCs), but didn't get beyond the delegation room.

Conclusions and Presentation

You might conclude by:

- underlining HMG's intention to involve the DAs in the formulation of UK policy on future of Europe issues;
- confirming the offer of further JMC(Europe) on future of Europe policy, including at officials level, and Minecors on presentational aspects - as the two principal vehicles for taking forward this involvement;
- stressing the importance of using the agreed lines to take, and avoiding public commitments (eg contained within successors to the 'Flanders Declaration') which might prove embarrassing;
- agreement on the desirability of conveying to the media that this was a useful JMC(Europe) meeting and that the DAs are fully involved in the process;

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Background

1. The devolved administrations (DAs), under pressure from their nationalist political opponents and encouraged by regions on the continent with greater constitutional status or aspirations, have been agitating for a JMC(Europe) discussion on the future of Europe/2004 IGC. They want this primarily to demonstrate to their constituencies that the devolution machinery is enabling them to influence UK Government policy in this area, but also to push for an enhanced role for the regions in the EU-level debate.
2. Jack McConnell's letter of 14 October to Mr Hain says "it will be important to demonstrate within Scotland that our interests as a devolved administration are being respected through the process leading up to the IGC and that we are seen to be involved in developing the UK line. I would hope that we could comment formally or informally before any plans for the proposed Convention are signed off by the UK Government." He asks for a JMC(Europe) to be convened in advance of a Regional Leaders meeting in Liege on 15 November. Officials in Cardiff and Belfast tell us that their Ministers are similarly fired up by the future of Europe debate.
3. The future of Europe debate will of course lead to an IGC in 2004 at which Member State governments alone will negotiate any Treaty changes that they decide are necessary. So from HMG's perspective, JMC(Europe) is an opportunity to let the DAs have their say (in private), to agree the broad limits of their involvement in HMG's policy-making on the future of Europe, and to agree public lines which avoid prejudicing the UK's stance in the Convention and beyond.
4. Discussion in JMC(Europe) might itself be influenced by what was said/agreed at Minecor on 6 November, though we have tried to limit the scope for this. You might nevertheless expect less focus on modalities and presentation than at Minecor, and rather more on DA involvement. Separately, DTLR Ministers met local government representatives in the 'Central Local Partnership' on 7 November for a discussion of the future of Europe and how to involve local government in the two strands of the debate (Flag D);
5. The 'future of Europe' debate and subsequent IGC is regarded by some of the constitutional regions in the EU, eg Flanders, Catalonia,

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Bavaria, as an opportunity to redress the balance of power both between themselves and the EU, and between themselves and their national governments. Our own DAs have so far trod a careful line, but there remains a risk (keenly felt in the Scotland Office and No 10) that they will be swept along by the aspirations of their continental counterparts.

6. The 'Flanders Declaration' (Flag C) circulated for signature last April, though only a contribution to the EU debate, set out some fairly far-reaching aspirations (eg to participate directly in the preparatory work of the IGC). The Scottish Executive wisely checked with the FCO before signing the Declaration, and should be encouraged to continue doing so. A conference of Regional Leaders in Liege on 15 November, informed by a Questionnaire to work out a commonality of interests among regional authorities, will pick up where the Declaration left off.

7. Rhodri Morgan hinted at the JMC Plenary meeting in Cardiff on 30 October that, under the terms of the Memorandum of Understanding, he would be seeking to attend the Laeken European Council for the discussion on the future of Europe. He will no doubt pray in aid paras B4.12 and B4.13 which do indeed appear to give an opening where "substantive discussion" is expected. But substantive discussion is not expected at Laeken. And the special rules of the European Council (not the Council of Ministers) do not permit Heads of State/Government to be accompanied into the room by anyone other than their Foreign and Finance Ministers. The Germans include two representatives of the Lander in their delegations (ie kept in the delegation rooms) at European Councils such as Amsterdam or Nice which are primarily IGCs. But the Laender, like the Belgian regions, also have to ratify international treaties in the Bundesrat: the DAs don't. To the best of our knowledge, the Spanish and Belgians do not allow regional representatives to join their delegations.

8. The FCO's paper (para 17) offers five ways in which the DAs might be involved in both the EU-level and UK national debate. This was sufficient to satisfy officials from the DAs, but you can expect their political masters to seek to push the boundaries out further.

9. It will be helpful to the DAs, where JMC(Europe)s generate significant media interest, to **agree a press line** during the meeting for use immediately afterwards. No 10 might use this in the 4.00pm briefing. This might highlight the involvement of the DAs in the formulation of UK policy on future of Europe issues via the JMC machinery.

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Item 2: Transposition of Single Market Legislation

Objective

- To stress to Ministerial colleagues, particularly in the Devolved Administrations, the importance of timely and efficient implementation of EU legislation before Barcelona in March 2002.

Handling

You might introduce this item begin by stressing the **political significance** of this issue:

- Don't intend to have a lengthy discussion. But it is important that everybody gives a higher priority to the proper implementation and transposition of EU legislation.
- An issue which will have considerable prominence in coming months. Barcelona will consider progress against the target of 98.5% implementation. UK is currently in a very poor position: 13th out of 15 in the transposition league table. We should be aiming to go to Barcelona as the best, or at least the most improved, in this area.

You might then ask **Patricia Hewitt** to outline what the DTI is doing to ensure UK compliance with the target, and how the DAs can contribute to this. She will explain the recent initiative to identify lead Ministers in each Department/DA responsible for this work. DTI are also introducing a new database tracking system to hold Departments to account on this work.

You could then ask the DAs to comment:

- Not looking to name and shame anyone. We understand the difficulties (demands on legal, administrative and linguistic resources).
- But do need your **recognition of the political importance** of this work, and the need to **channel resources** into making sure performance improves.

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- This will be particularly important in Wales and Northern Ireland, which have the largest backlogs of work. Officials have identified the need to share legal resources, and to consider (where politically acceptable) implementing legislation by HMG on behalf of the DAs.
- So we can offer:
 - a) Ministerial meeting with Melanie Johnson. Important this is set up soon.
 - b) Support from officials on administrative and legal capacity (Cabinet Office legal advisers plan to visit Cardiff and Belfast shortly).
 - c) Where politically acceptable, we might include regions in UK implementation measures (eg for technical measures).
 - d) In longer term, Cabinet Office and DTI will promulgate more advice and guidance on best practice implementation, involving the DAs from the outset.

Conclusions

You should be able to conclude by noting:

- all are agreed on the importance of this work. It should be a political priority as part of preparations for Barcelona. The first step must be for lead Ministers to meet with Melanie Johnson and go through their detailed caseload with her. Officials will follow up with practical assistance.
- the UK should aim to be at the top of the Commission scoreboard within the next few months, and certainly in time for Barcelona. The presumption should be for 100% implementation of Directives, with exceptions only allowed for very good reasons.
- Ministers may need to return to the subject later in the year. Officials will need to increase the priority given to this work.

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Background

1. UK progress in transposing EU Single Market legislation is less than enviable. We are currently 13th in the Commission's table, with 96.7% compliance. The next Single Market Scoreboard will be published by the Commission on 19 November. It will show us rising to 12th in the table, with a slight increase to 97.2%. But at the Barcelona European Council in March 2002, Heads of Government will review performance by individual member states against a 98.5% compliance target. The UK needs to raise its implementation rate before then.
2. 66 Directives have not been fully transposed. We need to implement 44 of them to meet the Barcelona target. In Whitehall, most of these dossiers are the responsibility of DEFRA and DTLR - with a few falling to the Food Standards Agency and HSE. DTI take the lead in ensuring overall compliance.
3. In many of these cases, transposition has been completed in England, but not in other parts of the UK. Wales and Northern Ireland find it most difficult to keep to the transposition timetables set out in Directives. In Wales, this is because everything needs to be produced in Welsh and English, and because the Wales Act often does not give them sufficient powers ("designation orders") to make all the secondary legislation that they need to. In Northern Ireland, the problems are of administrative resources and a lack of EU legal expertise. Scotland's performance is generally very good. There is also a continuing deficit in Gibraltar's transposition performance (on which the FCO lead), although this does not register significantly in the Commission's single market scoreboard as Gibraltar is not part of the single market in goods.
5. DTI have set up a network of lead Ministers in each Department/DA to oversee work to improve performance. Melanie Johnson is meeting each Minister to agree a timetable for implementation of outstanding Directives. This will be followed up at official-level, with a critical path for meeting the 98.5% target by Barcelona. Cabinet Office will closely monitor this work, meeting NAW and NIE officials to ensure sufficient political focus and legal expertise are found to deliver this work. We are also developing a model to help Whitehall and the DAs prepare properly for transposition. Further JMC(Europe) or EP discussion may also be needed.

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JMC(Europe)(2001)2

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JOINT MINISTERIAL COMMITTEE ON THE EUROPEAN UNION

Note by the Secretaries

:

Attached is a memorandum from the Foreign and Commonwealth Office on the Future of Europe and Laeken European Council. This will form the basis of discussion for the first agenda item at the JMC(Europe)(2001) 2nd meeting at 9.00 am on Thursday 8 November 2001.

Cabinet Office
Scottish Executive
National Assembly for Wales
Northern Ireland Executive Committee

6 November 2001

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**THE FUTURE OF EUROPE AND LAEKEN EUROPEAN COUNCIL:
MEMORANDUM BY THE FOREIGN AND COMMONWEALTH
OFFICE FOR JMC (EUROPE), 8 NOVEMBER**

INTRODUCTION: NICE AND THE 2004 IGC

1. The EU Heads of Government agreed at the December 2000 Nice European Council to hold national public debates about the future of Europe, to help prepare for the 2004 IGC. This is an opportunity for the Government to set out its positive vision of Europe's future in the coming years, shaping the debate in this country to focus on the issues of most importance to the British public, as set out below.
2. The national debates, some of which are already well underway, will be complemented by a 'future of Europe' debate at the EU-level: this will consider the four subjects outlined at Nice (see 'Substance' below). Heads agreed at Ghent that this EU-level debate will take the form of a 'Convention', the details of which will be finally settled at the Laeken European Council in December. Heads have, however, reached political agreement on a number of key points. One is that the Convention will run from Spring 2002 until Spring/Summer 2003, and some national debates, including probably ours, will end up running in parallel to that Convention. We are seeking to confine the agenda there broadly to the "Nice Four" issues (see para 9).
3. It is therefore important for the Government to be effective in setting the tone and terms of the UK's national debate on the 'future of Europe'. This need not be done all at once: in the current circumstances, the war against terrorism is a much greater priority, and a low-key start would be most appropriate. But the 'future of Europe' debate will not go away, and the EU-level Convention will probably start work in less than six months. Now is, therefore, a timely opportunity to start considering options in this area. A short 'Core Script' is attached.
4. For the UK's debate, one key point is that the agenda should not – and probably could not – be limited to the set of 'Nice Four' primarily institutional EU issues. Instead, the UK debate should build on existing efforts to communicate the benefits to Britain of EU membership, but

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with a new focus on what we want Europe's future to be. This type of 'future of Europe' discussion can legitimately focus on British interests in an enlarged, open, free trading, economically reformed EU that delivers real benefits to real people.

5. Discussion of these issues in JMC(Europe) is appropriate given the relevance of the UK national debate on the 'Future of Europe' to UK Ministers and to colleagues from the Devolved Administrations. While international relations and relations with the European Union remain the responsibility of the UK Government and UK Parliament, the UK Government recognises that the Devolved Administrations have an interest in international and European policy making in relation to devolved matters, notably where implementing action by the Devolved Administrations may be required. And the debate about the future Europe that we want – and about how that Europe will deliver benefits – is an issue that we need to involve citizens from all parts of the UK. The Foreign Office has no monopoly on ideas on how best to involve UK citizens in that debate about the 'future of Europe'.
6. In contrast to the national debates in some EU countries, the UK's existing structures – such as MINECOR and EP Committee, meeting as JMC(Europe) – will serve as the main networks for taking this work forward in the coming months, and years.

The Future of Europe: the EU substance

7. This section sets out the background for the substantive elements of the EU-focussed debate on the 'future of Europe'. As explained above, it will not initially be necessary – or even perhaps desirable – for the UK national debate to focus too much on the detail of these issues. More detailed 'Core Scripts' will be made available on these in due course: for the time being, the attached two-sided script should be sufficient.
8. The parameters for the Future of Europe debate were set at Nice, in the Declaration on the Future of the Union in the Nice Treaty. This concluded that Nice had made the institutional changes needed for enlargement and called for a "deeper and wider debate" about the future of the EU, leading to another Intergovernmental Conference in 2004.
9. Nice set four topics to form the basis of the agenda at the 2004 IGC:

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- (a) how to establish and monitor a more precise delimitation of powers between the European Union and the Member States, reflecting the principle of subsidiarity;
 - (b) the status of the Charter of Fundamental Rights of the European Union, proclaimed in Nice, in accordance with the conclusions of the European Council in Cologne (ie whether and, if so, how to incorporate the Charter into the EU Treaties);
 - (c) a simplification of the Treaties with a view to making them clearer and better understood without changing their meaning;
 - (d) the role of national parliaments in the European architecture.
10. The Nice declaration doesn't however limit the 2004 agenda to these four points. It also recognises the need to improve the democratic legitimacy and transparency of the EU. And we privately accept that the eventual IGC agenda will go wider. Others have already signalled their intention to add subjects such as collapsing the three Pillar structure of the Union (Community, Common Foreign and Security Policy, Justice and Home Affairs), greater Qualified Majority Voting, election of the Commission President etc. In return, there may be issues that we want to press in an enlarged IGC agenda, including some of the practical ideas for improving transparency, efficiency and legitimacy set out in the Commission's recent White Paper on Governance.

Process

11. The Belgian Presidency was tasked by Nice to look at how the debate on the Future of Europe should be taken forward to the IGC. We have agreed that the IGC will be prepared by a Convention like that which drew up the Charter of Fundamental Rights. The final details will be settled at the December European Council at Laeken, but the principles are emerging:
- Each Member State will have one Government representative and two parliamentarians; the EP will have 16 and the Commission 1.

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- The candidate countries will also have one Government representative and two parliamentarians (though they will not be involved in decision making).
 - The Convention will produce options, not a take it or leave it draft Treaty text. Final decisions will remain for member states in the IGC.
 - The mandate to the Convention at Laeken should pose generic questions based on the Nice four issues, without seeking to answer them (what the questions will be and how to frame them is still under debate).
 - The Convention will be run by a Praesidium, led by a President to be nominated at Laeken and including representatives of Governments, national parliamentarians, EP and Commission.
 - The Committee of the Regions and the Economic and Social Committee are likely to have one observer each in the Convention.
 - There will be a "structured network" alongside the Convention to consult civil society and others at national and European level with an interest, to allow them to feed their views into the Convention.
12. The Convention will probably be mandated to start its work as early as possible in 2002 under the Spanish Presidency and to last until, at the latest, June 2003. We are then insisting on a six month gap until the IGC starts in 2004 (or is formally launched at the end of 2003), not least to allow time for domestic debates and to digest the results. Others are trying to bring this forward so that the IGC can be finished before the EP elections (probably May 2004): we think this neither desirable nor possible.

Substance – the views of HMG

13. We have taken the view that we should not start by leaping into a debate about which institution should have what powers. We need to take a step back and ask fundamental questions about the nature of the EU and what we want it to do. What sort of future do we envisage for the EU? The Prime Minister addressed the fundamental questions in his speech in Warsaw in October 2000. The main points were that we want:

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- (i) A Europe of free, independent sovereign nation states, pooling sovereignty in pursuit of their own interests and the common good. The primary source of democratic accountability are national parliaments and governments.
- (ii) Reform of the EU to deliver real benefits to the people, addressing the priorities they want addressed; and doing so in a way that has their consent and support.
- (iii) To look at the specific policies to see if they deliver: CAP, structural funds, single market, CFSP etc. And stop the EU focussing on issues it doesn't need to address.

14. On the specific institutional issues listed in the Nice Treaty, we and others have resisted taking a firm stance, instead insisting that we welcome contributions to the debate and will consider them all when the time comes.

What others think

15. There are some clear themes emerging:

- (i) A general concern - reinforced by the result of the Irish referendum in June - at the perceived democratic deficit in the EU, and its disconnect from our citizens. There is a growing desire for an institutional fix to this legitimacy problem, and to general confusion amongst the public over who does what.
- (ii) Some across Europe have used the events of 11 September to urge greater European integration in order to tackle the challenges ahead.
- (iii) Efforts to persuade partners to concentrate on delivery have not been entirely successful so far.
- (iv) There are those (led by Commission President Prodi and the smaller Member States) who believe in the need to protect the Community method from a perceived growth of more intergovernmental methods.

16. Despite the Prime Minister's support for integration where we see the need, many still try to paint us as being at the opposite end of the

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spectrum, constantly trying to espouse intergovernmentalism over the Community method. We do believe that Governments have a key role to play and that the European Council is the right forum to set priorities and deal with cross-cutting issues. It can also get things done where there is stalemate in other Council formations.

Implications for the Devolved Administrations

17. There are several routes through which the Devolved Administrations will influence the FoE debate:

- (i) Through direct contact and meetings with the Minister for Europe and other UK Government Ministers;
- (ii) Through JMC(E) as HMG's policy develops between now and 2004;
- (iii) Through the Committee of the Regions, which is likely to have observer status in the Convention;
- (iv) Through the 'structured network' which will allow the regions, if they wish, to provide their own thoughts direct to the Convention; and
- (v) Through the national Future of Europe debate in the UK.

18. The Government is committed to the principle of consulting and informing the Devolved Administrations on issues of concern to them. The Future of Europe debate comes into this category. UK Ministers and officials have already begun to discuss this issue with the devolved administrations: this should continue. The FCO will also seek to ensure that the Devolved Administrations are kept informed of significant developments in the EU-level Future of Europe debate.

Foreign and Commonwealth Office
November 2001

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Future of Europe – Core Script

- The Government wholeheartedly welcomes the Future of Europe debate: we were in the vanguard calling for this at Nice, and will play an active role in the EU-level debate in next year's Convention.
- We will be leading a national debate in the EU about the future we envisage for Europe. This includes an open, economically vibrant, free-trading Europe that delivers real benefits for our citizens.
- Next IGC in 2004 will discuss issues fundamental to the future of the EU. Intend to be at the heart of that debate. Others already acknowledge our belief that they should concentrate on making the EU more transparent, more accountable and more relevant to the issues that concern the people.
- Several speeches have been made putting forward various ideas for how we might take forward this agenda. We welcome all such contributions to the debate. Obviously, we will not always agree with every detail. But it is important that all the possibilities are given a fair debate.
- Prime Minister contributed to that debate with his speech in Warsaw in October 2000. Widely seen as a very valuable contribution to the debate. Many of the arguments he put forward now being echoed by others.
- Nice called for a deep and wide public debate across EU and candidate countries on the Future of Europe. Lively debate already under way in the UK. The government's efforts to provide information and seek the public's views will continue in the coming months.

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- The Belgian Presidency plans a Declaration on the Future of Europe at Laeken in which the precise details of the Convention for taking the debate forward will be decided. The Declaration will also include a stocktake of the debate so far.

Evidence that UK is going to be dragged toward a Superstate

- Nonsense. Any changes to the Treaties require the unanimous agreement of all Member States. If we believe changes proposed are not in the British interests, we will oppose them.
- But rather than a negative stance from the word go, we believe it is much more constructive to enter the debate and put forward our own views.

There is no public debate in UK

- Wrong. There is already a lively UK debate on the future of Europe. The Government welcomes this. A number of Government initiatives have already been taken to sustain and develop this debate
- The Prime Minister's Warsaw speech laid out the overall approach of the UK government, inviting others to contribute to the debate. Ministers have regularly addressed EU issues in media appearances and contacts with the public
- The Minister for Europe has launched a "Tour De Britain" to make the case for the UK in Europe and to hear the views of British people.
- The EU section of the Foreign Office website has made available a substantial amount of material on the EU and the UK's place in it, and hosts regular online debates on topical EU issues;
- The government has held a series of Parliamentary debates on the EU. This includes Parliament considering the Bill to ratify the Nice Treaty.
- The Government has organised or sponsored a number of public events to solicit the views of academics, civil society and the general public.

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What is your position on the "Nice 4" issues?

- Don't intend to put the cart before the horse. The time to come to a view on these issues is after a thorough public debate, not before hearing the results.

You caved in to pressure to have a Convention?

- No. This is an open and inclusive process. It will involve not only governments and the EU institutions, but all candidate countries, a civil forum to gather the view of civil society. It will also, of course, take account of the public debate.
- Unlike the Convention on the Charter of Fundamental Rights, this Convention will not produce a draft text. Its job is to debate all the possibilities and to provide options for the Intergovernmental Conference in 2004. Member States will have the final say and any decision to change the Treaties is subject to unanimity.

