

# How Britain could leave the EU

by Charles Grant

Britain's departure from the EU grows ever more likely. David Cameron, the prime minister, wants Britain to stay in. But he seems set on a path that could lead to an exit. British withdrawal requires two conditions to be satisfied. First, the government of the day must call a referendum on whether to leave the EU. Second, a majority of voters must want to quit. The first condition seems likely to be met, and the second is, for now, fulfilled.

Cameron will probably go into the 2015 general election with a commitment to renegotiate the terms of British membership and then hold a referendum on the outcome. The British people would vote on whether to stay in the EU with the 'better deal' that he had negotiated, or leave.

The problem with this strategy is that it assumes a significantly better deal is available. Many senior Conservatives believe that the other EU countries will offer treaty opt-outs because they wish to keep Britain in the club and because they will need a British signature on the new EU treaty that is likely to emerge around 2016. The Conservatives will certainly try to pull out of EU labour market rules. They will draw on the government's review of EU competences, currently underway, for ideas on other areas to withdraw from. (The government is already activating a treaty article that allows it to opt out of many laws on police and judicial co-operation.)

However, though the other EU governments want Britain in the Union they will not grant it treaty opt-outs. They worry that if Britain escaped labour market rules, which they view as intrinsic to the single market, it would gain an unfair competitive advantage. And if Britain could opt out of EU policies it disliked, others would demand the same privilege: the French might exempt their car industry from state aid rules, or the Poles spurn directives that force their coal-centred economy to cut carbon emissions. And if Britain blocked a new EU treaty the others would go ahead with another sort of treaty minus the UK, just like they did last December.

Cameron could probably come home with a piece of paper promising a 'better deal for Britain' – perhaps an agreement on reforming the working time directive, and safeguards for the City of London and the single market. But Tory eurosceptics would see that the 'better deal' had failed to repatriate powers. They would

campaign for withdrawal in the referendum and split their own party.

Meanwhile the Scots, who are somewhat more EU-friendly than the English, are due to vote on independence in a referendum in 2014. Britain's eurosceptic drift will help the nationalists, whose best argument is that if the Scots stay shackled to the United Kingdom they will be dragged out of the EU. They will argue that if the Scots left Britain they could apply for EU membership and get in at about the same time that the rest of the UK left it.

So why is Cameron pursuing such a risky strategy? He has difficulty controlling his party: on October 31<sup>st</sup>, 53 Conservative MPs voted with the Labour Party (which saw a chance of embarrassing Cameron) to defeat his EU budget strategy in the House of Commons. Tory right-wingers dislike Cameron for being 'moderate', and not only on the EU. They fear that the United Kingdom Independence Party (UKIP) will steal enough votes to deprive the Conservatives of a majority in the next general election. Cameron seems to believe that only a referendum pledge can see off the UKIP threat, pacify hard-line eurosceptics and strengthen his grip on his party.

Though risky, Cameron's strategy is not doomed to failure. Even if the better deal for Britain turns out to be of little substance, a 'Yes to the EU' campaign fronted by the leaders of the main parties could defeat the quitters.

The Labour Party is less eurosceptic than the Conservatives. Paradoxically, however, a Labour government could find it harder to keep Britain in the EU than a Tory one. In a speech on November 18<sup>th</sup>, Labour Leader Ed Miliband said that with the EU in a state of flux, it was the wrong time to talk of referendums on membership. Such talk, he pointed out, could deter foreign investment in Britain.

But in the run up to the general election, if the Conservatives are committed to a referendum, Miliband may find it hard to resist making a similar pledge. Otherwise he would face taunts of elitism and of being scared of the people.

Suppose that Miliband wins the next election, having promised a referendum. He would certainly call for 'reform' of the EU but could not credibly seek to repatriate powers since Labour likes most of the things the EU does, especially labour market rules. So a Labour government would hold an in-out referendum, midway through a parliament when it would be likely to be unpopular, when no better deal had been negotiated, and when the Conservatives in

opposition – with a new, more eurosceptic leader – would probably campaign for withdrawal. The quitters could well win such a referendum.

A British referendum is probably three or four years away, but the trend of public opinion is increasingly anti-EU. In recent years most opinion polls have shown a majority for leaving the Union. The euro's travails are one reason. For three years the eurozone has lurched from crisis to crisis, with its leaders arguing over piecemeal reforms that do not seem to have resolved its fundamental problems. All this has been appalling PR for the EU.

“*Cameron seems to believe that only a referendum pledge can see off the UKIP threat, pacify hard-line eurosceptics and strengthen his grip on his party.*”

And what those leaders are doing – centralising economic policy-making and talking of 'political union' – makes the EU less congenial to the British. The more the EU moves beyond the relatively limited economic club that the British joined, the more suspicious they become of it. Recent developments such as the fiscal compact and the putative banking union will not apply to the UK. But there is nevertheless a risk that the countries in these clubs will caucus and try to impose their wishes on outsiders such as Britain.

The EU's reputation has also been hit by the growing hostility of Britons to immigration – although its rules on free movement do not affect Britain's ability to exclude non-EU citizens. People blame Brussels for the presence of so many immigrants in the country. This has prompted Cameron to muse openly about changing those rules.

Politicians should not ignore public opinion. But they are partly responsible for the surge of eurosceptic sentiment. For two decades Britain's EU debate has been one-sided: eurosceptic politicians and commentators have set the agenda, while few politicians (or business leaders) have argued the merits of the EU. Pro-EU politicians have seen the short-term advantages of saying little about an unpopular subject. So they have lost the argument by default. Unless politicians, business leaders and trade unionists find the courage to make the case for membership, it is only a matter of time until Britain leaves the EU.

Charles Grant  
Director, CER