

Can Cameron achieve a new relationship between member states inside the eurozone and those outside?

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*In the first of a series of blogs about the UK's renegotiation approach, **Frank Vibert** explores exactly why the British government has made the future relationship between Eurozone 'in' and 'out' states so central to the current renegotiations. Even if the UK's worries are seen as well founded, there are multiple ways in which some form of redress might be provided within EU structures, each with different levels of future security.*



David Cameron has identified the relationship between euro-ins and euro-outs as one of the four areas to be addressed in renegotiating Britain's relationship with the EU. The chancellor, George Osborne, has referred to it as the most important of the four. In very broad terms, Cameron and Osborne are concerned about the possible negative effects that decisions taken by Eurozone members may have on countries outside the single currency. This fear was framed in the Prime Minister's letter to the President of the European Council (Donald Tusk) in terms of potential damage to the principle of the single market.

In other words, Britain is suggesting that this relationship involves a core interest and principle for all EU member states (whether they are Euro 'ins' or 'outs'). Of course, the government's real concern is actually about the position of the City of London – currently far and away the most important financial center in Europe. At the root of Osborne's fear is the fact that eurozone member states now (since November 2014) have a qualified majority in the Council of Ministers if they act together as a bloc under the relevant provisions of the Treaties (TEU Art.16 (4)).

The Lisbon treaty changed the votes needed in the Council of Ministers to win a 'qualified majority vote' (QMV) decision to require member states comprising at least [65% of the population of the Union](#), plus 55% of all the member states (i.e at least 15). Weighting by population benefited Germany, France and Italy (in the eurozone), albeit the UK as well. The 19 eurozone states now control 66% of the QMV votes and thus meet both thresholds. In theory, this means that neither the UK alone, nor even the UK acting in combination with other non-members of the eurozone (such as Poland), can now stop measures that are uniformly supported by eurozone members.

Britain outvoted – is it a real fear?

But how likely is it that all the eurozone states will act in such a concerted way? Many observers feel that the British worry is greatly overblown. All members of the Union have an interest in the success of London as far and away Europe's largest financial center. Many have a substantial stake in the London market through the presence there of their own major banks and financial institutions. And of course the eurozone itself has some prominent cleavages between member states – for instance, between its 'northern' and southern countries, and between those doing well under past austerity policies (like Germany) and those subject to their full impact (like Greece). So in any case members of the eurozone may not act as the totally unified bloc needed if they were to automatically or reliably predominate in QMV decision-making.

The other side of the coin is the recognition, both inside and outside the eurozone, that if the euro is to consolidate its role in Europe and as an international currency, much further policy development is required. Current policy proposals include 'mutualization' through debt write-offs, or issuing joint euro bills or euro bonds. And fiscal proposals including measures of tax harmonization and new EU taxes. Some of these ideas will not command a majority within the eurozone states. But there is a large element of unpredictability, combined with a sense that 'something must be done' to strengthen the Euro. Safeguarding and developing the Euro's future certainly cannot all

be left to the European Central Bank (the ECB).

Adding to the general unpredictability is the ongoing debate about financial regulation in the EU. Many finance market observers feel that the policy balance has gone too far towards a precautionary stance, and that the measures agreed in the wake of the 2008 crisis should be reviewed – but perhaps they would say that anyway. At the same time, the debate about the future structure of banking in the EU is far from over. In addition, there are ongoing weaknesses in the balance sheets of many EU banks that need to be addressed, for example, about the assessment of non-performing loans.

A number of lines of defense are potentially available to the UK and other non-members of the Eurozone. One is to gain a permanent, legally enshrined recognition that the Single Market operates on the basis of more than one currency. Currently, economic policy provisions in the Treaty are framed only in terms of a single currency – the euro (TEU Art.3 and TFEU Article 119 (paragraph 2)). A second approach is to get agreement that heads off the costs to non-members of any financial rescue in the eurozone, particularly in the form of new lending to over-indebted members. A third option would be for the Euro-ins to agree that they will forbear to use the ‘necessary powers’ provision of the single currency area (TFEU Art.133), which non- members might feel could be misused. However, the key line of defence concerns voting, and the need for non-members to protect themselves from being outvoted in the Council of Ministers.

Voting in the Council

Voting behaviour in the Council is notoriously [difficult to analyse](#). Votes are rarely taken because deals are negotiated beforehand – unless the member state wishes to make a point to its own public. Behind the scenes there are two different strategic games being played out. One is between member states themselves, where two or three shifting alliances are involved most of the time. The other is between the major Brussels institutions – the Council of Ministers, the Parliament (EP) and the Commission. For example, the Commission has the right of initiative on new policy proposals, but it will normally carefully weigh the existence and mood of the integrationist majority in the EP and assess the chances of achieving a qualified majority vote in the Council, before bringing new ideas forward.

In order to deal with the uncertainties of strategic behavior for the long term, the most secure form of protection would be for member states outside the Eurozone to insist on a ‘dual majority’ for any proposal that they fear may have negative impact on themselves. What this would mean is that, if a qualified majority is reached by eurozone members alone under QMV, a second majority would still have to be obtained from the 9 member states outside . If this second majority were aligned to fit with the 55% of members threshold 5 out of the 9 would have to agree, and to meet the 65% of population QMV limit, the opposition of the UK alone would be sufficient to block. .

A weaker form of defence for eurozone non-members would take the form of the so-called ‘Ioannina’ compromise. Under this procedure any measure perceived by any member of the Euro-outs to have negative effects would be referred to Heads of States, or heads of governments, who would try to reach a decision by consensus. .

Legal form, legal effects and trust

Each of the possible lines of protection outlined above could be put into effect through different forms of agreement. In ascending order of ‘hardness’ and long-run security for the UK agreements could be

- between members of the European Council, or
- between the institutions (Council, Commission and EP), or
- by a Protocol attached to the Treaties, or
- by changes to the internal provisions of the Treaties.

The differences here are in the degrees of protection these alternatives offer. For example, an agreement in the European Council to adopt the Ioannina compromise procedure might succumb to the pressure of later events. And

any Council agreement by itself might be challenged by the other institutions, including the EU's 'supreme court', the European Court of Justice.

No matter what the form of agreement is reached between eurozone member states and outside EU states, uncertainties will still arise from divergent interpretations about whether or not the effect of measures adopted in the eurozone have a negative effect on other states or not. Even Treaty change protections may not be fully watertight. The euro-ins could still develop self-regarding policies under the arrangements for 'enhanced cooperation' (TEU Art. 20). They could also reach agreements amongst themselves outside the Treaty framework.

Divergent interpretations of the impact of eurozone measures on other states are a particular concern. Under current arrangements any disputes are referred to the European Court of Justice (ECJ). However, the ECJ may not be seen as a neutral arbiter, since opponents argue that it has a pro-integrationist majority. An alternative would be for euro-in and euro-out states to establish some kind of dedicated arbitration panel whose decisions on disputes between them would be final.

Ultimately the choice of legal form boils down to a question of trust. Game theorists say that trust is formed by experience with repeated interactions. No doubt some or many of the eurozone insider states will feel that their experience of past inter-actions with the UK makes them pessimistic about giving it any extra blocking power under a system of dual majority voting. They may fear that the UK will misuse the new provisions. Conversely, the UK might feel that its experience with euro-ins is that it cannot trust them not to take measures that could damage the City of London's position. Here it is the gap in trust that is the issue – the choice of words and routes to agreement is secondary.

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