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Peter Hain MP
Minister for Europe
Foreign and Commonwealth Office
King Charles Street
London
SW1A 2AH

14 October 2001

cc Michael Roberts, Cab Off
Steve Mc Gregor, Winesap
Shaijeer Thiruchelvan, RPA

Dear Peter,

Michael,
I have been asked to draft a reply
on it, has a date for the JMC
been set? Patrick Lamb

I have just returned to Edinburgh from an extremely interesting and valuable series of meetings in ^{Europe} Germany with Frau Kraft and Herr Bocklet of Nord-Rhein Westphalia and Bavaria respectively; in Brussels around Scotland Week; and in London associated with the Belgian Embassy and the Royal Institute of International Affairs seminar on "European Governance - Are Regions the Answer?". There continues to be great interest across Europe in devolution in Scotland and how we relate to Europe and other constitutional regions. I have been pleased to explain the Executive's position to the range of interests and I enclose a copy of my speech at the Scotland Week Future of Europe debate which covers the main points of our engagement to date. 1442 22/11

Over the period I was away I understand that the latest Belgian proposals on the arrangements for Future of Europe were discussed at the General Affairs Council on 8 October. Clearly the debate has a long way to go but I am conscious that it will be important to demonstrate within Scotland that our interests as a devolved administration are being respected through the process leading up to the IGC and that we are seen to be involved in developing the UK line.

X I would hope that we could comment formally or informally before any plans for the proposed Convention are signed off by the UK Government, and I think we should specifically convene an

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early meeting of IMC (Europe) to discuss the issues to be covered at Laeken well in advance of the council meeting. For our part, it would be particularly useful if such a meeting took place in advance of our Regional Leaders meeting in Liege on 15 November.

I am delighted that arrangements are well in hand for your visit to Scotland on 5 November and look forward to discussing these issues.

Best wishes

JACK MCCONNELL

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Political declaration by the constitutional regions of Bavaria, Catalonia, North Rhine-Westphalia, Salzburg, Scotland, Wallonia and Flanders

draft cover

With this joint declaration, the constitutional regions of Bavaria, Catalonia, North Rhine-Westphalia, Salzburg, Scotland, Wallonia and Flanders (the coordinator of the initiative), want to contribute to the debate about the future of the European Union and its key tasks. They also want this initiative to highlight a number of issues that are of vital importance to them.

- The constitutional regions have a specific interest with regard to the debate on the future of the European Union. Firstly, the competencies of the constitutional regions are affected by the integration process. And secondly, the regions have an important role in implementing European legislation, but do not have a sufficient say in preparing and determining European policies and legislation. Therefore, the constitutional regions demand to participate directly in the preparatory work for the Intergovernmental Conference of 2004.
- The constitutional regions want a broader discussion than the themes listed by the Intergovernmental Conference of Nice and urge that *'the role and setting of the regions in the European policy-making process and the institutional framework'* will be added as a theme to be debated.
- The principle of subsidiarity has to be taken as the basis for the debate on the European Union's key tasks, a debate that has to result in an effective European Union that is only acting in policy areas where it can achieve the objectives in a better way than Member States or their constitutional regions.
- The European Union's missions need to be carefully considered and, in keeping with the principle of subsidiarity, redefined by a clearer allocation of powers, so these can be more effectively distinguished from those of the Member States and their regions. In this respect the constitutional regions favour a flexible solution which would not hinder the European integration process.
- In order to ensure due compliance with the principle of subsidiarity and therefore guarantee full respect for the constitutional regions' own areas of competence, the political role of these regions has to be strengthened within the European Union.

Political declaration by the constitutional regions of Bavaria, Catalonia, North Rhine-Westphalia, Salzburg, Scotland, Wallonia and Flanders

The European continent has undergone major social changes in recent decades. First of all, Europe is faced with the huge challenge of globalisation, which is characterised by an increasing level of interdependence. Second, the European Union has to address the historic mission of Enlargement. Last but not the least, an increasing move towards regionalisation is taking place within the different Member States, thus giving prominence to the regional level and its importance in the policy-making process, in addition to the national and European levels.

It is becoming increasingly obvious that the unique political system applied in the European Community (later to become the European Union) in the post-war epoch needs to be adapted to the changing social and political landscape. The traditional institutional architecture is built on the interaction between the nation state and the European Union. This does not take into account the move towards multi-level governance, whereby the traditional government structure is gradually giving way to 'multi-layered systems of governance'.

In recent years, public support for the European integration process has declined in several Member States. Therefore, it is of vital importance for the European Union to develop a new perspective that could be supported by the citizens to give fresh momentum to the European Union.

The constitutional regions have a specific interest with regard to the debate on the future of the European Union. Firstly, their freedom of political action is affected by the integration process as the European Union has, in a number of political fields and over the course of time, continuously interpreted and used its powers more and more broadly. Secondly, some regions have an important role in implementing European legislation, but in many Member States they do not have a sufficient say in preparing and determining European policies and legislation. And thirdly, in a democratic society our citizens have the right to know to whom they are allocating what power, and thus what responsibility, when they are going to the polls.

I. THE DEBATE ON THE FUTURE OF THE EUROPEAN UNION AND ITS KEY TASKS

1. Participation of the regions in the debate on the future of the European Union

A general consensus exists on the fact that the Intergovernmental Conference of 2004 should be prepared in a different way than the Intergovernmental Conference in Nice. This time, the challenges we face are much more important which makes a carefully considered preparation phase even more necessary.

In this respect, and irrespective of the preferred approach towards the structures of the debate (a "convention" or another appropriate structure), the constitutional regions demand to participate directly in the preparatory work for the Intergovernmental Conference of 2004.

The constitutional regions agree that particular attention should be paid to the four themes emphasised by the Nice "Declaration on the future of the Union", but they certainly want a broader discussion and urge that 'the role and setting of the regions in the European policy-making process and the institutional framework' will be added as a theme to be debated.

2. The principle of subsidiarity as a guide for the debate on the key tasks and the delimitation of powers

The constitutional regions demand that the debate on the key tasks and the delimitation of powers will lead to solutions that provide for more transparency and accountability in the functioning and structures of the European Union. The regions take up their responsibility and support the efforts to make the European Union more democratic and efficient.

Any consideration of reform should take the following principles, currently laid down in the Treaties, as a starting point:

- the principle of the EU's restricted prerogatives, i.e. the European Union shall act within the limits of the powers conferred upon it by the Treaties,
- the principle of subsidiarity, which holds that the European Union shall take action only if and insofar as the objectives cannot be sufficiently achieved on the regional or national level,
- the principle of proportionality i.e. the restriction of EU action to the extent required to meet the Treaty's objectives,
- the obligation to respect the national identity of the Member States, which includes the identity and cultural diversity of the regions.

All these principles have to be taken into account during the process to reach unambiguous solutions on a better and clearer allocation of powers to the European Union. The European Union's missions need to be carefully considered and, in keeping with the principle of subsidiarity, redefined by a clearer allocation of powers, so these can be more effectively distinguished from those of the Member States and their regions. In this respect, the constitutional regions favour a flexible solution which would not hinder the European integration process.

The forthcoming enlargement and the further development of the European Union require the community's whole institutional set-up to be given a clearer structure, with a particular eye on simplification and a revision of the Treaties. In this context the constitutional regions demand to create a more transparent framework for action for the different spheres of government, that allows the citizen to distinguish more easily the responsible level(s) of government.

The need for the European Union's powers to be focused on key tasks has to be given further consideration, as the current range of activity goes beyond the possibilities of an enlarged Union. The European Union's involvement in too many activities is endangering the effectiveness, accountability, transparency and proximity of the European decision-making process.

Therefore, the constitutional regions demand that, in connection with a better delimitation of competencies, there should be a review of the division of political responsibilities between the European Union, on the one hand, and the Member States and their regions, on the other. This holds true in particular for the following key policy areas: "functioning of the Internal Market", "economic and social cohesion, regional policy", "common agricultural policy", "environmental policy", "research, technology and information society", "education, media and culture". In this context it is important to narrow down the scope of articles 94-95 of the Treaty, so that measures based upon these provisions must be primarily and directly aimed at the establishment and functioning of the internal market.

The constitutional regions demand that all government levels - European, national and regional - are directly associated to the works on these topics in order to define the debate in the different policy fields, to clarify the discussion and to have a well argued, legitimated debate in the future remits of the IGC.

Lastly, a root-and-branch assessment also needs to be made of the various policy-making instruments (legal instruments, EU programmes, the open co-ordination approach and the like) due to be included in the debate on the European Union's key activities. All these instruments should respect the EU competence system. Whatever form this takes, there has to be a guarantee that all levels will be involved.

In order to support a better system for a delimitation of powers between the European Union and the Member States or constitutional regions, different options should be examined.

One option could be to define categories of legislative competence, for example:

- the exclusive competence of the European Union,
- a framework competence of the European Union,
- a supplementary competence of the European Union.

In order to guarantee the application of the rules of competences and of the principles of subsidiarity and proportionality, a specific independent body should be appointed.

II. THE REGIONAL DIMENSION WITHIN THE EUROPEAN UNION STRUCTURES

The European Union's importance for the regional authorities has increased tremendously in recent years. Many European rules have direct or indirect implications for regional levels of policy making. As the European integration process moves on, so grows the need for the regional authorities to become more involved in European policy-making.

A suitable institutional setting giving tangible shape to the regional dimension at European Union level has to reflect the entire range of policy-making procedures (preparing, determining and implementing policies).

The constitutional regions are not satisfied with the current institutional framework in which the Committee of the Regions is the body representing the interests of the local and regional authorities. The constitutional regions have reservations whether the Committee of the Regions in its current composition and institutional status can meet the needs and wishes of the regions.

The broad debate on the future of the European Union should also provide a forum to develop institutional answers to the legislative and judicial involvement of the constitutional regions in developing, executing, monitoring and evaluating EU-policy.

With regard to this debate, the constitutional regions would wish that, amongst others, the following topics would be considered:

- *Committee of the Regions*
the role of the Committee of the Regions in the decision-making process could be clearly strengthened: that the Committee of the Regions should get the status of a fully-fledged EU institution with political powers going beyond a purely consultative role and with the right to institute proceedings in the European Court of Justice.
- *European Parliament*
national and regional parliaments could be better involved in the European policy process and their interaction with the European Parliament could to be improved.
- *European Court of Justice*
the right for the constitutional regions, as exists for the Member States, to refer directly to the European Court of Justice when their prerogatives are harmed.

Within the legislative framework, the main aim is to boost the contribution of the constitutional regions in the Council. This request is in the first directed towards the national policy level. The Member States should be required to take into account the views of their constitutional regions about matters that fall within the latter's policy areas. The European Union has to give way to the involvement of the constitutional regions in the decision-making process as has already been done through article 203 EC Treaty.

The coordinators of this initiative are planning to present this declaration to other constitutional regions that are receptive to its aims. Co-operation between the regional authorities will be a key factor in exercising a real influence on the European policy agenda.

**Central Local Partnership Meeting – Local Government House
Wednesday 7 November 2001**

Attendees

Central Government

Rt Hon Stephen Byers MP, Secretary of State for Transport, Local Government and the Regions

Rt Hon David Blunkett MP, Home Secretary

Jackie Smith MP, Health

Richard Caborn MP, Minister of State, Sport, Department of Culture, Media and Sport

Rt Hon Andrew Smith MP, Chief Secretary to the Treasury

Rt Hon Estelle Morris, Secretary of State for Education and Skills

Rt Hon Nick Raysford MP, Minister of State for Local Government and the Regions

Lord Falconer, Minister of State for Housing and Planning

Barbara Roche MP, Minister of State, Cabinet Office

Rt Hon Alun Michael MP, Department for Environment, Food and Rural Affairs

Christopher Leslie MP, Cabinet Office

Charles Clarke MP

Sir Richard Mottram, Permanent Secretary, Department for Transport, Local Government and the Regions

Wendy Thomson, Cabinet Office

Mike Emmerich, No. 10

Paul Rowsell, DTLR

Andrew Whetnall, DTLR

Philip Wood, DTLR

Paul Downie, DTLR

Tracey Foster, DTLR

Local Government Association

Cllr Sir Jeremy Beecham

Cllr Sir Harry Jones CBE

Cllr Ian Swithenbank CBE

Cllr Dame Sally Powell DBE

Cllr Graham Lane (Newham) LAB will be the Labour Group's additional member with specific interest in Education White paper.

Cllr Gordon Keymer

Cllr Paul Bettison (Bracknell Forest) CON

Cllr Sandy Bruce-Lockhart OBE

Cllr Chris Clarke OBE

Cllr Ruth Coleman

Cllr Milner Whiteman

Dr Ruth Henig CBE

Brian Briscoe

Joan Jones

Neil Kinghan

Phil Swann

Marie Evernden

CENTRAL LOCAL PARTNERSHIP

EUROPEAN GOVERNANCE AND THE FUTURE OF EUROPE DEBATE: A JOINT PAPER BY DTLR AND LGA

Introduction

1. This paper has been prepared as the basis for a discussion at the CLP meeting on European governance (particularly the European Commission's Governance White Paper) and on the Future of Europe debate. The aim of the discussion is:
 - for the Government and local government to exchange views and put forward their current thinking on these issues, including the implications for governance within the UK;
 - to assist Government and local government to make their responses in the European context (in the Council of Ministers, Committee of the Regions and elsewhere) on these issues particularly on specific proposals in the Governance White Paper; and
 - To help Government and local government to develop the debate on the Future of Europe nationally and in local communities.

Background

2. In July this year, the European Commission published its White Paper on European Governance which examines the scope for improved communication by the Commission and other EU bodies with people and all levels of government in the EU. Last December, the European Heads of Government launched a major debate on the future development of the EU, to culminate with an Intergovernmental Conference in 2004, leading to possible Treaty changes. The two initiatives, though separate, are at root addressing the same problems - the need for the EU to reconnect with citizens so as to enhance its legitimacy and acceptability, and to be able to operate effectively as a Union of up to 28 States.

Governance White Paper

3. The Governance White Paper proposes, among its key recommendations, that the Commission organises (without trespassing on national constitutional arrangements) a more organised dialogue with regional and local government through the European and national associations of local government, possibly based on a Code of Conduct on better consultation. This includes improved consultation at a formative stage of European policy and law making. It also recommends that each national government consult regional and local government on such issues, in drawing up national positions. The key issues for local and regional government are summarised at Annex A. The Commission has asked for full comments on the White Paper proposals by March 2002. Comments on these issues are also relevant to the Future of Europe debate described below.

Future of Europe Debate

4. The Heads of Government are due to meet in December in Laeken, at the end of the Belgian Presidency to decide on the process for preparing the next IGC. They are likely to propose a Convention to come forward with proposals for reforms for the Heads of Government to consider. It is proposed such a Convention would comprise representatives of governments, MPs, MEPs, the Commission – and with EU candidate countries as non-voting members. There is a recent suggestion to add Committee of the Regions with observer status. The LGA believes that local and regional government should be involved as full participants.
5. As to the scope of the proposed reform, the Nice European Council suggested that these might include:
 - A more precise delimitation of powers between the EU and Member States, and to clarify whether action should be taken a European or national level.
 - The status of the Charter of Fundamental Rights
 - Simplification of the Treaties to make them more understandable
 - The role of national MP's in the EU's decision making processes

The Government also wishes the IGC process to consider specifically how to improve the democratic legitimacy and transparency of the EU.

6. The Government and LGA believe there should be over the next year or so a well-informed debate on Europe in the UK. Government and local government will look for ways of working together to achieve this, involving civil society, business and other stakeholders.

Government and LGA views

Code of Conduct on Consultation

7. ~~On the Governance White Paper, Government and local government support the proposals for greater interaction between the Commission and central and local government and for improved consultation arrangements and a Code of Conduct for consultation by the Commission. The CLP is asked to support to these recommendations in principle, and to consider whether to establish a small central-local working group to review the current processes in England for involving local and regional actors in EU policy making.~~

Competences

8. The LGA and the Government support the view that there should be clear principles as to how competences of the EU and Member States should be allocated, while noting that many "competences" are currently shared ones. In the LGA and Government's view, this is likely to remain the case in future. We also welcome proposals to simplify and clarify the existing Treaties without changing their meaning. The LGA considers that competences are not confined to the power to legislate, but include other powers (to spend public money, co-ordinate policy etc.).

Subsidiarity

9. Closely linked to the question of competences is the principle of **subsidiarity**. This **sets out a way of deciding which level of government does what**. The existing Treaties refer to the principle of subsidiarity, but do not define it. Instead, they set out some tests for its application as between the European Community and national governments. Article 1 of the Treaty on European Union refers to decisions being taken *as closely as possible to the citizen.*, but this is not developed further.
10. The Prime Minister, in his Warsaw speech in October 2000, suggested the idea of a Statement of Principles "according to which we should decide what should be done at the national level, a kind of charter of competences. This would allow countries, too, to define clearly what is then done at regional level."
11. The LGA would like to see the idea of a Statement of Principles taken forward, within the overall concept of subsidiarity. It also believes the **principles should apply to all of the tiers of government, including local government**. Both Government and Local Government remain firmly of the view that subsidiarity below the national level is a matter for Member States themselves and not for the EU. They note that the Commission recognises that it is the responsibility of national administrations to involve regional and local levels in EU policy.
12. The LGA would wish to see the principle of subsidiarity defined in the Treaties on the understanding that the application within Member States is a matter for those States and not for the EU.

Stronger involvement of regional and local authorities in EU Policies

13. **The Government and the LGA welcome the Commission's proposals for stronger involvement of the regional and local level in EU policy making principally through national administrations.** We accept it is for each Member State to have in place adequate consultation mechanisms for wide consultation when discussing EU decisions and implementing EU policies with a territorial dimension. The key to the successful involvement of local and regional authorities will inevitably be flexibility. The Government is keen to work with EU institutions and others including local government to find new ways which are inclusive, bringing local citizens much closer to decision-making processes.
14. Modern good governance requires partnership between all the tiers of government, to tackle the big issues facing citizens. (LGA prefers "spheres" rather than "levels" of government which imply an inappropriate top-down model of governance.) This partnership reflects the role of national governments to set legislative frameworks and genuinely national targets which local government (among others) commits to deliver. At the same time, the partnership reflects the view that national governments should respect local government's role in making and implementing policy in relation to local issues.

15. Within this, the LGA sees the following set of core principles as applicable to European and national governance:

- > Democracy
- > Consultation
- > Partnership
- > Transparency
- > Participation
- > Subsidiarity

The LGA proposes that Government and local government include these principles in their input to the Future of Europe debate and the IGC process.

Committee of Regions

16. The Commission proposes a more proactive role for the Committee of the Regions (CoR). It proposes that the CoR looks more closely at future policy, and reviews the local and regional impact of certain Directives. It also proposes that the Committee should organise the exchange of best practice on how local and regional authorities are involved in the preparatory phase of European decision-making at national level.

17. The Government and local government agree that the CoR should include in its advisory role the provision of advice on best practice and should consider in the round the way local and regional government feed their ideas into the EU process.

Conclusion

18. The CLP is invited to discuss the above issues at their meeting on 7 November. Specifically, CLP will wish to focus on the substance of the issues raised in this paper and consider the desirability of whether these, or perhaps other questions, are the key objectives to push for in contributing to the UK's input to the White Paper response.

19. The CLP is invited to consider how the debate on the Future of Europe can be expanded so that UK citizens are better informed.

20. The CLP may wish to consider the best way of taking forward this dialogue, including the possibility of setting up a joint working group (see paragraph 7).

23. DECLARATION ON THE FUTURE OF THE UNION

1. Important reforms have been decided in Nice. The Conference welcomes the successful conclusion of the Conference of Representatives of the Governments of the Member States and commits the Member States to pursue the early ratification of the Treaty of Nice.
2. It agrees that the conclusion of the Conference of Representatives of the Governments of the Member States opens the way for enlargement of the European Union and underlines that, with ratification of the Treaty of Nice, the European Union will have completed the institutional changes necessary for the accession of new Member States.
3. Having thus opened the way to enlargement, the Conference calls for a deeper and wider debate about the future of the European Union. In 2001, the Swedish and Belgian Presidencies, in cooperation with the Commission and involving the European Parliament, will encourage wide-ranging discussions with all interested parties: representatives of national parliaments and all those reflecting public opinion, namely political, economic and university circles, representatives of civil society, etc. The candidate States will be associated with this process in ways to be defined.
4. Following a report to be drawn up for the European Council in Göteborg in June 2001, the European Council, at its meeting in Laeken/Brussels in December 2001, will agree on a declaration containing appropriate initiatives for the continuation of this process.
5. The process should address, inter alia, the following questions:
 - how to establish and monitor a more precise delimitation of powers between the European Union and the Member States, reflecting the principle of subsidiarity;
 - the status of the Charter of Fundamental Rights of the European Union, proclaimed in Nice, in accordance with the conclusions of the European Council in Cologne;
 - a simplification of the Treaties with a view to making them clearer and better understood without changing their meaning;
 - the role of national parliaments in the European architecture.
6. Addressing the abovementioned issues, the Conference recognises the need to improve and to monitor the democratic legitimacy and transparency of the Union and its institutions, in order to bring them closer to the citizens of the Member States.
7. After these preparatory steps, the Conference agrees that a new Conference of the Representatives of the Governments of the Member States will be convened in 2004, to address the abovementioned items with a view to making corresponding changes to the Treaties.
8. The Conference of Member States shall not constitute any form of obstacle or pre-condition to the enlargement process. Moreover, those candidate States which have concluded accession negotiations with the Union will be invited to participate in the Conference. Those candidate States which have not concluded their accession negotiations will be invited as observers.

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Foreign &
Commonwealth
Office

London SW1A 2AH

From The Secretary of State

FCS/01/023

PRIME MINISTER

The Future of Europe Process: Handling the Debate in the UK

1. We are agreed on how to handle the Future of Europe debate at European level – resisting a Convention etc. We also need to decide how we want to handle this debate here in the UK.
2. Nice committed us to national public debates about Europe's future to help prepare the 2004 IGC. You and other EU leaders will be expected to report back at the Laeken European Council in December on how these debates are going.
3. We need to be cautious. There are obvious risks in excessive government activity on the Future of Europe at this stage. The media would try to turn it into a debate about the Euro. And our opponents would use it to revive the superstate myth. But doing nothing is not an option, because we would risk looking scared of debate about Europe. Parliament and the media are already starting to ask what we are planning. Several member states have set up quite elaborate structures to gather and synthesize views. You will not want to be the only leader at Laeken who has nothing to report.
4. Moreover, I see real advantages for us in having the right sort of debate about Europe. We can highlight the successes of the last term, our objectives for this and Opposition disarray (which is likely to continue throughout the autumn, whoever wins on 12 September).

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5. My conclusion is that the best way to handle this is by stepping up our own efforts to make the case. We should use existing structures. We don't need the paraphernalia of coordinating committees, Wise Men etc that some other member states have established. We need Ministers, MPs and other politicians to get out there and sell the practical benefits that membership of the EU brings to the UK. In addition, we will want to continue to press the case for the key UK issues such as enlargement, accountability and economic reform. We can present this, rightly, as our own national debate.

6. In practical terms, I suggest that means:

- a continued lead from you: your planned EU speech this autumn is a particularly important opportunity to set out our stall;
- more engagement from other Cabinet Ministers: at EP Committee on 26 July Alastair Campbell and I encouraged others to get stuck in. It would be helpful to have your endorsement for Cabinet colleagues to do so;
- sustained action at junior ministerial level: Peter Hain is revamping MINECOR (junior ministers dealing with the EU) to improve our communications strategy to include regional visits etc, spelling out the "practical European" message. He and Alastair will speak to the first MINECOR meeting of the new term on 18 September;
- continued focus on Europe from me and Peter Hain: my 27 July speech and Peter's 17 July speech got good coverage. We will continue to drive home the message that it is in our own interests to be practical Europeans;
- effort with the UK media: we need to keep pointing out the distortions, sell the good EU stories, and neutralise the bad ones;

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- cultivating our networks: we need to keep talking about Europe to business, local authorities, chambers of commerce, the devolved administrations, etc. This is important in its own right. It will also help build contacts we will need if there is a Euro referendum;

 - getting more information about Europe to the public. more effectively: Peter is revamping the FCO's EU public diplomacy programme to do this. We also plan active online debates using the FCO's EU website.
7. We need to get the tone of all this right and cut through Eurojargon. Promoting information and debate will work better than propaganda or a heavy-duty campaign. Throughout, we need to focus on the practical benefits to the UK of European action on those issues that ordinary people care about: jobs, prosperity, security, asylum etc.
8. This kind of programme would, I think, help, over time, deliver the positive results we want without the risks of a more high-profile campaign. If you are content, I suggest we start implementing it immediately.

A handwritten signature in black ink, appearing to read 'Jack Straw'.

(JACK STRAW)

Foreign and Commonwealth Office
5 September 2001

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10 DOWNING STREET
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25 October 2001

Jack Mank

**THE FUTURE OF EUROPE PROCESS:
HANDLING THE DEBATE IN THE UK**

The Prime Minister has seen the Foreign Secretary's 5 September minute on handling the UK national debate of the 'Future of Europe'.

While the events of 11 September have naturally been the most pressing preoccupation recently, the Ghent European Council has now set the terms for much of the EU-level debate on the 'Future of Europe'. We should therefore expect our EU Partners – and the British media and expert commentators – to start airing these subjects more in public. It is therefore timely to ensure that the UK national debate sets out to achieve our own purposes, in the run up to Laeken and ahead of next year's Convention.

The Prime Minister agrees with the handling strategy outlined in the Foreign Secretary's minute. Doing nothing is clearly not an option, and there is much to be gained by Ministers proactively informing the UK debate. For the time being, stepping up existing efforts through existing structures is the right way forward. The Foreign Office – in consultation with the SCU and European Secretariat in the Cabinet Office – will need to take the lead, for example through the Foreign Secretary's chairing of the EP Committee, and the Europe Minister's chairing of MINECOR. This general approach should see us through Laeken, after which we can re-assess the strategy ahead of the Convention.

The Prime Minister also notes that the Devolved Administrations – in particular the Scottish Executive – are already planning regional variants. There would be advantage in drawing together the various strands into a more coherent national response, which the UK Government will be able to report to its Partners at Laeken. There may be scope for pulling the strands together in a JMC or in Minecor.

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The Foreign Secretary's letter was not copied to other ministers. The Prime Minister anyway thinks that there is not much point in constant written exhortation of ministers. What is needed is a strategy for ministerial speeches etc, ~~implemented and maintained on a continuing basis in MINECOR and in EP~~ itself.

I am copying this to Peter Hyman (SCU), Nigel Sheinwald (UKRep) and Philip Budden (Cabinet Office).

Yours ever,
J S Wall

J S WALL

Mark Sedwill
FCO

Annex A: Handling of public interest in infractions cases

Issue

The Scots and Northern Irish have recently asked for Cabinet Office guidance to be changed so that they can make public information on pre-litigation infraction cases.

Their requests were refused. And some information was leaked to the Scottish press and the SNP. The Northern Irish accept the outcome, the Scots may wish to push the point.

Line to take

- Understand that members of the devolved legislatures and the Scottish press have been pressing for more information on infractions against the UK.
- But Cabinet Office guidance is clear on this. We should only comment on live infractions cases once they have been referred to the ECJ, and once the Commission has publicly outlined their case against us. This is fully in line with the devolution MoU/Concordats.
- Before formal referral to the ECJ, confidentiality is key. To reveal any information about the UK position on specific cases would prejudice our case with the Commission.

[If pressed – what if the Commission put out press releases on specific cases?]

- A Commission press release would refer only to the basic principles of a case. The only acceptable response would be to confirm that an enquiry from the Commission has been received.
- It is no excuse for UK authorities releasing more information, which might prejudice our confidential discussions with the Commission.

Annex B: Attendance at Council meetings

Issue

The DAs may push for greater attendance or participation in Council meetings over the next few months. (See main brief for DA attendance at European Councils). Jim Wallace is seeking David Blunkett's clearance to attend the JHA Council on 16 November. We are not aware of any refusals or problems at present.

Line to take

- There was a very full and useful discussion of this question at the last meeting of this Committee. I don't propose to revisit that in detail now.
- That discussion made clear the DA's have a role to play in Council meetings and negotiations, but that specific decisions on attendance should be made with the lead Whitehall Department. on a case-by-case basis. taking into account the agenda for the meeting and other relevant issues.
- Pleased that this formula has worked well up to now. DA Ministers have made valuable contributions to specific Council meetings.

Annex C Future of EU Structural Funds

Issue

DA involvement in formulating the UK policy line on the future of EU structural funds after 2006.

Lines to take

- Recognise the substantial interest the DAs have in the future of the structural funds and the expertise they have in this area.
- Note that the DAs were consulted on the current public lines which were subsequently set out at the Namur Informal Council last July. Very much welcome the fact that a Scottish Minister, Angus McKay, attended with the UK Minister.
- Whitehall thinking remains at a fairly early stage. We will continue to liase with the DAs as our thinking progresses.

Background

The Chancellor and the Trade and Industry Secretary are about to minute the PM advocating support for radical reform which would involve focusing EU resources on the accession countries but beefing up our domestic regional policy to ensure continuing support for the countries and regions of the UK.

This is a very sensitive political issue for the DAs, especially the Welsh and Scots, and there may be some frustration that there has not yet been serious discussion on the long-term future of the structural funds with the DAs. Although EU policy is a reserved matter, we will nevertheless want to discuss the UK approach with the DAs, including at Ministerial level, before we go public with any policy line. However, it is premature to do this now, given the absence of a collectively agreed position in Whitehall, or to make substantive commitments on the timing or form of such discussions, which have yet to be determined.



DEVOLUTION

Memorandum of Understanding and supplementary agreements

between the United Kingdom Government,
Scottish Ministers,
the Cabinet of the National Assembly for Wales and
the Northern Ireland Executive Committee

*Presented to Parliament
by the Lord Chancellor
by Command of Her Majesty, July 2000*

CONTENTS

	Page
Explanatory Note	1
PART I	
Memorandum of Understanding	3
PART II	
Supplementary Agreements	
A: Agreement on the Joint Ministerial Committee	
A1: The Joint Ministerial Committee	9
A2: Annex on the Secretariat to the JMC	12
B: Concordat on Co-ordination of European Union Policy Issues	
B1: Scotland	14
B2: Wales	16
B3: Northern Ireland	18
B4: Common Annex	20
C: Concordat on Financial Assistance to Industry	26
D: Concordat on International Relations	
D1: Scotland	30
D2: Wales	32
D3: Northern Ireland	34
D3: Common Annex	36
E: Concordat on Statistics	44

Explanatory Note

The paper, superseding Command Paper Cm4444 published in October 1999, comprises a series of agreements between the UK Government and the devolved administrations in Scotland, Wales and Northern Ireland setting out the principles which underlie relations between them. It is not intended that these agreements should be legally binding.

The principal agreement is the Memorandum of Understanding (MoU). It provides for the establishment of a Joint Ministerial Committee, which is the subject of a separate agreement pursuant to paragraph 3 of the MoU. In addition to the JMC agreement, four separate overarching Concordats apply broadly uniform arrangements across Government to the handling of matters with an EU dimension; financial assistance to industry; international relations touching on the responsibilities of the devolved administrations; and statistical work across the UK.

Individual UK Government Departments have also entered into bilateral Concordats with their counterparts in the devolved administrations. At the time of writing, most of the bilateral Concordats between UK Government Departments and their counterparts in Scotland and Wales have been agreed and published. Bilateral Concordats between UK Government Departments and their counterparts in Northern Ireland are in preparation and will be published in due course by the Departments concerned.

Ministerial responsibility within the UK Government for the MoU and JMC agreements lies with the Lord Chancellor in his capacity as Chairman of the Cabinet's Devolution Policy Committee. The Foreign and Commonwealth Secretary is responsible for the Concordats on the Co-ordination of European Union Policy Issues and on International Relations. The Chief Secretary to the Treasury is responsible for the Concordat on Financial Assistance to Industry; and the Economic Secretary for the Concordat on Statistics. The Secretaries of State for Scotland, Wales and Northern Ireland also have responsibilities within the UK Government for promoting the devolution settlement, for ensuring effective working relations between the Government and the devolved administrations, and for helping to resolve any disputes which may arise.

PART I: MEMORANDUM OF UNDERSTANDING

Introduction

1. This Memorandum sets out the understanding of on the one hand, the United Kingdom Government, and on the other, Scottish Ministers, the Cabinet of the National Assembly for Wales and the Northern Ireland Executive Committee ("the devolved administrations") of the principles that will underlie relations between them. The UK Government represents the UK interest in matters which are not devolved in Scotland, Wales or Northern Ireland¹. Policy responsibility for these non-devolved areas is within the exclusive responsibility of the relevant UK Ministers and Departments. It is recognised by these Ministers and Departments that, within the UK Government, the Secretaries of State for Scotland, Wales and Northern Ireland are responsible for ensuring that the interests of those parts of the UK in non-devolved matters are properly represented and considered. Other UK Ministers and their departments represent the interests of England in all matters.
2. This memorandum is a statement of political intent, and should not be interpreted as a binding agreement. It does not create legal obligations between the parties. It is intended to be binding in honour only. Nothing in this Memorandum should be construed as conflicting with the Belfast Agreement².
3. This memorandum is supplemented by agreements on the establishment of a Joint Ministerial Committee and for certain other areas where it is necessary to ensure uniform arrangements for relations between the UK Government and the three devolved administrations. In particular, broadly uniform arrangements need to apply to: handling of matters with an EU dimension; financial assistance to industry; international relations touching on the responsibilities of the devolved administrations; and statistical work across the UK. In addition, the four administrations may prepare Concordats or make other less formal arrangements to deal with the handling of procedural, practical or policy matters between them. Concordats are not intended to be legally binding, but to serve as working documents.

Communication and Consultation

4. All four administrations are committed to the principle of good communication with each other, and especially where one administration's work may have some bearing upon the responsibilities of another administration. The primary aim is not to constrain the discretion of any administration but to allow administrations to make representations to each other in sufficient time for those representations to be fully considered.

¹ The three Acts of Parliament dealing with devolution—the Scotland Act 1998, the Government of Wales Act 1998 and the Northern Ireland Act 1998—define the respective functions of the UK Government and the devolved administrations in different ways. This Memorandum simply uses the terms "devolved" and "non-devolved". "Devolved" means in the Scottish context any function not reserved to the UK Government or Parliament under Schedule 5 of the Scotland Act or transferred to the Scottish Ministers under other legislation; in the Welsh context, any function transferred or conferred on the Assembly by Order or by primary legislation; and in the Northern Ireland context, any function which is not an excepted or reserved matter under Schedules 2 and 3 of the Northern Ireland Act. "Non-devolved" means anything else.

² The British-Irish Agreement done at Belfast on 10 April 1998 and the Multi-Party Agreement reached on the same date and annexed thereto.

5. Against this background, and in confidence where necessary (see paragraph 11 below) the administrations will seek:

- a. to alert each other as soon as practicable to relevant developments within their areas of responsibility, wherever possible prior to publication;
- b. to give appropriate consideration to the views of the other administrations; and
- c. where appropriate, to establish arrangements that allow for policies for which responsibility is shared to be drawn up and developed jointly between the administrations.

It is recognised that there are certain areas of Government action—Budget proposals and national security are two examples—in which, as a matter of pre-existing practice, advance notification did not take place or was very limited. These practices have been unaffected by devolution.

6. The Acts provide for statutory consultation by the UK Government with the devolved administrations in relation to certain specific matters and vice versa. This memorandum does not create any equivalent or other legal right to be consulted.

Co-operation

7. All four administrations want to work together, where appropriate, on matters of mutual interest. The administrations recognise the importance of co-operation across a range of areas. They also recognise that it may be appropriate for them to undertake activities on each other's behalf, which may be covered in agency arrangements or other agreements.

8. Various public bodies deal with matters within the responsibilities both of the UK Government and of one or more of the devolved administrations. The UK Government and devolved administrations affirm their commitment to work, together where appropriate, to ensure that such bodies continue to operate effectively.

Exchange of information, statistics and research

9. In order to enable each administration to operate effectively, the administrations will aim to provide each other with as full and open as possible access to scientific, technical and policy information including statistics and research and, where appropriate, representations from third parties. These exchanges between administrations may be subject to restrictions or requirements, such as those relating confidentiality or freedom of information.

10. This Memorandum of Understanding is supplemented by a concordat between the administrations, which provides an agreed framework for co-operation. In particular, the administrations will work together to ensure the provision of coherent, reliable, consistent and timely UK-wide statistics. The concordat also sets out the basis on which statistical information is to be exchanged and used (including requirements for confidentiality), associated costs and expertise are to be shared, and professional standards maintained. Each

administration will aim to provide any information that may be reasonably requested by another administration to enable it to carry out its responsibilities effectively, provided that (a) this is practicable, (b) it would not involve disproportionate cost, and (c) the information is available in reasonably accessible form. The emphasis will always be on exchanging information where this proves possible. Where any of these three provisos is not met, problems will be resolved on a case-by-case basis.

Confidentiality

11. Each administration will wish to ensure that the information it supplies to others is subject to appropriate safeguards in order to avoid prejudicing its interests. The four administrations accept that in certain circumstances a duty of confidence may arise and will between themselves respect legal requirements of confidentiality. Each administration can only expect to receive information if it treats such information with appropriate discretion. In particular the administrations accept:

- a. it is for the administration providing the information to state what, if any, restrictions there should be upon its usage;
- b. each administration will treat information which it receives in accordance with the restrictions which are specified as to its usage;
- c. disclosure of information will be subject to the *Code of Practice on Access to Government Information* (or equivalent devolved regimes) and in due course the requirements of future freedom of information régimes: sub-paragraphs a. and b. will apply to all information and difficult cases may be referred back to the originator for consideration; and
- d. some information will be subject to statutory or other restrictions: this may mean that there will be restrictions on the category of persons who may have access to some material, for example under the Official Secrets Act; and there will be a common approach to the classification and handling of sensitive material.

Correspondence

12. The four administrations are committed to providing a satisfactory level of service and accountability to the public in this area. As was the case prior to devolution officials will need to handle all correspondence in accordance with the *Code of Practice on Access to Government Information* (or similar devolved regimes). When in force, decisions on disclosure will need to be taken in accordance with the relevant legislation on Freedom of Information.

Parliamentary Business

13. The United Kingdom Parliament retains authority to legislate on any issue, whether devolved or not. It is ultimately for Parliament to decide what use to make of that power. However, the UK Government will proceed in accordance with the convention that the UK Parliament would not normally legislate with regard to devolved matters except with the agreement of the devolved legislature. The devolved administrations will be responsible for seeking such agreement as may be required for this purpose on an approach from the UK Government.

14. The United Kingdom Parliament retains the absolute right to debate, enquire into or make representations about devolved matters. It is ultimately for Parliament to decide what use to make of that power, but the UK Government will encourage the UK Parliament to bear in mind the primary responsibility of devolved legislatures and administrations in these fields and to recognise that it is a consequence of Parliament's decision to devolve certain matters that Parliament itself will in future be more restricted in its field of operation.

15. The devolved legislatures will be entitled to debate non-devolved matters, but the devolved executives will encourage each devolved legislature to bear in mind the responsibility of the UK Parliament in these matters.

16. These same principles will be applied to other aspects of each administration's responsibilities towards its Parliament or Assembly. The administrations will provide each other, so far as appropriate and practicable, with information necessary to meet these responsibilities.

International and EU Relations

17. As a matter of law, international relations and relations with the European Union remain the responsibility of the United Kingdom Government and the UK Parliament. However, the UK Government recognises that the devolved administrations will have an interest in international and European policy making in relation to devolved matters, notably where implementing action by the devolved administrations may be required. They will have a particular interest in those many aspects of European Union business which affect devolved areas, and a significant role to play in them.

18. Arrangements for the handling of devolved administrations' interests outside the United Kingdom are set out in the international relations and EU concordats. The devolved administrations are able to develop bilateral or multilateral arrangements with other members of the British-Irish Council, including the Republic of Ireland, and to participate in the British-Irish Council itself, as set out in the Belfast Agreement. The Northern Ireland Executive Committee is also able to develop relations with the Irish Government through the North/South Ministerial Council provided for in that Agreement.

19. The UK Government will involve the devolved administrations as fully as possible in discussions about the formulation of the UK's policy position on all EU and international issues which touch on devolved matters. This must, obviously, be subject to mutual respect for the confidentiality of those discussions and adherence to the resultant UK line, without which it would be impossible to maintain such close working relationships.

20. The devolved administrations are responsible for implementing international, ECHR and EU obligations which concern devolved matters. In law, UK Ministers have powers to intervene in order to ensure the implementation of these obligations. If the devolved administrations wish, it is open to them to ask the UK Government to extend UK legislation to cover their EU obligations. The devolved administrations are directly accountable through the domestic courts, in the same way as the UK Government is, for shortcomings in their

implementation or application of EC law. It is agreed by all four administrations that, to the extent that financial penalties are imposed on the UK as a result of any failure of implementation or enforcement, or any damages arise or costs arise as a result, responsibility for meeting them will be borne by the administration(s) responsible for the failure.

Non-devolved matters

21. The UK Government represents the UK interest in matters which are not devolved in Scotland, Wales or Northern Ireland. Policy responsibility for such matters lies with the relevant UK Ministers and Departments. Within the UK Government, the Secretaries of State for Scotland, Wales and Northern Ireland will continue to ensure that the interests of those parts of the UK in non-devolved matters are properly represented and considered. The devolved administrations agree to provide the UK Government with any factual information and expert opinion available to them relevant to such non-devolved matters.

The Joint Ministerial Committee

22. The UK Government and the devolved administrations believe that most contact between them should be carried out on a bilateral or multi-lateral basis, between departments which deal on a day-to-day basis with the issues at stake. Nonetheless, some central co-ordination of the overall relationship is needed. Therefore the administrations agree to participate in a Joint Ministerial Committee (JMC) consisting of Ministers of the UK Government, Scottish Ministers, Members of the Cabinet of the National Assembly for Wales and Ministers in the Northern Ireland Executive Committee.

23. Detailed arrangements for the JMC are set out in a separate agreement. Its terms of reference are:

- a. to consider non-devolved matters which impinge on devolved responsibilities, and devolved matters which impinge on non-devolved responsibilities;
- b. where the UK Government and the devolved administrations so agree, to consider devolved matters if it is beneficial to discuss their respective treatment in the different parts of the United Kingdom;
- c. to keep the arrangements for liaison between the UK Government and the devolved administrations under review; and
- d. to consider disputes between the administrations.

24. The UK Government and the devolved administrations commit themselves, wherever possible, to conduct business through normal administrative channels, either at official or Ministerial level. The Secretaries of State for Scotland, Wales and Northern Ireland, whose functions include the promotion of good relations between the UK Government and the respective devolved administrations, should be consulted in any significant case of disagreement.

25. Where a dispute cannot be resolved bilaterally or through the good offices of the relevant territorial Secretary of State the matter may formally be referred to the JMC Secretariat subject to the guidance on the Committee's remit in the agreement on the JMC. Where this appears likely, the JMC secretariat should be consulted at an early stage in order to ensure a consistent interpretation of the devolution settlements, and to provide advice on handling of any differences of view.

Implementation of devolution settlements

26. The devolution legislation contains various powers for the Secretary of State to intervene in devolved matters. It also contains powers for the Law Officers to refer questions of *vires* to the Judicial Committee of the Privy Council. Although the UK Government is prepared to use these powers if necessary, it sees them very much as a matter of last resort. The UK Government and the administration concerned will therefore aim to resolve any difficulties through discussion so as to avoid any action or omission by the devolved administration having an adverse impact on non-devolved matters. If formal intervention should become necessary, the UK Government will whenever practicable inform the devolved administration of its intentions in sufficient time to enable that administration to make any representations it wishes, or take any remedial action.

27. In order to enable the UK Government to decide whether they need to activate these procedures, the devolved administrations will notify legislative measures to the relevant UK Departments and Law Officers both when they are proposed and when they are adopted. Legislative proposals will normally have been subject to advance notification and consultation, in accordance with the general principles set out above.

Reviewing bilateral relations

28. The administrations recognise that there may be a need from time to time for some adjustment to be made to the devolution settlements, for example, in response to new issues or in the light of the operation of the settlements. The administrations agree that there should be mechanisms in place to review the operation of the settlements and for adjustments to be agreed.

29. The JMC will therefore keep the broad operation of the arrangements under review and will also look at the effectiveness of concordats and bilateral relations more generally. The JMC secretariat will also have a role in keeping the arrangements under review and providing advice on concordats both to the JMC and to the administrations.

Review of this Memorandum of Understanding

30. This document will be reviewed by representatives of the administrations at a meeting of the JMC at least annually and updated as necessary.

PART II: SUPPLEMENTARY AGREEMENTS

A: AGREEMENT ON THE JOINT MINISTERIAL COMMITTEE

A1: The Joint Ministerial Committee

A1.1 The UK Government and the three devolved administrations have agreed to participate in a Joint Ministerial Committee (JMC) consisting of Ministers of the UK Government, Scottish Ministers, Members of the Cabinet of the National Assembly for Wales and Ministers in the Northern Ireland Executive Committee. This supplementary agreement sets out the basis on which the Committee will operate, pursuant to the Memorandum of Understanding.

A1.2 The terms of reference of the Joint Ministerial Committee are:

- a. to consider non-devolved matters which impinge on devolved responsibilities, and devolved matters which impinge on non-devolved responsibilities;
- b. where the UK Government and the devolved administrations so agree, to consider devolved matters if it is beneficial to discuss their respective treatment in the different parts of the United Kingdom;
- c. to keep the arrangements for liaison between the UK Government and the devolved administrations under review; and
- d. to consider disputes between the administrations.

A1.3 Plenary meetings of the JMC will be held at least once a year. They will consist of the Prime Minister (or his representative), who will take the chair, and the Deputy Prime Minister, the Scottish First Minister and one of his Ministerial colleagues, the Welsh First Secretary and another Assembly Secretary, the Northern Ireland First Minister and Deputy First Minister, and the Secretaries of State for Scotland, Wales and Northern Ireland. Other Ministers and Assembly Secretaries will be invited to attend as appropriate when issues relevant to their areas of responsibility are to be discussed.

A1.4 The Joint Ministerial Committee may also meet in other "functional" formats: for example, a meeting of the Agriculture Ministers of the UK Government and the devolved administrations, a meeting of Environment Ministers of the UK Government and the devolved administrations, and so on. The Secretaries of State for Scotland, Wales and Northern Ireland will be invited to participate in these meetings as appropriate. Irrespective of their location, the meetings will be chaired by the responsible UK Minister.

A1.5 The JMC will also be available to try to resolve differences between the UK Government and one of the devolved administrations on a matter which does not affect the other administrations. In such a case, the Committee will be composed of appropriate Ministers from the UK Government and the devolved administration concerned under the chairmanship of an appropriate senior UK Minister.

A1.6 Meetings of the JMC, in its various guises, will be held for two purposes: to take stock of relations generally and of the way in which the devolution arrangements are working in a particular area; and to address particular issues or problems. In the latter case, the presumption is that an issue will come to the JMC only when there is an impasse: i.e. following an unsuccessful bilateral exchange at Ministerial level.

A1.7 Where a dispute cannot be resolved bilaterally, or through the good offices of the relevant territorial Secretary of State, the matter may formally be referred to the JMC Secretariat. Each bilateral concordat will include a reference to the process for triggering formal JMC intervention. Where this appears likely, the JMC Secretariat should be consulted at an early stage in order to ensure a consistent interpretation of the devolution settlements, and to provide advice on handling of any differences of view.

A1.8 Meetings of the JMC, in the appropriate functional guise, will be held at the request of the UK Government or any of the devolved administrations. The responsibility for convening a meeting lies with the responsible UK Minister.

A1.9 The JMC—chaired for this purpose by the Foreign Secretary (or his representative)—will also operate as one of the principal mechanisms for consultation on UK positions on EU issues which affect devolved matters. The fact that rapid decisions have to be taken on EU issues to meet the timetable of negotiations in the Council of Ministers, as well as the Government's own wish to involve the devolved administrations as fully as possible in discussions on the formulation of UK policy positions, necessitates a mechanism which enables the lead UK Minister where necessary to consult other UK Government Ministers and their counterparts in the devolved administrations simultaneously. In this functional format, it is likely that the majority of business will be conducted through correspondence, although meetings will also be convened where necessary.

A1.10 The JMC is a consultative body rather than an executive body, and so will reach agreements rather than decisions. It may not bind any of the participating administrations, which will be free to determine their own policies while taking account of JMC discussions. Nonetheless, the expectation is that participating administrations will support positions that the JMC has agreed.

Confidentiality and Public Statements

A1.11 The proceedings of each meeting of the JMC will be regarded as confidential by the participants, in order to permit free and candid discussion. However, the holding of JMC meetings may be made known publicly, and there may be occasions on which the Committee will wish to issue a public statement on the outcome of its discussions.

Committee of officials

A1.12 A Committee of officials from the UK Government and the devolved administrations will shadow the Joint Ministerial Committee and prepare for its meetings. It will consist of at least one representative from each administration, and, as appropriate, a representative of the

Secretaries of State for Scotland, Wales and Northern Ireland. Representatives of other Whitehall Departments will be invited to attend as appropriate when issues relevant to their areas of responsibility are to be discussed. The chairman of the Committee will be the Cabinet Secretary (or his representative) and the JMC Secretariat will provide secretarial facilities.

A1.13 Meetings will be regarded as confidential by the participants. The official Committee may establish sub-committees to deal with individual subject areas. In particular, a sub-committee for EU business will prepare EU issues. The same principles of membership, chairmanship and secretarial support and confidentiality will apply to the sub-committees as to the principal official committee.

Joint Secretariat

A1.14 The JMC Secretariat will comprise staff from the UK Cabinet Office and the devolved administrations. Its composition and role is described in the attached Annex (A2).

A: AGREEMENT ON THE JOINT MINISTERIAL COMMITTEE

A2: Annex on the Secretariat to the JMC

A2.1 The Joint Secretariat will comprise staff from the UK Cabinet Office and the devolved administrations. Initially they will be located in their respective capitals, unless in the longer term the volume of work makes co-location of the Secretariat appear a viable option. The lead role within the Secretariat will fall upon the UK Cabinet Office, including responsibility for servicing meetings and despatching documents as required. However, in accordance with the traditional role of the Cabinet Office, although it will retain a certain responsibility to the Prime Minister as chairman of the JMC, the Secretariat will be bound to provide an impartial service to all members of the JMC. It will remain possible for staff of the devolved administrations to be seconded to work in this as in other areas of the Cabinet Office.

A2.2 The functions of the Joint Secretariat will depend upon the needs of the moment, but the Secretariat will be a resource which is available for:

- a. servicing meetings of the JMC and its official counterpart;
- b. general liaison, including ensuring that the exchange of information between administrations is adequate (this should not be taken as superseding normal bilateral contacts);
- c. preparing a forward look of issues likely to require discussion by the JMC;
- d. maintaining an overview of the workings of the devolution arrangements, including concordats and the resolution of disputes arising from them;
- e. where necessary, ensuring liaison between the UK Government and the devolved administrations on issues cutting across conventional departmental boundaries, for example social exclusion, and the prevention of drug misuse;
- f. reviewing constitutional issues of importance to all four administrations, such as guidelines for officials of one administration who have to give evidence before the legislature of a different administration; and
- g. helping to resolve bilateral problems, including *vires* disputes.

A2.3 The presumption is that in most circumstances the administrations will arrange bilateral meetings without the need to involve the JMC Secretariat, which will become involved only if circumstances require it e.g. in the event of an unresolved dispute. Meetings of the JMC in functional format may, by agreement, be serviced by the lead Whitehall Department.

A2.4 The Joint Secretariat will also liaise as necessary with the Secretariat to the British-Irish Council established pursuant to the Belfast Agreement.³

³ The British-Irish Council comprises representatives of the British and Irish Governments, the Northern Ireland Executive, the Scottish Ministers, the National Assembly for Wales, the Government of the Isle of Man, the Bailiwick of Guernsey and the Bailiwick of Jersey (and, if appropriate in due course, elsewhere in the UK). It promotes discussion, consultation and co-operation on matters of mutual interest between the participating administrations. The Secretariat is provided jointly by the British and Irish Governments in co-ordination with officials from the other member administrations.

A2.5 It is recognised that the staff of the UK Government and the devolved administrations who make up the component sections of the Joint Secretariat are likely also to be involved in co-ordinating their own administrations' stance towards JMC business. The UK Government and the devolved administrations recognise that there will sometimes come a point in discussions between the administrations at which the different parties will need to reserve their position or, especially when legal proceedings seem likely, cease to participate in joint discussion of an issue.

B: CONCORDAT ON CO-ORDINATION OF EUROPEAN UNION POLICY ISSUES

B1: Concordat on Co-ordination of European Union Policy Issues—Scotland

B1.1 This document and the common Annex (B4) are to be read in conjunction with the Memorandum of Understanding (MoU) between the UK Government, Scottish Ministers, the Cabinet of the National Assembly for Wales and the Northern Ireland Executive Committee and the enabling legislation establishing these administrations. Reference to devolved or non-devolved matters will be construed in accordance with the MoU.

B1.2 This concordat is an agreement between the Scottish Ministers and the UK Government. This concordat is not intended to constitute a legally enforceable contract or to create any rights or obligations which are legally enforceable. It is intended to be binding in honour only.

This Concordat sets out the mechanisms between UK Government and the Scottish Executive for the handling of EU business. Specifically, the Concordat covers:

- provision of information;
- formulation of UK policy;
- attendance at Council of Ministers and related meetings;
- implementation of EU obligations; and
- infraction proceedings.

There are a wide range of interfaces with the EU and the practicalities attached to developing and presenting UK policy are to be handled in line with the general principles set out in this paper. Other concordats may set out the procedure in more detail as appropriate.

General

B1.3 As all foreign policy issues are non-devolved, relations with the European Union are the responsibility of the Parliament and Government of the United Kingdom, as Member State. However, the UK Government wishes to involve the Scottish Executive as directly and fully as possible in decision making on EU matters which touch on devolved areas (including non-devolved matters which impact on devolved areas and non-devolved matters which will have a distinctive impact of importance in Scotland). In general, it is expected that consultation, the exchange of information and the conventions on notifications to EU bodies will continue in similar circumstances to the arrangements in place prior to devolution.

B1.4 Participation will be subject to mutual respect for the confidentiality of discussions and adherence by the Scottish Executive to the resulting UK line without which it would be impossible to maintain such close working relationships. This line will reflect the interests of the UK as a whole. In accordance with these general principles, the co-ordination mechanisms should achieve three key objectives:

- they should provide for full and continuing involvement of Ministers and officials of the Scottish Executive in the processes of policy formulation, negotiation and implementation, for issues which touch on devolved matters;
- they should ensure that the UK can negotiate effectively, in pursuit of a single UK policy line, but with the flexibility that fast-moving negotiations require; and
- they should ensure EU obligations are implemented with consistency of effect and where appropriate of timing.

Such mechanisms should also ensure that the Scottish Executive and the UK Government inform each other of any relevant policy proposals which might impact on either existing or new EU proposals or requirements. They should also ensure that, when required by EC legislation, relevant obligations or initiatives are reported to the Commission and when necessary the other Member States.

The arrangements in the common Annex (B4) are intended to be adaptable to suit the differing circumstances of individual cases.

PRIME MINISTER

From: Stephen Wall
Date: 7 November 2001

cc: Jonathan Powell
Jeremy Heywood
David Manning
Michael Tatham

SUNDAY NIGHT'S LEFTOVERS: HUMBLE PIE

I have eaten large dollops of it in the last hour or two. I have spoken to my Belgian, Austrian, Portuguese, Greek and Danish colleagues. The Finn was not available, but I will try him tomorrow and will give him UK support for lots of dioxins in Baltic fish, which is what Finland most wants in the world at present.

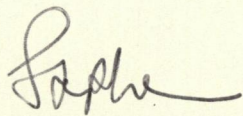
The main messages I got were:

- **Belgium:** Lots of complaints still coming in from smaller member states. Guterres wanting a special summit to discuss EU solidarity (he won't get it). Schüssel wanting to write a letter of the excluded-eight complaining. Verhofstadt is seeing him tomorrow (Thursday) and will try and dissuade him.
- **Greece:** Simitis very upset. Very damaging to the construction of Common Foreign and Security Policy. Helpful if PM could speak to Simitis.
- **Austria.** No mention of the letter. Quite a lot on Schüssel upset that he had tried for two days to ring you following his own visits to the Middle East and Washington and had been rebuffed.

- **Portugal:** Lots of grief in the Portuguese press. Guterres not personally miffed but believes that what has happened is bad for the construction of Europe.
- **Denmark.** No hard feelings, but they do want you to write a joint article with Rasmussen on the World Summit on Sustainable Development, and have sent us a draft. We have brought it up to the top of the in-tray.

Recommendation: No substitute, I fear, for a blitz of phone calls - with Verhofstadt, Guterres and Schüssel (because of his wretched letter) top of the list.

Final piece of bad news: Berlusconi has apparently had his best day ever since he became Prime Minister as a result of your inviting him. Italians think this is a coup for the development of Europe ie Italy invited by Britain to join the top table.



STEPHEN WALL

~~Duty Clarke~~
Can you get me the
HMT draft paper.



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6 November 2001

Ivan Rogers Esq
Director (Europe)
HM Treasury
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LONDON
SW1P 3AG

R

Dear Ivan

SSW
cc: MF
RL
K
...
...
...

ENHANCED CO-OPERATION

1. We spoke the other day about the draft HMT paper on enhanced co-operation.
2. I think it is right to think strategically about whether and how we want to use enhanced co-operation. Your paper is a useful start. And given the suggestions that enhanced co-operation should be used in the context of the Energy Products Directive to create a common tax structure, this could quickly become a live issue.
3. I have a few generic comments on the paper and a couple of specific suggestions.
4. First, analysis. I agree that we need to keep our eyes open for potential uses of enhanced co-operation, But I am not sure that it is likely to be used soon. It has existed since the Amsterdam Treaty and has not been used yet. Some of those who say they like it have private doubts, eg about whether its use and their participation may reduce their competitiveness against the outs. And I suspect that suggestions for enhanced co-operation are sometimes a threat designed to worry us into Community-wide action we dislike, for fear of being excluded. I wonder whether the current rumblings on energy tax come into this category.
5. Nor am I sure that the safeguards on the use of enhanced co-operation, strengthened at Nice, will prove quite as weak in practice as the paper suggests. The conditions in the Treaty (Article 43 TEU) are a high hurdle: no enhanced co-operation if it undermines the Single



Market, distorts competition, discriminates in trade, fails to respect the rights of the outs etc. And even the absent emergency brake (which Nice removes in the first and third pillar, substituting a right of appeal to the European Council) remains in ghostly form: the European Council is traditionally very unwilling to vote down any of its members.

6. Second, philosophy. The Prime Minister and other Ministers have said that the Government welcomes the additional flexibility enhanced co-operation will give to the EU. The Prime Minister (Warsaw speech) identified CFSP and JHA as particularly promising areas. All our public statements have been quite forward leaning both about the concept and the UK's interest in principle in participating in enhanced co-operation actions. Other things being equal, I guess this Government will want to be in the first enhanced co-operation that happens, unless it is manifestly damaging to UK interests. The paper has a rather negative tone on the whole concept.

7. Third, public presentation. Ministers have talked up enhanced co-operation since Warsaw and the Nice Treaty. It is an issue which is featuring in the parliamentary debate as the Nice Bill goes through the House (with the Opposition keen to criticise the new arrangements). So we would certainly wish to avoid suggesting publicly that enhanced co-operation a la Nice is more of a threat than an opportunity, or that the additional safeguards we built in won't work.

8. Fourth, criteria for UK support for an enhanced co-operation. I agree we need some. They would probably be based on those we stuck in the Nice Treaty – no distortion of the Single Market, no damage to the interests of the outs etc. But I don't think we'd want too mechanistic an approach. In practice I think we would do what we always do: judge each case on its merits.

9. Fifth, UK decision-making. Any decision to promote/oppose or join/abstain from any proposed enhanced co-operation will have big implications. The first such decision will also set important precedents. So it will need to be taken centrally, under the usual No10/Cabinet Office auspices. It will need proper Ministerial approval, including from the Foreign Secretary, given the wider implications for our overall approach to the EU. And it will need careful presentation to the media and parliament.

10. As to next steps, I suggest:-

- our teams talk further about enhanced co-operation in general. I have asked Richard Wood to send Rebecca Lawrence our material on the issue.
- we ought to have some Cabinet Office guidance for Departments on enhanced co-operation and how to handle a proposal to launch it (similar to what we already have for the Luxembourg Compromise). I've asked Richard Wood to talk to Cabinet Office about such a paper which we can pre-clear with you and UKREP.



- as for the proposals on enhanced co-operation/energy tax, please keep us posted. Should it start to look as if a decision is necessary/close, I think we should get round Stephen Wall's table to discuss all the angles before deciding how to proceed.

Zow

James

James Bevan
European Union Department (Internal)

cc: Sir S Wall, No 10
Sir N Sheinwald, UKREP
Kim Darroch, FCO

RESTRICTED



From: Michael Tatham
Date: 5 November 2001

PRIME MINISTER

cc: Jonathan Powell
David Manning
Stephen Wall

REACTIONS TO LAST NIGHT'S DINNER

Despite the Greeks not being invited, there is a fair amount of broken crockery from last night's dinner. Reports from Embassies are still coming in, but a predictable picture is emerging of unhappiness on the part of the excluded countries and disgruntlement also from some of those invited at the last minute. Telegrams and excerpts of foreign press coverage are attached. Headline points:

- **Portugal:** biggest damage caused. The Government feels stung by their exclusion. The leader of the opposition has made political capital out of it. And we were already in bad odour for postponing the Guest of Government visit of President Sampaio. We are taking steps to repair the damage. **We have offered Guterres a meeting in London next Monday. If you agree, we will also tell the Portuguese that we will reinstate the Sampaio visit to the week beginning 11 February 2002 (the Palace have a free lunch slot in this week) – you would need to offer Sampaio a meal.**
- **Prodi:** you caught the flavour of his mood this morning. The dinner added to his mounting sense of frustration that his role as Commission President is not what he was looking for. **We have fixed a breakfast with Prodi on 15 November.**
- **George Robertson:** grumbled over the phone to David about the format of the dinner undermining NATO's role. David explained the background and calmed him down.
- **Netherlands:** we got the worst of both worlds. They got their invitation, but sufficiently late for the press to complain anyway about the Netherlands not being taken seriously.
- **Belgium:** Verhofstadt had his cake and ate it. Turned up to the dinner, but played to the smalls' gallery by consulting the uninvited beforehand and criticising the event on their behalf.

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- 2 -

UKRep's account of this morning's Coreper gives a good flavour of the discontent amongst the smalls. There was definitely a sense of the unhappiness ratcheted up from the last time round at Ghent. The dinner played to their worst institutional nightmare of the smalls - a directoire approach in which they will all be marginalised. There is some evidence in the telegrams from posts of ambivalence on the part of some neutrals (Ireland and Sweden) about participating in a meeting seen as having a primarily military focus. But other neutrals - Austria and Finland - seem genuinely aggrieved.

Damage Repair

The most urgent damage repair - with the Portuguese and Prodi - is in hand. Depending on further reports from posts, we could consider whether it would be helpful for you to phone some others of the excluded (Schuessel, Simitis, Persson) - perhaps after your Washington trip when you can give them a read-out of your discussions with Bush. We have set up mechanisms for providing EU partners with regular briefings (Peter Ricketts is now doing this in the Foreign Office). The Presidency are getting briefed on a regular basis. David will brief EU Ambassadors here after the Washington visit. And when you are in Washington it would be worth your referring to all the EU activity on the JHA side so that partners are aware of you attaching importance to EU efforts.



MICHAEL TATHAM

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4 NOVEMBER DOWNING STREET MEETING: FURTHER REACTIONS
From: COPENHAGEN

TO DESKBY 061100Z FCO
TELNO 185
OF 061004Z NOVEMBER 01
INFO ROUTINE EU POSTS

MY TELNO 184
SUMMARY

1. Strong criticism from Opposition spokesperson and newspaper editorial.

DETAIL

2. The main left-of-centre broadsheet, Politiken, carries a prominent article today with the heading "Nyrup shut out". The gist is that, although some of the other "lesser heavyweights" were invited, Denmark was not - an indication of way in which Denmark is seen from London. The article quotes Charlotte Antonsen, political spokesperson of the main right-of-centre party Venstre (who stand a good chance of coming to power in the 20 November election) as criticising Lykketoft's acceptance of such meetings. Antonsen said that it was "quite distasteful" that the large member states should always try to shake off the smalls. It ran contrary to whole concept and fundamental thinking of the EU; the Danish government should ally itself with the other smalls and insist that decisions were made jointly.

3. Denmark's leading (centre-right) broadsheet, Jyllands Posten, also carries the story prominently. The article, entitled "the EU's patchwork diplomacy" is implicitly critical, although it does not quote Antonsen or any other politician. Instead, it concentrates on the reported disgruntlement of the Italians, Belgians and others when they were not initially invited. According to the article, "an enraged" Berlusconi rang Mr Blair and insisted on being invited; Kok allegedly rang to say that he would turn up whether invited or not. The paper also carries an editorial, which takes the line that it would have been acceptable either to insist on the original plan for an intimate dinner with the French and Germans, or to open the event to all EU Heads of Government. But by giving in to the pressure from certain countries, and moving half-way, the editorial comments that Mr Blair and his officials handled the situation miserably.

4. Contact: Paul Yaghmourian on Firecrest or +45 3544 5203.

YAGHMOURIAN

Sent by COPENHAGEN on 06-11-2001 10:04
Received by No10 on 06-11-2001 11:23

RESTRICTED
AFGHANISTAN: DOWNING STREET MEETING
From: UKREP BRUSSELS

TO DESKBY 051800Z FCO
TELNO 1278
OF 051740Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE, EU POSTS, MODUK, PJHQUK
INFO PRIORITY ACTOR, DFID, ISLAMABAD, ISLAMIC POSTS
INFO PRIORITY MIDDLE EAST POSTS, NATO POSTS, NEW DELHI
INFO PRIORITY SECURITY COUNCIL POSTS, UKMIS GENEVA
INFO PRIORITY UKMIS NEW YORK, WASHINGTON, WHIRL

SPECIAL COREPER (AMBASSADORS) 5 NOVEMBER
SUMMARY

1. Solana briefs Coreper on Downing Street meeting. Predictable criticism from member states who did not participate. Presidency close down discussion, but make clear their own discomfort and hope that such gatherings will not be repeated. Comment.

DETAIL

2. The Presidency today convened a special Coreper to debrief on last night's meeting at No.10 and ensure "equality of information" to all member states. They prefaced a presentation by SG/HR (Solana) by explaining that Verhofstadt had yesterday sought the views of uninvited EU capitals, who had encouraged him to attend the meeting. He remained concerned at the implications for EU cohesion.

3. Solana noted four elements from the meeting. First, the military strategy was being re-directed towards support for the Northern Alliance (NA), and destruction of Taliban front lines. This meant continuing a targeted military campaign through Ramadan, and putting more special forces on the ground. This necessitated military and material support for the Northern Alliance.

4. Second, work on constructing a post-Taliban regime should be speeded up. Brahimi believed the Pashtun majority was not yet ready to engage. Russia was more willing to accept something similar to the former King's proposal: a Supreme Council made up of 50 representatives of the Pashtun communities, 50 representatives from the NA and a further 20 representatives chosen by consensus from the former two groupings (rather than by the King from the Afghan diaspora). Iran had said they would prefer a smaller council of 10-15 representatives, but Russia had reported Iran was shifting towards accepting a 50-50-20 formula too.

5. Third, Ministers had agreed on the need for closer coordination between the military and the humanitarian campaigns. The EU should continue talking to Annan and Brahimi to identify where it could help.

6. Fourth, discussion on the Middle East was along the lines of last week's GAC discussion. There needed to be an extra push on the Peace Process in parallel to the military campaign in Afghanistan. The EU would feed this message into the Euro-Med Ministerial taking place in Brussels on 5-6 November. There would also be meetings with Arafat and Peres later today. The Prime Minister and Chirac would pass these messages on to the US in their visits to Washington this week. Foreign Ministers could discuss further at the meeting in the margins of UNGA on 9 November, as well as putting over the EU's view to Powell (10

November) and Ivanov (11 November).

7. The meeting had also agreed to improve communication. Three teams, in Islamabad, London and Washington DC would coordinate daily briefings to fill the information gap.

8. Following Solana's briefing, all the non-participants in turn voiced their disapproval at the meeting, criticising the format, and expressing disappointment at their exclusion. The meeting had undermined the EU's attempt to present a unified front over the last weeks.

9. Finland wondered what the criteria for participation were, given that the meeting did not sound as if it was primarily on the military situation. Sweden acknowledged that they usually took a relaxed attitude to member states meeting in different constellations. But this time was different. Unlike the Ghent trilateral focussed on military action, last night's meeting gave the impression of being an EU one, and appeared more institutionalised. This created ambiguity and confusion. The timing was particularly unfortunate given the need for cohesion. The EU now projected disunity. The implications for the future needed to be clarified. The EU must not be confronted with this again before Laeken.

10. Greece thought this heralded a *directoire*, not sound ground for a debate on the Future of Europe. Ireland wanted clarity on when the EU was meeting, and when not. The presence of the Presidency and High Representative had added to the confusion. Portugal did not want this to constitute a precedent - there would be negative consequences for the overall CFSP. Luxembourg was surprised and disappointed, questioning the value of the meeting; Austria too.

11. The Commission also were frustrated - they had not been invited, merely informed 30 minutes before the start. They were reassured by Solana's briefing that they had not missed much. But any repeat would jeopardise the coalition and weaken the EU approach.

12. In response, Solana noted that the participating Member States all had representatives at the Tampa military HQ. The Presidency added that, in their pre-meeting consultations with non-participating Member States, only two had hesitated on whether Verhofstadt and Solana should attend. But there would be continued reflection on the implications of this event. The Presidency would continue to work for concerted EU action and solidarity following 11 September. But individual member states' military responsibilities were a factor to be borne in mind.

COMMENT

13. I and the representatives of the other participating countries decided not to rise to the *smalls'* bait. The Presidency were keen to avoid a long and heated discussion. But there was feeling in the *smalls'* complaints this time. The mood was different from Ghent, because of the numbers involved/excluded, the participation of the Presidency and Solana, and the wider agenda.

14. We are in a 'damned if you do, damned if you don't' situation. There will plainly be a need for consultations with our closest partners in the future, and we should not be apologetic about that. In EU terms, there is no institutionally completely safe option. But the best course would probably be, if possible, (a) to limit gatherings to the UK, France and Germany and (b) to keep the Presidency (and Solana / Commission) informed before and

afterwards, not necessarily in great detail.

SHEINWALD

Sent by UKREP BRUSSELS on 05-11-2001 17:40
Received by No10 on 05-11-2001 18:49

**UNCLASSIFIED
PRESS REACTIONS TO NO. 10 MEETING: PORTUGAL
From: LISBON**

TO DESKBY 060900Z FCO
TELNO 211
OF 051707Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO PRIORITY EU POSTS

CABINET OFFICE PLEASE PASS TO NO.10
ALSO PLEASE PASS TO EMERGENCY UNIT
SUMMARY

1. Exclusion of Portugal highlighted and linked to postponement of last week's visit to the UK by President Sampaio. Media see mini-summit as the latest example of decision-making directory of major EU states.

DETAIL

2. The Downing Street meeting, described as a quote EU mini summit unquote or quote Council of War unquote, is widely reported in this morning's press, radio and television, in some cases replacing the news from Afghanistan as the main item. The main thrust of the commentary is that this is a further example of a two speed Europe, with a directory of large member states excluding small member states from the decision-making process when an important issue arises. Some commentators have addressed the corollary of this: that the EU has been shown to lack the capacity to act in a crisis and that Portugal has marginalised itself by its recent policy of dissociation from direct military involvement.

3. A second theme is what the absence of an invitation says about UK/Portugal relations: the press draw attention to the fact that the Prime Minister did not invite quote his friend Guterres unquote and link this to the postponement of last week's visit by President Sampaio. The opposition leader, Durao Barroso, similarly emphasises that Portugal's exclusion from crucial international decisions is serious, particularly when the initiative is taking place quote in the capital of Portugal's oldest ally unquote.

4. Government reactions, as conveyed through the press, consist of dismay and irritation. A source in Guterres' Office is reported as saying that initiatives of this kind do not help reinforce European unity or the cohesion of the international coalition against terrorism.

COMMENT

5. Media coverage no surprise given Portuguese sensitivity to the exclusion of small member states from EU decision-making (and to any indication that the big countries are not taking Portugal seriously since their EU Presidency). That said, there is also an acceptance (more grudging in some commentators than others) running through the reporting that neither the EU in general, nor Portugal in particular, have responded to the crisis in a way that demands their inclusion in key decision-making meetings. In Portugal's case, this ignores the real contribution that Lajes airbase in the Azores makes to US military logistics - a press report notes that US staging through Lajes over the last week has been particularly heavy.

ENDS

RESTRICTED
PRIME MINISTER'S MEETING WITH EU LEADERS: 4 NOVEMBER
From: THE HAGUE

TO DESKBY 051630Z FCO
TELNO 268
OF 051554Z NOVEMBER 01
INFO ROUTINE EU POSTS, WASHINGTON

FCO Pls pass to No10, Cabinet Office and Emergency Unit
SUMMARY

1. Press focussed on Kok's annoyance at having to invite himself to the meeting. Cross party support for his position. However Kok's supportive after dinner comments receive good coverage.

DETAIL

2. Prime Minister Kok's support and that of his Government for military action in Afghanistan has been overshadowed by Kok not receiving an early invitation to attend the dinner. The Algemene Dagblad has the headline 'Blazing row in Europe. An angry Kok allowed to attend at the last minute'. De Telegraaf, the most widely read Dutch newspaper, reports the Government's anger that for the second time in fourteen days smaller EU states have not been invited to discuss Afghanistan. It goes on to quote the representatives of the major political parties expressing their anger and dismay at this perceived slight. The MFA is quoted as describing as the run-up to the dinner as a let down. 'It throws an entirely new light on the so-called Apeldoorn Conference, which was established last year to confirm the good ties between the Netherlands and the UK.' (The Apeldoorn Conference started yesterday in Edinburgh). De Volkskrant, with the second largest distribution, continues in a similar vein adding that Kok had been making furious efforts to be taken seriously as a partner in the international coalition.

3. Fortunately, however, Kok's post-dinner comments also received good coverage. He emphasised that military action would if necessary continue during Ramadan and that it was not a goal in itself. The campaign was one of three pillars on which the coalition was built, the other two being diplomatic action and humanitarian aid.

COMMENT

3. This, as you will be aware from your talk with van Aartsen before the meeting, is a highly neuralgic topic with the Dutch. They have regularly complained at exclusion from contact groups where they are later expected to come up with resources to execute a policy. They know that they are not one of the key players militarily but regard themselves as having a serious role to play as far as humanitarian aid is concerned. We will make life easier for ourselves if we can bring them along at an as early stage as possible.

HOLMES

Sent by THE HAGUE on 05-11-2001 16:54
Received by No10 on 05-11-2001 17:04

RESTRICTED
DOWNING ST SUMMIT: SPANISH REPORTING
From: MADRID

TO DESKBY 051530Z FCO
TELNO 423
OF 051449Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO PRIORITY CAIRO, EU POSTS, JERUSALEM, MOD UK, TEL AVIV
INFO PRIORITY UKMIS NEW YORK, WASHINGTON

CABINET OFFICE PLEASE PASS TO No.10 FOR LIVESEY AND TATHAM
SUMMARY

1. Front-page coverage of Downing Street mini-summit. Aznar briefs press afterwards in standard terms, though categorical there is no suggestion of widening campaign. Some media criticism of meeting's exclusivity, but also perception of newly central role for UK in EU foreign policy. Earlier in weekend, Aznar had hosted a trilateral in Majorca between Peres, Arafat and Mubarak, though this seems to have brought no movement on substance.

DETAIL

DOWNING STREET DINNER

2. Aznar's inclusion guaranteed major Spanish media coverage, leading last night's TV news and all today's front pages, though coming too late for most leader writers.

3. In a press conference at the Spanish Embassy immediately afterwards, Aznar said:

- nothing new on ground forces had been decided (but he would probably not have said even if it had been); as Spain had cause to know, defeating terrorism was a long haul and the campaign in Afghanistan would take time. But the countries involved were committed to seeing this through: people should be patient;

- "there is not the slightest intention of widening the campaign to other countries or regions";

- operations in Ramadan would be maintained: "nothing would justify giving advantages to the Taliban";

- (twice) there was nothing new to say at this point on Spanish military participation (Comment: but with the implication that there soon could be);

- the new UK and US measures against terrorist finances were welcome; there were moments when Spain had felt alone in its fight against terrorism. Now people were coming to understand that this was everyone's problem, not someone else's.

4. All the papers explicitly or implicitly bring out the centrality of the UK role. They report blow by blow how the guest list widened over the weekend, and pick up Portuguese etc complaints. Prodi's absence and Dutch annoyance at initial exclusion are duly noted. The centrality given to Aznar's role depends on the paper's political affiliation, with El Mundo dwelling on his inclusion in the Big 5 and the content of his press briefing, and El Pais arguing that the dinner, important though it was, had caused a "crisis" within the EU comparable to that following the UK/France/Germany trilateral pre-Ghent. Vanguardia says the dinner was a welcome respite after domestic

criticism of difficult visits to Syria and Israel, and replays UK press speculation on inter- and intra- departmental differences in Whitehall on strategy.

5. More positively, Pais says the UK has now displaced the Franco-German axis as the driving force of EU foreign policy. La Razon, while playing up Aznar's standing, describes the Prime Minister as the host, but also the "protagonist", after recent and imminent travels.

MEPP

6. Saturday's press was dominated by Aznar's officiating at another Middle East-related event: a seminar in Majorca also attended by Mubarak, Peres and Arafat. The Spanish evidently worked hard to engineer a private tete-a-tete between Peres and Arafat, which would have been the first such since late September. In practice the most they managed was a private dinner between the four. This does not seem to have achieved substantial progress, though Aznar said afterwards it had broken the ice. Again he publicly counselled patience for what was bound to be a long process. He questioned, however, the need for a period of calm before negotiations restarted, since in the current climate such a pause was likely to prove unachievable. The public speeches of both Peres and Arafat stuck to standard reiterations of existing positions, while Mubarak harshly attacked Israel's approach.

COMMENT

7. For all the sniping at the margins, most Spanish readers will have been left with two impressions of last night's dinner:

- i) that this was an operationally-driven British initiative, albeit slightly last-minute, in which the Prime Minister was the clear protagonist;
- ii) that the Spanish are being involved in the top-level European planning.

8. Aznar has also come over positively: fully involved, clear and determined, but cautious about early results in either sphere.

OAKDEN

Sent by MADRID on 05-11-2001 14:49
Received by No10 on 05-11-2001 16:04

RESTRICTED
AFGHANISTAN: GREEK REACTION TO DOWNING STREET MEETING
From: ATHENS

TO DESKBY 051500Z FCO
TELNO 232
OF 051603Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE, EU POSTS, WASHINGTON, MODUK

SUMMARY

1. Greeks critical, including at high level.

DETAIL

2. There is little reporting in this morning's newspapers (most of the main dailies do not appear on Mondays). Most of what does exist repeats Associated Press and is critical.

3. More significantly, the subject was raised with me during the course of other business by both the Deputy Minister of Foreign Affairs, Yiannitsis, and the MFA Secretary-General for European Affairs, Plaskovitis. Yiannitsis expressed the Greek Government's displeasure at such an exclusive meeting. It undermined CFSP. This had been felt also by Prime Minister Simitis. It was not easy for Greece to accept or indeed explain this kind of meeting. Plaskovitis described it as more dangerous than Ghent, because it was a repeat and because (with the addition of more countries) the military justification was wearing thin.

4. Rondos told me this morning that Papandreou had also been concerned. He felt it made it harder to defend the Greek Government's position domestically. Greece provided Souda Bay, but was not apparently seen as making a military contribution. Rondos added that Greek concerns would have been lessened by a telephone call alerting them in advance: they would then have felt treated as one of the team.

MADDEN

Sent by ATHENS on 05-11-2001 16:03
Received by No10 on 05-11-2001 15:04

**UNCLASSIFIED
IRISH PRESS REACTIONS TO DOWNING STREET MEETING
From: DUBLIN**

TO IMMEDIATE FCO
TELNO 343
OF 051559Z NOVEMBER 01
INFO ROUTINE EU POSTS

SUMMARY

1. Very limited, factual coverage of the meeting. No criticism so far.

DETAIL

2. Irish press coverage of the 4 November Downing Street meeting has been brief and purely factual. The national radio news mentioned in the morning headlines that the meeting had taken place, without further analysis. The Irish Times, in a short piece on an inside page, described the meeting as involving "the leaders of the key military powers in Europe", with others included at the last moment because of the criticism of the Ghent trilateral.

COMMENT

3. There may be more comment in tomorrow's press. But sensitivities over preserving Irish neutrality mean that Ireland would not in any case hanker after a seat at any meeting billed as having a primarily military focus.

ROBERTS

**Sent by DUBLIN on 05-11-2001 15:59
Received by No10 on 05-11-2001 22:20**

UNCLASSIFIED
PM'S MEETING ON AFGHANISTAN: SWEDISH MEDIA COVERAGE
From: STOCKHOLM

TO PRIORITY FCO
TELNO 270
OF 051437Z NOVEMBER 01
INFO ROUTINE EU POSTS

SUMMARY

1. Minimal, factual coverage.

DETAIL

2. Press coverage of the Prime Minister's meeting in London on 4 November has been minimal. Today's editions of the two largest circulation broadsheets had no mention of it at all. Another daily carried a factual article on the inside pages, noting, without further comment, that the meeting was for "the most important countries in Europe".

COMMENT

3. Having neither offered nor been asked for a contribution to the military campaign, the Swedes would probably not have expected an invitation. In any case, Government and media attention is distracted this week by the Social Democrats' annual congress.

4. Contact: alison.blackburne@fco.gov.uk or tel: +46 8 671 3119.

GRANT

Sent by STOCKHOLM on 05-11-2001 14:37
Received by No10 on 05-11-2001 22:50

UNCLASSIFIED
FINNISH MEDIA REACTION TO NO 10 MEETING ON 4 NOVEMBER
From: HELSINKI

TO IMMEDIATE FCO
TELNO 267
OF 051307Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO ROUTINE EU POSTS

SUMMARY

1. Finnish media on 5 November simply replay agency reporting of meeting having taken place.

DETAIL

2. News of the meeting at Downing Street broke too late for Finnish editorial writers to react for 5 November publication. Reporting in the press has so far been simply a replay of agency bulletins recording that the meeting took place. We will revert if there is any substantive editorial comment over the next few days.

BAILES

Sent by HELSINKI on 05-11-2001 13:07
Received by No10 on 06-11-2001 04:07

UNCLASSIFIED
MY TELNO 267: FINNISH MEDIA REACTION TO NO 10 MEETING ON
From: HELSINKI

TO IMMEDIATE FCO
TELNO 268
OF 060759Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE, COPENHAGEN , STOCKHOLM
INFO IMMEDIATE UKREP BRUSSELS
INFO ROUTINE EU POSTS

4 NOVEMBER

SUMMARY

1. Restrained anger from Finnish PM. Some effort for balance in press reporting.

DETAIL

2. PM Lipponen has declined to comment personally on the No 10 meeting. An official from his office said he "deplored" the fact that some States were excluded from it and felt this was the wrong way to proceed.

3. Only the main Finnish daily, Helsingin Sanomat has significant coverage of the story today. It records small countries' concerns, including the risk of damaging EU unity and the institutions' authority at a crucial time (a theme repeated in the paper's third leader), and the fear that such a grouping may become permanent. However, the paper also notes that Lipponen did not (not) complain about the pre-Ghent meeting. It quotes John Palmer in Brussels as saying that the UK tactics may be necessary to kick-start improvements in CESDP, as both the invited and left-out States will have motive to improve their defence performance.

4. Preliminary comment: the Finns have learned tactical lessons since Biarritz about not protesting too much, so there may be more seething below the surface than meets the eye. If so, Charles Grant's visit (including 2 lectures) on 8 November may draw it into the open.

BAILES

Sent by HELSINKI on 06-11-2001 07:59
Received by No10 on 06-11-2001 08:37

UNCLASSIFIED
DENMARK: REACTIONS TO 4 NOVEMBER DOWNING STREET MEETING
From: COPENHAGEN

TO IMMEDIATE FCO
TELNO 184
OF 051418Z NOVEMBER 01
INFO ROUTINE EU POSTS

SUMMARY

1. Danish Foreign Minister states that he has no objection to such meetings, but that they should not become too frequent.

DETAIL

2. The meeting on 4 November with the Germans, French, Spanish and Italians (plus the Dutch and Belgians, according to the media here) attracted high profile attention in the Danish broadcast media. The Foreign Minister was asked whether he had any objection. Lykkektoft replied that such meetings should not be allowed to proliferate too much, because this could be interpreted as excluding the smaller member states. However, he had no problem with the format. He pointed out that the Nordic countries held their own meetings before EU summits, and that France and Germany had a tradition of bilateral summits.

3. The Danish Prime Minister previously rejected reported criticism of the UK/German/French trilateral at Ghent (our telno. 167 refers).

4. Contact: Paul Yaghmourian on firecrest or +45 3544 5203.

YAGHMOURIAN

Sent by COPENHAGEN on 05-11-2001 14:18
Received by No10 on 06-11-2001 04:22

UNCLASSIFIED
BELGIAN PRESS REACTIONS TO DOWNING ST MEETING 4 NOV
From: BRUSSELS

TO IMMEDIATE FCO
TELNO 277
OF 051532Z NOVEMBER 01
INFO PRIORITY ACTOR, CABINET OFFICE, EU POSTS, SNUFFBOX
INFO PRIORITY WASHINGTON, WHIRL

EUD(B) FOR PINTO, NEWS D FOR WHINERAY
EMERGENCY UNIT FOR PIERCE
SUMMARY

1. Belgian papers critical of handling of Sunday night's meeting; relieved that Verhofstadt finally invited; report Verhofstadt's staff querying where this leaves EU common foreign policy.

DETAIL

2. Belgian francophone papers (with articles based largely on AFP reporting) are universally critical of the handling of invitations to the Downing Street summit. "Blair invites some allies..." and "Europe defines itself as bumbling" are two headlines. Le Soir (best selling broadsheet) says the way the meeting was organised gives an impression of improvisation. It reports that Downing Street, having earlier underlined that this was "not an EU Summit", went into reverse in the afternoon and invited the Belgian Prime Minister (as Presidency) and the High Representative Solana. The paper quotes diplomatic sources in Belgium as saying that Verhofstadt was initially wary, finally agreeing to go only after consulting other uninvited EU partners; "we considered that not going, in the current circumstances, would have created a crisis that we can ill-afford". Verhofstadt reportedly undertook to inform the non-invitees of the outcome. His entourage spoke also of the "need to weigh up the consequences of this sort of meeting on the EU's common foreign policy".

3. The Flemish language press was marginally more positive, with De Standaard (independent broadsheet) saying that Verhofstadt was invited following pressure from other EU Member States. De Morgen (socialist broadsheet) hails Verhofstadt's presence as a diplomatic success, following the refusal by the Belgian Presidency to accept only telephone reports of the outcome. Verhofstadt eventually accepted only when his two conditions were met - that the smaller Member States agreed with his presence, and that Solana was also invited.

Contact: Lucy Joyce on Firecrest or on 00 322 287 6251

HEWITT

Sent by BRUSSELS on 05-11-2001 15:32
Received by No10 on 05-11-2001 22:20

Blair's snub leaves nasty taste for EU's political elite

The Downing Street dinner table was set for the chosen few . . . then the phones began to ring, write **Brian Groom** in London and **Judy Dempsey** in Brussels

It was the party that virtually the whole of the European Union's political elite set out to gatecrash. Rarely has Britain been so close to the heart of EU events as at Tony Blair's Downing Street dinner on Sunday night.

But the repercussions were being felt yesterday. Smaller countries and senior EU diplomats are furious at Mr Blair's handling of what he intended as a *tête-à-tête* with the leaders of France and Germany, the other two European countries due to take part in US-led military action in Afghanistan.

The dangers of trying to exclude other countries had been apparent last month, when a similar meeting of the three called by President Jacques Chirac had been condemned by offended lead-

ers and the European Commission who were not invited.

Undeterred, Mr Blair last week invited his French and German counterparts to dinner to discuss the military campaign and the Middle East peace process before Mr Blair and Mr Chirac visit Washington this week - setting off a farcical chain of events.

Mr Blair conveyed his intention to Silvio Berlusconi when he stopped off for dinner with the Italian prime minister in Genoa on Thursday on the way back from his trip to the Middle East last week.

Mr Berlusconi had suffered the most political damage from being excluded from the tripartite meeting in Ghent. As the leader of the biggest nation left out,

he was pilloried in Italy's media for failing to be invited.

After news of the planned dinner began to emerge publicly from Downing Street on Friday, the Italians began a sustained effort to get Mr Blair to change his mind. Throughout Saturday there were phone calls from Rome.

Initially, Mr Blair stood firm - but by Sunday morning he had given in. The turning point came when Washington agreed to put Italian forces on standby for a potential military role in the campaign against terrorism, something Rome had been pressing for.

There was no longer any reason to exclude Mr Berlusconi because Italy was in the same situation as Germany and France. Not wanting to snub Madrid, Mr Blair extended the invitation to his political friend José María Aznar, the Spanish prime minister. German officials then tipped off the Bel-

3.30pm on Sunday, London phoned Mr Verhofstadt. "We did not accept immediately," added the official. "We consulted with all the other 14 member states. And there was a consensus that Verhofstadt accept the invitation. Which he did."

Javier Solana, the EU's

foreign policy chief, was not on the original list either, but he was called by British intermediaries at lunchtime on Sunday, in Spain. He telephoned Mr Verhofstadt, flew via Brussels and the two proceeded to London.

The expanding guest list did not stop there. Wim Kok,

the Dutch prime minister, having been tipped off by the Belgians that the dinner was being expanded, called Mr Blair and said it would be a "good idea" if he were there too.

Mr Blair relented and invited him. As Mr Kok arrived 45 minutes late in

the back of a London police car, dinner for four had turned into dinner for nine - leaving the ever-flexible Downing Street caterers to cope with the extra mouths.

Additional reporting by James Blitz in Rome and Gordon Cramb in Amsterdam.

gians, who hold the EU presidency.

Guy Verhofstadt, Belgian prime minister, let it be known through British officials that he resented the way the small countries - and EU institutions - were being treated.

Finally, shortly after

5

Talks row prompts Blair plea to US

Ian Black in Brussels

Britain is urging the US to accept offers made by other EU allies to contribute to the campaign in Afghanistan, it emerged yesterday after a row about Sunday's invitation-only talks in Downing Street.

With smaller EU member states angry at being excluded from the meeting, diplomats said Tony Blair would encourage President George Bush to respond positively to Spain and others when they meet tomorrow.

Mr Blair, fresh from his controversial trip to the Middle East last week, will also underline the need for more intensive US involvement in attempts to curb Israeli-Palestinian violence. The French president, Jacques Chirac, is due to deliver a similar message to the White House today.

Italy's offer of troops, ships, combat aircraft and specialist units has been accepted, but details need to be worked out.

Mr Blair — increasingly the key middleman between the EU and the US — yesterday sought to repair any damage caused by the meeting by phoning the European commission president, Romano Prodi, though he did not feel snubbed, aides said.

But at a meeting of EU ambassadors, Portugal and Greece, as well as neutrals Sweden, Finland and Ireland, expressed reservations about the talks, which covered the Middle East, the future of Afghanistan, and strictly military issues. "People were speaking very frankly," said one diplomat.

British sources were unrepentant about the format, which initially involved only Mr Chirac, the French prime minister, Lionel Jospin, and the German chancellor, Gerhard Schröder, but was hastily extended to include prime ministers Jose-Maria Aznar of

Spain, Wim Kok of the Netherlands, Silvio Berlusconi of Italy, and Guy Verhofstadt of Belgium.

"You can't ban any EU meeting on the scale between two and 15 [member states]; it's not realistic," an official said. "There's always going to be someone who is upset, so you just have to be tough."

Sunday's dinner was originally designed to be a replay of talks two weeks ago when Mr Blair, Mr Chirac and Mr Schröder met on the eve of the EU's Ghent summit. Then there were furious complaints from Italy and Spain, which consider themselves in the EU big league, so Mr Berlusconi and Mr Aznar were eventually also invited on Sunday.

Another last-minute invitee was Mr Kok, who pointed out that Dutch military personnel were already working at the US military command in Tampa, Florida. He was said to have been so angry at being excluded that he had phoned Mr Blair to complain.

Belgium's Mr Verhofstadt was asked because he is running the EU's rotating presidency. But Brussels sources said the invitation had come so late — on Sunday lunchtime — that he had considered declining, and had accepted only after consulting non-invitees.

Javier Solana, the EU's foreign policy chief and main Middle East envoy, was also there and reported back to EU ambassadors yesterday.

Diplomats said Mr Blair wanted to persuade President Bush of the need to accept military help to cement alliance solidarity.

Portugal was especially angry about Sunday's meeting: "Encounters of this kind prejudice the creation of a consensus in the international alliance against terrorism," said an aide to the prime minister, Antonio Guterres.

What the papers say

Carlos Yarnoz in the Spanish daily *El País*

[Sunday night's] meeting in London once again reveals exactly the state of the EU common foreign policy. The first international crisis since that policy was put into place has exposed its shortfalls.

What will the nine member states who were not invited last night say now? Why did the Downing Street discussions include as a subject the message that Mr Blair should give George Bush on behalf of Europe when they meet on Wednesday? Does London now believe that Blair is Europe's representative to America in times of war?

António Ribeiro Ferreira in Portugal's *Diário de Notícias*

The Portuguese government declared itself to be against this mini-summit, claiming that initiatives of this kind did not contribute either to anti-terrorist unity or to European unity. In fact, Portugal counts for very little in both the anti-terrorist alliance and the unity of Europe. The supper in London proved that, once again, we have missed the train — and it's our own fault.

Greece's rightwing daily *Eleftheros Typos*

The British prime minister, as king of kings and within the framework of a personal campaign to strengthen the global coalition against terrorism, held a working dinner last night with European leaders. The British leader informed his guests about the results of his recent tour in the Middle

East which are ambivalent. Downing Street insists that in the long run the fruits [of these efforts] will become apparent, but political analysts are doubtful.

Belgian daily *La Libre Belgique*

Blair invited only a few allies. The five big countries met together leaving the 10 smalls on the sidelines and it bore a strong resemblance to a [decision-making] directorate. One can only draw negative conclusions about the EU's foreign policy from these type of meetings.

20

Blair upsets the Euro minnows

TONY BLAIR was caught in a bitter diplomatic backlash last night over his Sunday night war summit.

The gathering of European leaders in Downing Street ended with a welter of recrimination from those nations left off the guest list.

Both Portugal and Greece voiced their anger, while Dutch Prime Minister Wim Kok admitted he had had to gate-crash.

European Union President Romano Prodi was ignored completely.

Tomorrow the Prime Minister flies to Washington to tell George Bush that Europe stands united behind the American-led war against terrorism. But the aftermath of Sunday's summit is certain to blunt that message.

German Chancellor Gerhard Schroeder, who attended the talks, said afterwards that the

leaders were united in their support of the military campaign in Afghanistan and none had called for a ceasefire during the Moslem holy month of Ramadan, which starts in less than a fortnight.

Joining him at the summit were French President Jacques Chirac and his Prime Minister Lionel Jospin, Spain's Jose Maria Aznar, Italian Prime Minister Silvio Berlusconi, Belgian Prime Minister Guy Verhofstadt, Mr Kok and EU foreign policy chief Javier Solana.

But there was diplomatic

By **David Hughes**
Political Editor

uproar among the EU's smaller fry.

A Portuguese cabinet source said such meetings 'contribute neither to the cohesion of the anti-terrorist alliance, nor to European unity'.

A senior Greek official put it more bluntly: 'We are very much displeased.'

Mr Blair's original plan was for the leaders of the three major European military powers - Britain, France and Germany - to discuss their contribution to the war effort.

The invitation list was expanded belatedly to include Italy and Spain after Mr Berlusconi complained at having been shut out of a similar gathering in Ghent last month.

At the very last minute on Sunday, Mr Blair added the leaders of Belgium, holder of the rotating EU presidency, and the Netherlands, as well as Mr Solana.

EU President Romano Prodi, who had complained loudest about the three-way meeting in Ghent, was not invited.

Mr Blair will fly by Concorde to Washington to brief the President on the EU gathering and on his ill-fated trip to the Middle East last week.

After a working dinner with Mr Bush, he will board a scheduled overnight flight to London to be back in Downing Street for high-level meetings on Thursday.

In addition to chairing the Cabinet he will hold talks with King Abdullah of Jordan and have dinner with Pakistan's President Musharraf, whose continued support is vital to the anti-terror campaign.

Spain's Mr Aznar will return to Number 10 on Friday for his second meeting with Mr Blair in a week.

The Prime Minister's spokesman said the allies believed that Osama Bin Laden is losing the propaganda struggle. The latest video recording

released by the Saudi dissident had not been well received in the Arab world, the spokesman argued.

'I think there is a growing sense of Bin Laden's isolation,' he said.

Israeli Prime Minister Ariel Sharon yesterday set out the broad parameters of a Middle East peace plan which he intends to discuss with Mr Blair and Mr Bush in London and Washington later this month.

But the proposal appears to fall far short of that offered by his predecessor Ehud Barak at the Camp David peace summit in June 2000.

Barak offered Palestinian leader Yasser Arafat the entire Gaza Strip and more than 90 per cent of the West Bank with a share of Jerusalem. Arafat rejected that plan out of hand and the talks collapsed.

There is little chance that Arafat would even discuss a reduced offer of territory after more than a year of fighting in which hundreds of people have died and been wounded.

Sharon's plan envisages a demilitarised Palestinian state on parts of the West Bank and Gaza with all the 200 Israeli settlements intact, leaving the Palestinians with a series of disconnected cantons.

On the eastern side, Sharon says there would be a 'security strip' between 10km and 20km wide from north to south along the Jordan River valley under full Israeli control, which would eat further into the available territory.

Palestinian Information Minister Yasser Abed Rabbo said the plan was a non-starter.

'It's not viable,' said Abed Rabbo. 'It doesn't have its own borders with the outer world, it doesn't have any control over its own sky or its own water. This is not a state. This is a prison. This is a kind of apartheid solution by Mr Sharon.'

9

No 10 summit could weaken coalition, say diplomats

By Brian Groom in London and
Judy Dempsey in Brussels

Senior European Union diplomats and smaller European countries claimed yesterday that Tony Blair's controversial Sunday night summit at 10 Downing Street could undermine support for the fight against terrorism.

They accused him of trying to set an agenda that could undermine the European coalition behind US-led action against those held responsible for the September 11 atrocities in the US.

But Mr Blair's aides were unrepentant about events over the weekend, when the British prime minister was forced to expand the guest list at a Downing Street dinner after protests from countries that were excluded.

"It's great that No 10 is so popular," said a senior British official. "Never mind how it happened, it is useful that it happened. It's not that we are trying to compete with anybody else."

At first, only Gerhard Schröder, the German chancellor, and Jacques Chirac and Lionel Jospin, the French president and prime minister, were invited – on the grounds that Britain, France and Germany were the nations committed to military action.

But after frantic calls, Silvio Berlusconi, the Italian prime minister, Jose Maria Aznar of Spain, Guy Verhofstadt, Belgian prime minister and current holder of the EU presidency, Javier Solana, the EU's foreign policy chief, and Wim Kok, the Dutch prime minister, were added to the list.

Mr Blair initially resisted pleas to widen the dinner, but finally bowed to pressure from Mr Berlusconi when Washington agreed to

put Italian forces on standby for a potential military role, which put Rome on a similar footing to Paris and Berlin.

Once Mr Berlusconi was invited, Mr Blair felt obliged to invite Mr Aznar, a close ally, who has also offered military help. Then it became impossible not to invite Mr Verhofstadt and Mr Solana. Mr Kok rang Mr Blair and said it would be a "good idea" if he were there too.

Although British officials maintained yesterday that the meeting was useful – and discussed diplomatic and humanitarian issues as well as military ones – there were private concerns that it was no longer possible for core countries involved in the military campaign to meet on their own. It was also admitted to be a chaotic way for the EU to show solidarity.

EU diplomats accused Britain of flaunting its military role in Afghanistan. They said it gave the impression London had contempt for small countries that had few military resources, or for that matter, that the EU has as yet no defence capability.

"It is difficult enough to keep the 15 European countries together," one senior diplomat said. "But when you have Blair ticking off who is worthy to be in the military club and who is not, it does little to foster solidarity."

"Either we are in this fight against terrorism together or we are not. This should not be about divide and rule."

A Belgian official said Mr Blair had given in only after his advisers saw "the extent of the mounting anger among the smaller member states".

*Additional reporting by
James Blitz in Rome and
Gordon Cramb in Amsterdam*

UNCLASSIFIED
IRISH REACTIONS, AFGHANISTAN DOWNING STREET MEETING
From: DUBLIN

TO IMMEDIATE FCO
TELNO 345
OF 061206Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO PRIORITY EU POSTS, UKREP BRUSSELS

MY TELNO 343, UKREP BRUSSELS TELNO 1278
SUMMARY

1. Some further, more critical, coverage of Downing Street meeting. Taoiseach's Department, Foreign Minister and other political figures all quoted as expressing confusion over status of meeting. UNSC membership cited as a reason for including Ireland in any significant consultations.

DETAIL

2. Coverage of the Downing Street meeting is still small-scale (articles in 2 newspapers), and on the inside pages. But the 6 November papers now include some critical quotes from senior political figures.

3. The Taoiseach's Department spokesperson commented to the press that Ireland was not invited to or notified of the meeting: "we are trying to clarify the context of the meeting". Foreign Affairs Minister Brian Cowen is said to have expressed concern that such meetings risked leading to confusion about security issues: "a meeting like Sunday night's cannot speak for, or commit, the Union". The opposition Fine Gael foreign affairs spokesman, Jim O'Keeffe, expressed regret to the Irish Times that Tony Blair appeared to have gone on "somewhat of a solo run" on foreign policy. His approach "will give rise to a splintered European response".

COMMENT

3. The main Irish concerns, beyond the usual sensitivities over the status of the smaller EU member states, are:

- that the presence of the Presidency and the High Representative, and the subject matter discussed, took Sunday's meeting beyond a military focus, and that its status is therefore unclear;

- that Ireland's case for inclusion in any high-level discussions on policy towards Afghanistan and the MEPP is strengthened by its membership of the UN Security Council, of which it has only just relinquished the Presidency.

ROBERTS

Sent by DUBLIN on 06-11-2001 12:06
Received by No10 on 06-11-2001 12:38

RESTRICTED
GERMAN PRESS REACTIONS TO DOWNING ST MEETING 4 NOVEMBER
From: BERLIN

TO IMMEDIATE FCO
TELNO 490
OF 061209Z NOVEMBER 01
INFO ROUTINE ACTOR, CABINET OFFICE, EU POSTS, SNUFFBOX, WASHINGTON
INFO ROUTINE WHIRL

FCO Pls pass to No.10
Emergency Unit for Pierce, News Dept for Whineray
SUMMARY

1. German media concerned that the meeting's message of solidarity undermined by squabbling over attendance. Broadly accept need for narrower meeting of leaders, but instinctively prefer solutions at EU level.

DETAIL

2. Most of today's papers ran editorials on the Downing Street "mini-Summit" (Monday's papers went to press too early to allow substantial comment). The majority impression is that the meeting's intended message of European resolution and solidarity with the US was overshadowed by wrangling over attendance. The PM's desire to consult with France and Germany in time of war is viewed as understandable, but there is much hand-wringing about what this says about the effectiveness of European foreign policy. The press agree that while the EU may have a role, it still lacks the institutional or decision-making mechanisms to be effective. Most commentaries hope the current crisis (and the squabbles over invitations to Downing Street) will act as stimulus for more effective EU CFSP co-ordination.

3. The Sueddeutsche Zeitung (centrist broadsheet) welcomes the UK joining the "engine-room" of Europe with France and Germany. The co-ordinated approach of the big three can drive the EU forward, but should not turn into a directorate, presenting the "smalls" with a fait accompli.

4. The Tageszeitung (left-wing), in a full-page report on the future of Europe, notes that the current crisis highlights the PM's identity crisis, in balancing the UK's greater European role with its close alliance with the US. Die Welt (centre-right broadsheet) accuses the PM of overlooking the EU "in an alarmingly short-sighted way".

5. A government spokesman is reported as welcoming the extension of the meeting to include other EU leaders.

COMMENT

6. German press reporting of the meeting acknowledges the reality that security policy is still decided at national level, but underlines the yearning for closer and more effective foreign and security policy co-ordination at the EU level. As somewhat reluctant "big", the Germans are also sensitive to the concerns of the "smalls".

LEVER

Sent by BERLIN on 06-11-2001 12:09

RESTRICTED
FURTHER PORTUGUESE REACTIONS TO NO 10 MEETING
From: LISBON

TO DESKBY 070900Z FCO
TELNO 213
OF 061737Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO PRIORITY EU POSTS

LISBON TELNO 211
CABINET OFFICE PLEASE PASS TO NO.10
SUMMARY

1. Mini summit continues to agitate media and political class, with the UK blamed for the damage to EU political cohesion, though there is also some criticism of the EU for failing to respond to the crisis and praise for the Prime Minister's leadership. The political noise and the recreation of Portugal's Nice role as the voice of the 'small country' are partly a reaction to the perceived snubs and partly with a weather eye to the municipal elections in December. But the episode will reinforce integrationist tendencies which it is in our long-term interest to counter. I recommend a telephone call to Guterres once his budget debate is over.

DETAIL

2. The Portuguese press continues to give heavy coverage to the detail, aftermath and implications of the Downing Street meeting. Diario de Noticias has a front page lead 'London Summit inflames Europe'. Foreign Minister Gama, who decided that Portugal should 'boycott' at Ambassadorial level the special COREPER debrief on the meeting, also receives coverage. Gama is reported as saying that if queuing up for a dinner was the process of decision-making within the EU, it was a sign that things were not right. Europe had its own external policy which took many years to build up. This should not be wasted in just a few weeks of international conflict. President Sampaio said that Europe could only move forward on the basis of equality between member states, but also criticised quote Europe's absence unquote when it was most needed. All opposition leaders have criticised the meeting as evidence of the emergence of a directory of large member states, and Guterres for acquiescing in the erosion of Portugal's influence.

3. Press comment is critical of the Prime Minister for creating divisions between large and small member states and generally undermining EU cohesion. The Prime Minister is accused of preventing the emergence of Europe as a strong political power and being a standard bearer for the United States in Europe. The other main strand of comment, however, is that Europe has missed the opportunity to play a role. This comes through most strongly in Publico, the most serious of the dailies, which says that Europe should learn from this episode, rather than being jealous. It goes on to say that the Prime Minister has played a crucial role in the war against terrorism because he has demonstrated leadership capacity which other European leaders have lacked and because the UK has succeeded in maintaining armed forces with an operational capacity. Quote Tony Blair's mini-summit was not a European summit, but rather a meeting of heads of the large European powers plus others who forced their way in. The agenda was not Europe, but rather a war where Europe can do little to help unquote.

COMMENT

4. Publico has it right. The degree of fuss is disproportionate and indeed ominous for a future enlarged EU. While both Guterres and Gama appear to be in a sulk, they (and the opposition) are also posing in advance of the budget debate on 7 November and with a weather eye on the municipal elections in December. Hence the government's renewed play of Portugal as the small country David throwing stones at the bigger players.

5. But there is a real element of impotence in the face of big state decision-making, coupled with a sense of double rebuff from the unexpected quarter of the UK. My worry is that Portugal may find it increasingly attractive to join the awkward squad in the EU, as an ever more convinced integrationist. There is, perhaps, an element of inevitability about this in an enlarged Union, but there is still much to be gained by steady post-Presidency cultivation of the Portuguese at a senior level. I am grateful for the telephone contacts between No 10 and Guterres' Office and hope that Guterres might yet find it convenient to visit London next week once he has his budget passed and the initial fuss over the Downing Street meeting has died down. At some stage after the budget debate (7 November), a direct telephone call between the Prime Minister and Guterres might help. A Ministerial visit could also help; none is in prospect.

EVANS

Sent by LISBON on 06-11-2001 17:37
Received by No10 on 06-11-2001 18:09

UNCLASSIFIED
AFGHANISATAN: LUXEMBOURG REACTION TO DOWNING STREET
From: LUXEMBOURG

TO ROUTINE FCO
TELNO 187
OF 061157Z NOVEMBER 01
INFO ROUTINE EU POSTS

MEETING

SUMMARY

1. Factual reporting and editorial criticism.

DETAIL

2. There has been no official reaction to the Prime Minister's 4 November meeting in Luxembourg. Press coverage has been largely factual, with a good part of it reporting negative reactions among smaller Member States (including the Netherlands and Belgium, but not Luxembourg itself).

3. An editorial in today's Luxemburger Wort (largest circulation daily) speaks of "a stale after-taste" and suggests that, at least in the field of defence policy, an enduring conflict between the large Member States and Brussels (representing the interests of the smalls) cannot be ruled out. There would be even more cause for concern if the large Member States developed such a taste for working together, that they sought further to weaken the community method. The whole episode reminds the Wort of Orwell's dictum that some are more equal than others.

WETHERELL

Sent by LUXEMBOURG on 06-11-2001 11:57
Received by No10 on 06-11-2001 17:39

UNCLASSIFIED
4 NOVEMBER DOWNING STREET MEETING: ITALIAN MEDIA COMMENT
From: ROME

TO IMMEDIATE FCO
TELNO 448
OF 061815Z NOVEMBER 01
INFO PRIORITY EUROPEAN UNION POSTS, WASHINGTON

SUMMARY

1. Italian media welcomes Berlusconi's invitation to Downing Street predictably as confirmation that Italy is not in the second league. Recognition too for the Prime Minister 're-unifying' Europe around the table, notwithstanding some caution on the challenges still ahead. Widespread admiration for the Prime Minister's diplomatic and communications skills (billed as "devilish" by FT equivalent).

DETAIL

2. On 5 November the Italian media gave Berlusconi the headlines he wanted (and needed) on his return from the Downing Street meeting. Berlusconi told the press that Italy's inclusion proved that "no one wanted to shut us out", and that the opposition MPs had been responsible for discrediting Italy by claiming that it did not measure up.

3. Leading Italian daily Corriere della Sera described the 'mini-summit' as a success because Europe finally spoke with one voice on the Middle East crisis and on the war against terrorism. The result of the meeting was the "death of France's dream" of a directorate of three leading the EU. Corriere called on Italy to put a stop to internal arguments and rediscover its national role in European politics.

4. La Repubblica (second daily) also praised the Prime Minister's diplomatic skills, but wondered whether even the enlarged meeting might lead to confusion: it might as well have been opened to all EU members. There was still work ahead within the EU to keep the diplomatic balance. While recognising Italy's diplomatic success, the paper also added serious comment on the size of the military task to which Italy was now committed, asking whether the country was ready.

5. La Stampa (third biggest daily) also praised Berlusconi's diplomatic success, notwithstanding the diplomatic manoeuvres which it assumes were necessary to get him his invitation. There was more praise too: Bush for enlarging the alliance by accepting Italy's contribution, and the Prime Minister for bringing the EU back to the table.

6. La Stampa comments that once again it was Britain which opened the door of a restricted club to Italy - the first time being in 1975, when Italy joined the G7. Berlusconi was now in debt to the Prime Minister, while Italy had an opportunity to put behind it the ambiguity, which might be read into recent peace marches, divisions among the centre left opposition and even the Pope's political appeal for peace.

7. Il Giornale (very close to Berlusconi) put Rome on a par with Paris and London and praised the Prime Minister for dissolving the 'triumvirate' that had marginalised the rest of the EU.

8. On 6 November, Il Sole (Financial Times equivalent) referred to

the Prime Minister's exceptionally skillful communications campaign, and devilish skill in making a success of Sunday's dinner, despite the UK's very small actual military contribution. ("A few Tomahawks...a few supply ships...a paltry 200 marines".) The Prime Minister had become the US President's altar ego and ideologue of the West in defeating terrorism, bringing Islam alongside and in arguing the case for helping developing countries by promoting the positive side of globalisation.

Contact: Andrew Jackson 00 39 06 4220 2271 and Firecrest e-mail.

SHEPHERD

Sent by ROME on 06-11-2001 18:15

Received by No10 on 07-11-2001 07:13

RESTRICTED
FRENCH PRESS REACTION TO DOWNING ST MEETING OF 4 NOVEMBER
From: PARIS

TO IMMEDIATE FCO
TELNO 761
OF 061712Z NOVEMBER 01
INFO IMMEDIATE CABINET OFFICE
INFO ROUTINE EU POSTS, WASHINGTON, UKREP BRUSSELS
INFO ROUTINE UKMIS NEW YORK, WHIRL, SNUFFBOX, ACTOR

CABINET OFFICE FOR CAMPBELL, NO 10

EMERGENCY UNIT FOR PIERCE, NEWS DEPT FOR WHINERAY
SUMMARY

1. Limited coverage in Monday's press, more comment today. Some criticism of the dramas over attendance, but not directed at Britain. Emphasis on Chirac's comment that military action is not the whole answer in Afghanistan and calls for progress on MEPP. Good coverage for the Prime Minister.

DETAIL

2. Monday's French press (summary sent by e-mail) covered the Downing Street dinner mainly as a straight news item, reporting Chirac's comment afterwards that military action, while necessary, was not in itself a sufficient response in Afghanistan and his call for urgent progress on MEPP. There was some coverage of the wrangling over attendance, but given the late timing this was thin.

3. Today's press contained more comment. There was strong criticism from Communist Humanite of the meeting and the way it came together (but the Communists here oppose the campaign in Afghanistan anyway).

4. The mainstream newspapers, despite criticising the "snowball effect" of growing attendance and the institutional shortcomings it revealed in the EU, concluded that it was no bad thing that the meeting took place. Le Figaro was disparaging about the "element of theatre" in the arrangements, but put the story under the headline "Europe closes ranks behind Bush". Le Monde had a similar article entitled "Guess who's coming to dinner".

5. Liberation reported the "grinding of teeth" among the smalls, but did not blame Britain for not inviting them. It also pointed out that it was Chirac who started the "mini-summit" process by proposing the trilateral meeting at Ghent.

COMMENT

6. There is no strong feeling against the event itself, but rather a sense that the EU's structures have been found wanting. So long as France is clearly involved, the French media will not fret too much for the smalls. The bigger issues for them are whether the US campaign is succeeding and sustainable; whether the Europeans can play a more effective political and military role, and whether French leaders can match the Prime Minister's personal leadership. Le Monde's editorial, for example, says that despite the difficulties, at least the Prime Minister is actively addressing the underlying issues and spreading his message. By contrast Chirac and Jospin, in failing to give clearer public leadership, are allowing the Far Right to capitalise in France on public uncertainty and xenophobic reactions.

HOLMES

Portuguese president says EU project depends on equality of states

Excerpt from report by Portuguese radio on 5 November

[Presenter] Portuguese President Jorge Sampaio is not pleased about Portugal's absence from yesterday's mini-summit on the war in London. Europe is built with all the Europeans, this is what Sampaio said when asked this morning about Portugal's absence from the London meeting...

[Sampaio] I have said very often that the project will move forward if the principle of the

equality of the states is respected. If it isn't, then this is the most difficult moment. As I have said, when we most need Europe sometimes that is when it tends not to appear as it should.

*Source: RDP Antena 1 radio, Lisbon, in Portuguese
1200 gmt 5 Nov 01*

Italy to take part in military operations after misunderstanding cleared - paper

An Italian newspaper has said that the USA's initial reluctance to mention Italy among its allies in the war against terrorism was a consequence of a misunderstanding between the Italian defence minister and the US deputy defence secretary, Paul Wolfowitz. The misunderstanding, the paper explains, was in its turn caused by an old friction between the Italian defence minister and the Italian chief of defence staff. The following is an excerpt from a report by Antonio Polito, headlined: "Bush calls, Italy goes to war", published by Italian newspaper La Repubblica on 4 November:

London: The US administration yesterday accepted Italy's offer of a military contribution to the operations taking place in Afghanistan... Confirmation of this report, that began to circulate in European military circles yesterday, was given to La Repubblica by sources inside the Italian Defence Ministry....

Thus this move brings to a close an affair that has had more than one mysterious side to it. Indeed no one had ever understood why, in announcing the start of the attack on Afghanistan on 7 October, Bush cited not only the United Kingdom but also France, Germany, Australia and Canada among the countries that had offered military participation, but not Italy. The explanation lies in a certain amount of initial political uncertainty (Berlusconi was consulting opinion polls to find out whether a decision in that direction would be popular) and in a spectacular faux pas on the Defence Ministry's part. This, since the day before Bush's address to the nation, a phone call between Defence Minister Martino and Wolfowitz, Rumsfeld's deputy at the Pentagon, sparked a major misunderstanding with our US allies. After discussing a technical detail, namely the right of the United States' U2 spy planes to land at the Italian base at Sigonella, Wolfowitz concluded the phone call by thanking Minister Martino for Italy's military support and by informing him that he would be getting a reply soon. Martino, however, was not aware of any official offer, and after a brief

internal inquiry, he ascertained that it was a technical initiative taken by the military brass, who had discussed the resources available to them in terms of troops and hardware with their allied counterparts. But the minister, who was in the midst of an internal cold war with Chief of Defence Staff Mosca Moschini (considered a treacherous legacy of the Olive Tree government), took the bull by the horns and informed the Pentagon that the list in question certainly had not been authorized by him. The contradictory message set the alarm signal buzzing in the United States and it went a long way towards ensuring that our country was excluded from Bush's list. Thus it took a great deal of work designed to mend the rift, plus Berlusconi's belated trip to Washington, and a longer bureaucratic process than normal, for us to work our way back up to the surface and to succeed in getting ourselves sent yesterday's fax.

It remains to be seen whether the sigh of relief that Berlusconi can now breathe in his relations with the United States may not cause him a few problems with public opinion on the home front, since the Italian public seems to harbour more doubts than that in other European countries regarding the continuation of the military attack in Afghanistan.

Source: La Repubblica, Rome, in Italian 4 Nov 01

Portugal unhappy about London gathering

Excerpt from report by Portuguese newspaper Diario de Noticias web site on 5 November

British Prime Minister Tony Blair yesterday dined with French President Jacques Chirac, German Chancellor Gerhard Schroeder, Spanish Prime Minister Jose Maria Aznar, Italian Prime Minister Silvio Berlusconi, the current president of the EU the Belgian Guy Verhofstadt, Dutch Prime Minister Wim Kok and Javier Solana [EU high representative for the common foreign and security policy]. This EU summit organized by Tony Blair, which follows the example of other more select meetings, decidedly marks a new stage of European construction and represents the creation of a real vanguard group comprising the countries in the frontline of the fight against terrorism, namely militarily in Afghanistan... Under British command, Europe is involved in a little more than rhetoric in this major war against terrorism. The train is moving and, as is usual in these circumstances, some prefer to

remain on the platform thinking deep political thoughts and trying to find who the enemy is.

The Portuguese government was against the London summit. It said that this type of initiative does not contribute to the cohesion of the antiterrorist coalition nor to European unity. Lisbon has thus reacted to yet another insult to national pride, after President Jorge Sampaio's state visit to Britain was postponed and after the USA decided to reconsider the end of visas for Portuguese citizens. Much to the unhappiness and indignation of the latest unexpected patriots, Portugal counts for very little in the cohesion of the antiterrorist coalition and in EU unity. The London dinner has served to prove, once more, that we have missed the train. Through our own fault.

Source: Diario de Noticias web site, Lisbon, in Portuguese 5 Nov 01

France's Chirac stresses "pressing need" for Middle East solution

Text of report by France Info radio on 5 November

[Studio] Yesterday's dinner in London was only supposed to be attended by Jacques Chirac, Lionel Jospin, Tony Blair and Gerhard Schroeder - in the end, several European officials took part in the summit: Javier Solana, Jose Maria Aznar, Silvio Berlusconi, but also the Belgian prime minister, came to take stock of the situation in Afghanistan and Jacques Chirac took advantage of the opportunity to speak about the Israeli-Arab conflict too. We have to find a solution in Israel, said the head of state:

[Chirac] It is obviously not true to say that the Middle East war is fuelling international terrorism. It is a deception to claim that this is

the case, but what is true, on the other hand, is that it facilitates it and it creates a situation which is favourable to extremists and so we are unanimous in believing that the return to the negotiating table of the two partners, the resumption of the peace process and, as rapidly as possible, the establishment of a Palestinian state which is both peaceful and respects the rights, the freedoms and the security of the state of Israel, constitute a pressing need. [End Chirac]

*Source: France Info radio, Paris, in French
0900 gmt 5 Nov 01*

EU backs continuing campaign in Ramadan - Spanish premier

Excerpt from report by J. M. Costa and Luis Ayllon, "Big EU powers support operations in Afghanistan during Ramadan", published by the Spanish newspaper ABC web site on 5 November

London/Madrid: Yesterday [British Prime Minister] Tony Blair brought together around a table what the British media called the "key allies" in Europe. The British premier analysed with [French President Jacques] Chirac, [French Prime Minister Lionel] Jospin, [German Chancellor Gerhard] Schroeder, [Spanish Prime Minister Jose Maria] Aznar, [Italian Prime Minister Silvio] Berlusconi, [Dutch Prime Minister Wim] Kok, [Belgian Prime Minister Guy] Verhofstad and [EU High Representative for the Common Foreign and Security Policy Javier] Solana the role which the EU can play in unblocking the Middle East conflict, how to develop humanitarian aid [in Afghanistan] and how to continue the campaign against the Taliban regime...

After the meeting, which was practically a European "mini-summit", Jose Maria Aznar said [at a news conference] at the Spanish embassy in London that "there are a large number of European initiatives and meetings on the Middle East; next week President Chirac, Blair and I are visiting the USA. It is very important to have a global, common vision of all those initiatives and those positions". Aznar said that there is no "news about the participation of Spanish troops in the Afghanistan campaign" and he said that what is involved is continuing the operations and developing the fight against terrorism, which cannot be seen as a simply regional campaign".

"The campaign requires patience"

The prime minister said that "I understand that citizens would like to have results very quickly but they are very difficult operations that require patience and continuity of effort". Asked about the opinion of the EU on the US decision to continue the bombing during Ramadan, Aznar replied: "I do not think anything justified giving the Taliban regime any advantage". Aznar stressed the importance of this meeting to coordinate European policies - in which there are no splits - with the line of the USA.

Regarding the Middle East, Aznar said that "the situation is extremely delicate and the Arab countries have a different sensibility to the one we have. The Middle East conflict casts a very long shadow over what is happening right now. If a global consensus on foundations accepted by all is achieved it will be positive because it will mean that the international coalition against terrorism will have been strengthened. Otherwise the coalition could run risks"...

The Downing Street spokesman, Alistair Campbell, said last night that during the dinner Blair informed his guests about "considerable political movements between the opposition and the Taliban, who has already agreed, in practice, the formation of a national government around the figure of King Zahir", exiled in Rome...

Source: ABC web site, Madrid, in Spanish 5 Nov 01

France's Chirac at London summit notes need for Afghan political solution

Text of report by French La Chaine Info TV on 5 November

[Studio] The Europeans have reiterated their support for the Americans in their war against terrorism - they repeated this yesterday evening during a mini-summit in London. It was an altogether impromptu mini-summit - to begin with it was supposed to be a tripartite meeting between Great Britain, France and Germany, but in the end, eight heads of state and prime ministers were gathered around the table. The theme of their talks was yes to military action, but let us not forget the humanitarian and political dimensions. Listen to [President] Jacques Chirac:

[Chirac] Military action, which is vital, is not the only means of fighting international terrorism. We must step up the means for the political solution which must be found to organize Afghanistan, provisionally to begin with, then for the long term on the political front and also with regard to the humanitarian problems which concern us all enormously.

*Source: La Chaine Info, Paris, in French
0830 gmt 5 Nov 01*

German chancellor rejects cease-fire in Afghanistan

Text of report by German news agency ddp on 5 November

Berlin: Chancellor Gerhard Schroeder rejects a cease-fire in Afghanistan. This would only have the effect of extending the fighting and it would offer an opportunity to the Taleban to prepare themselves for the next fight, Schroeder said prior to a meeting of his party's Presidium this morning. With a view to the forthcoming holy month of Ramadan, Schroeder added that one might have to take into consideration "religious feeling" in one way or another.

Referring to civilian casualties, Schroeder stressed that the alliance has always claimed that it wants to prevent damage that goes beyond the required measures. There was agreement within the EU that it is now important to continue the military actions

against specific targets. Then a comprehensive and solid political concept must be drafted for the time once Afghanistan is "liberated from the Taleban". During his talks during the weekend [4 November] in London with other heads of states from the EU, the humanitarian aspect was also discussed, he added. Thus, the United Nations should establish a "roof", under which the Europeans can provide aid to Afghanistan. None of the leaders called for a cease-fire in London, the chancellor stressed.

*Source: ddp news agency, Berlin, in German
0937 gmt 5 Nov 01*

Opposition leader says Portugal's "marginalization" unacceptable

The leader of the main opposition Social Democratic Party, Jose Manuel Durao Barroso, believes Portugal should make it clear that it finds its "marginalization" from EU decisions unacceptable. In an interview Barroso said that the recent London meeting on fighting terrorism, to which Portugal was not invited, showed the need for a strong European Commission to counter the weight of the larger EU countries. He praised Tony Blair's recent leading role and the fact that this may bring Britain's euro membership closer, but said that nonetheless Portugal had to defend its interests. The following is an excerpt from an interview by Portuguese radio on 5 November:

[Presenter] We have on the line Jose Manuel Durao Barroso [leader of main opposition Social Democratic Party and former foreign minister] to comment on the select meeting held in London to discuss the war on terrorism, to which Portuguese Prime Minister Antonio Guterres was not invited. So not much of an united Europe then?

[Barroso] Good morning. As you say there is not much unity in Europe and this meeting is worrying. In addition to the light-hearted approach, such as mentions of "Guess who's coming to dinner?", there is a more serious aspect: when important decisions are made, Portugal is excluded. Portugal and other small countries... Especially if you think of the other recent incidents such as the last minute postponement of President Jorge Sampaio's state visit to Britain and the fact that the USA is reconsidering its decision to abolish visas for Portuguese citizens. There is also something which went more or less unnoticed but is extremely serious, that that is the European Commission's decision to bring forward the end of the period for the import of textiles from Pakistan - without consulting Portugal - this is also likely to be extended to other exporting countries such as India. This contravenes a condition I myself negotiated, which was an extension of this period so that Portugal would have time to develop its textile industry. We have been disrespected on several occasions. This shows that our weight in the European political scale, and also in the relationship with the USA [interrupted]

[Presenter] How should Portugal respond to this disrespect, to use your expression?

[Barroso] It must be a very cool-headed response, very objective. It is hard for me to say this, because no one likes to see their country disrespected, but we must see that this is the reality. The reality is not the media effect of a summit where the prime minister, as head of Socialist International, appears wearing the

scarf of the national football team. Our prime minister is the president of Socialist International - this is positive for him, but in national terms this has not brought any advantages. Therefore we must be very firm with any initiative of this type [the London meeting]. We must show our displeasure, as it appears the prime minister did. But we must also fight for a real Europe. Perhaps this meeting shows that a country of our size can only but benefit from a real Europe with European institutional mechanisms. When there is no real Europe, as a whole, then the large countries get to make the decisions - the large countries and a few medium-sized ones, invited on an ad-hoc basis. But because Portugal is next to a country which has now managed to obtain the status of large country, Spain, Portugal may now run the risk of others thinking that it [Portugal] is represented by that country [Spain]. As much as I like Spain, this is not acceptable. This is a very serious issue: Portugal must join other small and medium-sized countries, as well as candidate members, and say that it does not accept this. It must use all means at its disposal with serenity and firmness to say that to have a European-wide decision then the decision-making mechanisms must also be European-wide and European institution must work...

It is to our advantage to have a more prominent European Commission. The commission can be a factor of balance, a counterweight to the large countries, so to speak. So I also think it is very serious that the commission was absent from the meeting. This shows a traditional British policy to devalue the commission. And here Tony Blair is also to blame. It is true that Tony Blair has had a very important and positive role in terms of mobilizing [changes thought] of the international fight against terrorism. I think this can even have a medium-term positive effect which is that by obtaining the status he is

obtaining in Europe, Tony Blair will now finally be in a position to impose - just an expression - on his public opinion and his Labour Party, Britain's membership of the euro. This could be the positive aspect - Tony Blair's objective is to place Britain at the heart of Europe. He might be doing this so that he can say: Look we can lead Europe, join me. British Eurosceptics stop delaying our real integration

in Europe. This is the positive aspect. But nonetheless we must defend our Portuguese interests and we must say that we do not accept being marginalized in processes such as this.

*Source: RDP Antena 1 radio, Lisbon, in Portuguese
0900 gmt 5 Nov 01*

Italian daily says Britain did not intend to exclude Italy

An Italian newspaper has said that Britain's decision to hold a second three-way meeting with France and Germany would by no means have excluded the Italian premier from important decisions: Downing Street sources explained that the meeting would only have been a repetition of the briefing Mr Blair gave specifically to Berlusconi in Genoa a few days earlier. The following is the text of a report by Antonio Polito, headlined: "And Berlusconi protested with Blair: 'No to an axis excluding Rome'", published by the Italian newspaper La Repubblica on 4 November:

London: Silvio Berlusconi was not at all pleased over his exclusion from the three-way talks due to take place in London this evening. This is proven not only by the accusation that he levelled at the centre-left last night of being "anti-patriotic" and of instigating Europe's leaders to give Italy the cold shoulder. His staff spent the whole day Friday [2 November] protesting to Downing Street, especially since Blair had failed to specify in the course of his talks with Berlusconi in Genoa [on Thursday 1 November] that his consultations with Chirac and with Schroeder would take place at a three-way meeting that has all the air of being a repetition of the "slap in the face" received in Ghent. Yesterday Rome even attempted to get the meeting expanded to a four-way affair, making use also of the United States' "green light" to Italy's military participation. But certainly by very late last night, the Palazzo Chigi's [prime minister's office] request had not led to any positive result. Adding Italy at the last minute would be very embarrassing and it would lead to protests from Aznar, another leader who has been left out.

London's reply, revealed to La Repubblica by an official source in Downing Street, is that Blair has no intention of keeping Berlusconi out of the consultations. "This evening's summit will not be addressing military operations in Afghanistan, but simply information on the prime minister's part to the other two leaders regarding his trip to the Middle East, before he flies to Washington on Concorde on Wednesday [7 November] to do the same with Bush. These are exactly the same issues on which he has already briefed the Italian prime minister."

Thus in Downing Street's view Berlusconi's anger is the result of a "misunderstanding". According to London it was only after his dinner in Genoa that the British prime minister learned of Chirac's propensity for a three-way meeting this evening, inasmuch as he too is due to fly to Washington and to New York

tomorrow. "Besides," a Downing Street source told me, "you [La Repubblica London correspondent Antonio Polito] were on Blair's plane [during latter's Mideast trip] and you know full well that the prime minister decided to alter his already very heavy schedule in order to report to Berlusconi. Our government intends to bring the Italian government in on the round of consultations taking place among the key players in this crisis." Sure enough, the unplanned detour to Genoa took everyone by surprise. Blair probably foresaw the "Berlusconi" problem, which had already arisen over the three-way summit in Ghent, and so he sought to reassure him up front with his preventive visit the other evening. "Consultations take place in various ways," my Downing Street source said, adding: "There is no formal or institutionalized way. The meeting is going to be a three-way one this evening, but no one says that it has to be so again in the future."

In short, London is not the one pushing to blackball Berlusconi. Blair's style is cross-party dialogue with those governments that are politically the most distant from his own. The British centre-left leader is Spanish centre-right leader Aznar's best friend in Europe, and Blair was the first leader to open up a credit line to Berlusconi after the election. Of course, the diplomatic disaster of [Berlusconi's] remarks on Islam [in Berlin] caused London a great deal of embarrassment. Downing Street sources called the remarks "idiotic". With the meeting in Genoa Blair was trying to hold an outstretched hand to Berlusconi - possibly, among other reasons, in order to persuade him not to withdraw from the Airbus project in which London is a player. If Berlusconi were to start acting even more "American" than Blair, the British prime minister would encounter a few problems at home.

But it appears that it is Chirac the conservative himself, with Schroeder's tacit consent, who is insisting that Rome be

relegated to the sidelines: this, partly in order to stabilize the hierarchy in Europe; partly on account of the Airbus affair; and partly due to

the deep-seated personal aversion that he harbours for our prime minister.

Source: La Repubblica, Rome, in Italian 4 Nov 01

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10 DOWNING STREET
LONDON SW1A 2AA

*forward to UKREP +
Disc via Com +
Wester*

From the Private Secretary

2 November 2001

Dear Mark

**DISCUSSIONS WITH POLISH PRIME MINISTER:
2 NOVEMBER: EU ISSUES**

The Prime Minister held discussions with Leszek Miller during a meeting and lunch today. This letter records the discussion on EU issues (which took place mainly during the meeting, with the lunchtime discussion covering other issues).

The Prime Minister began by stressing his personal commitment to EU enlargement. There were problems to overcome, but he was confident there was an unstoppable momentum within the EU behind enlargement. He looked forward to Poland joining the European Union as soon as possible.

Miller said his aim was to complete Poland's accession negotiations by the end of 2002. Poland had so far closed 17 chapters, but the hardest issues still lay ahead. The previous government had deliberately shirked difficult decisions. The key problems related to capital movement (the land purchase issue), the free movement of people (Poles being able to work in other Member States) and agriculture. Miller said he was convening a meeting of his government on 15 November which would take crunch decisions on Polish negotiating positions; he hoped the outcome would send a clear signal that Poland was moving forward.

Miller pitched hard for flexibility from the UK on FMOP. He recognised that the Germans and Austrians would take full advantage of the scope for a seven year transition period. But other Member States (Denmark, Netherlands, Ireland) had said publicly that they would either not apply a transition period at all or would do so only for two years. It would help the Polish Government a great deal if the UK could indicate publicly that it took a similar position. The Prime Minister said he was aware of the sensitivity of this issue. We had not taken a definitive position yet, but he would look at the issue carefully and see if we could be helpful.

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- 2 -

Miller then turned to the issue of land purchase. This was also a sensitive issue in Poland. Many people in western Poland feared that Germans would buy up vast tracts of Polish land. Miller did not believe these fears were grounded but they were a political reality. Just as Schroeder needed domestic political cover, so too did Miller. He had to take careful account of domestic opinion, not least because of his intention to put the terms of Poland's EU accession to a referendum in 2003. The previous Polish government had overbid on this dossier, but Miller was prepared to reduce the Polish demand to a 12 year transition period (with no transition on investment).

Miller said he also hoped we could be understanding of Poland's position on agriculture. Poland had modest demands – simply equal treatment with no discrimination. He accepted that later, once Poland was within the EU, CAP reform would be necessary. Stephen Wall said we understood why the issue of equal treatment on CAP was important but in reality the more significant battle for Poland would be over SCF. Poland and the other new Member States would have to contend with those Member States (eg Spain, Portugal, Ireland) which stood to lose out from enlargement and would be seeking generous phasing out packages. This was the area where it really made sense for the Poles to apply their energies. Roger Liddle added that SCF was also more important for Poland in that these receipts would contribute more directly to its development needs.

Miller summed up by saying that his aim was to reach clear negotiating positions on key dossiers at the government meeting on 15 November. This would provide a clear mandate for Poland's negotiating team. Miller wanted to ensure that by the time of the Laeken Council Poland was firmly positioned in the first wave pack. He was quite clear there was no alternative for Poland to EU membership. But it would not be a straightforward task to persuade public and political opinion that the terms of accession adequately protected Poland's interests.

The Prime Minister thanked Miller for his exposition: this helped him understand the domestic background in Poland and in particular the significance of the referendum. The Prime Minister said he would speak frankly. Most people, himself included, believed that enlargement would not look right if Poland was not part of it. Put more simply, Poland ought to be in the first wave. That was probably a majority view in the EU. But this political headwind carried its own problems because ultimately membership depended not on political goodwill, but on meeting an exacting set of conditions. EU members would get very anxious if they felt the political case for Polish accession was undermining

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- 3 -

the Polish Government's readiness to take difficult negotiating decisions. It was important that the Poles approached the EU negotiations in a determined and vigorous way. They should not simply count on political arguments prevailing.

Miller acknowledged this. He was prepared to take tough decisions. He would certainly need to do this on economic policy. He had inherited a big deficit and would have to apply a very restrictive fiscal policy. This would all feature in his budget next year. Meanwhile unemployment was at 16%. He was determined to address these issues at once so that he stood a chance of improving the economic situation before the next set of elections in four years time. The Prime Minister said this was the correct approach on its own merits, but it would probably also have the additional benefit of increasing EU flexibility. Member States and the Commission would be more inclined to be helpful if they could see that Poland was straining every sinew in its accession efforts and economic reform programme.

Miller expanded a bit on his referendum plans. He wanted negotiations to end in 2002. He hoped Member States would make good progress on ratification during 2003 so that by the time the choice was put to the Polish people in the autumn of 2003 there was the strongest possible sense of momentum and destiny behind the accession package. Miller said he was uneasy about the trend in Polish opinion towards EU membership: four years ago 75% of Poles favoured EU membership; now the figure was down to 55-60%.

The Prime Minister said he thought there were two strong arguments to deploy in favour of EU membership. The first was the economic case. The facts showed that every country that joined the EU became more prosperous as a result. This was particularly striking in the case of countries such as Portugal, Spain and Ireland. Short-term pain on economic reform and conforming to the *acquis* would be rewarded by long-term prosperity. The second argument related to the debate on the institutional future of Europe. The Polish public needed to be reassured that joining the EU would not lead to a loss of national identity. The Prime Minister attached a lot of importance to further European integration taking place on the basis of increased co-operation between nation states, rather than further development of a centralised Europe. Poland would have an important voice in this debate, including in the Convention (where the UK had argued hard for the active involvement of candidate countries). He was glad the UK and Poland were already working closely together on these issues and he welcomed the joint paper that would issue today.

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Miller said he shared many of the Prime Minister's views on the future institutional shape of the EU. He recalled the Prime Minister's speech in Warsaw last year (and thanked the Prime Minister for having been the first to commit publicly to a 2004 target date for enlargement). Poles felt strongly about their national identity and this was a factor in popular concerns about EU membership. A Europe of nation states was easier for Poland than a federal superstate. His views were closer to the Prime Minister's than to Joschka Fischer's. He suggested that he and the Prime Minister at some point prepare a joint article setting out their common thinking.

Miller said he also had to contend with the influence of the Catholic Church. Most of the Bishops were in favour of EU membership but to a lot of the more traditionally-minded parish priests, the EU represented a moral and cultural threat.

The Prime Minister said the future of Europe debate represented a major challenge for the EU. He was firmly in favour of further integration but this had to be on the right basis. One of the problems for the EU was that its default setting was towards more centralised bureaucracy. That was not the best way forward. It was a recipe for increasing the distance between the European political class and the European public. In most member states there was a paradox that the more EU integration took place, the more this needed to be rooted in a structure of nation states if the public were not to feel unsettled.

Miller asked about the level of concern among existing member states over the practical implications of enlargement. The Prime Minister said attitudes varied in different countries. SCF recipients clearly had vested interests engaged. And in Germany and Austria there was a degree of ambivalence based on (probably exaggerated) concerns about a sudden influx of labour. In the UK, the public broadly accepted that enlargement was a good thing which served Europe's economic and political interests. This had demonstrably been the case with previous enlargements, including the admission of countries that at the time had been poorer than existing members (eg Spain and Portugal). Stephen Wall said that at the time of Spanish accession there had been huge concerns about an influx of Spaniards into the UK; in fact sixteen years later far more British people lived in Spain than vice versa.

Miller commented that, even allowing for Schroeder's electoral pressures, German concerns over FMOP were exaggerated. The Prime Minister said that the degree of economic and social dislocation caused by rapid German unification

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- 5 -

was a powerful influence on their current approach. He agreed that German fears were probably more imaginary than real, but they created a political reality that Schroeder could not ignore. From his own conversations with Schroeder, the Prime Minister was convinced Schroeder wanted Poland to be part of the first wave. But it was important to bear in mind some of the psychological undercurrents in German politics. There was a deep-rooted perception in Germany that they were always the ones being asked to make sacrifices on behalf of Europe. This became more difficult for German politicians to deal with as new generations emerged and public attitudes became less conditioned by the past.

As the meeting ended, Miller returned to his requests for UK flexibility in the accession negotiations. These were very important in helping him to steer Poland successfully into the EU. If Poland's EU accession were credited to the left-wing in Poland, this would hugely strengthen the left's position in Polish politics. The Prime Minister repeated that he would consider Miller's requests carefully and get back to him quickly.

Miller said he had to find the right kind of language and messages to communicate the benefits of EU membership to the Polish people. He had been struck by a schoolgirl telling him that she could not wait for the day when Poles were able to join the EU nationals immigration channel on arrival in EU airports.

Comment

The Prime Minister enjoyed this meeting and was struck by the potential for finding common ground with Poland on EU issues. He is also convinced of the logic for making a big political investment in Poland given its future importance as a large Member State.

It would be helpful to have a detailed assessment (with Embassy input) of Miller's views on future of Europe issues. We are aware that he has sent different signals to other audiences. Is he really as on-message as he indicated in this meeting? Miller's suggestion of a joint article is one which we might wish to take forward in due course.

The Prime Minister would like to write to Miller soon (and certainly before the government meeting on 15 November to which Miller referred) on FMOP. The Prime Minister's instinct (based on his understanding that none of our internal assessments to date have pointed to the likelihood of a major influx

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- 6 -

of labour from new member states) is to take a forward position in this letter. I would be grateful for advice and a suitable draft, cleared as appropriate with other Government Departments.

I am copying this letter to Hilary Jackson (Home Office), Neil Couling (DWP), Andrew Allberry (Cabinet Office), Michael Pakenham (Warsaw) and Sir Nigel Sheinwald (UKRep Brussels).

Yours ever

Michael

MICHAEL TATHAM

Mark Sedwill
FCO

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10 DOWNING STREET
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2 November 2001

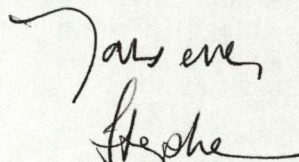
Dear Sir,

**'INTERSTATE': BRINGING FUTURE EU AND US
BUSINESS LEADERS TOGETHER**

I have been asked to approach you about the 'Interstate Programme', a non-profit venture, which brings together the future leaders of business from the EU and the US. The Director of 'Interstate', Jim Whittell, whom I know from his British Council days, called on me this week to introduce this new Brussels-based, British-led initiative.

In short, 'Interstate' brings together in Brussels future business leaders from the best MBA programmes in America and Europe. For three days each Spring, these participants in the Programme discuss issues of relevance to the EU/US transatlantic relationship, ranging from future economic priorities to shared interests in international security. Backed by the Financial Times, 'Interstate' has met for the last two years, and will meet again in Brussels in April 2002.

What Jim is seeking in the first instance is top-class speakers. I have therefore taken the liberty of suggesting he might contact you.

Yours ever,

J S WALL

The Rt Hon The Lord Brittan of Spennithorne QC



10 DOWNING STREET
LONDON SW1A 2AA
020 7930 4433

2 November 2001

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*Jansene,
Stephe*
J S WALL

Rt Hon Peter Mandelson PC MP