I am delighted to have this opportunity to speak at the London School of Economics. This is a very fine academic institution which has had, over the years, a significant influence in the wider world.

I know this to be the case. In 1994 I visited post-apartheid South Africa as Secretary of State for Defence and had dinner with the new South African Defence Minister, Ronnie Kasrils, who is an alumnus of the LSE.

Kasrils had been a Communist member of the militant wing of the African National Congress that had believed in the armed struggle rather than the peaceful removal of apartheid. I asked him whether it was true that he and his militant colleagues had received training in the Soviet Union and he said that it was.

In later discussion I asked him why, unlike Nelson Mandela, he had rejected peaceful change in favour of militant armed struggle. He replied that it was because he could not believe that white South Africans would ever give up power until they had been defeated by an armed rising. I asked him whether this was what he had been taught in the Soviet Union. He smiled and said No; it was what he had been taught at the LSE!

This evening I am dealing with another issue, that of the European Union and Britain’s relationship with it. Many would see the problems as equally intractable but, fortunately, no one is yet recommending armed struggle to resolve them.
The European Union is facing one of the greatest challenges in its history. The acute economic crisis of the eurozone, coupled with the chronic political problems engendered by the European Union’s democratic deficit, have caught Europe’s leaders in a vicious cycle. On the one hand, Berlin, Brussels and the bond markets demand austerity and integration. On the other, citizens resist not just the solutions themselves, but also what they perceive to be the undemocratic manner in which these solutions are imposed. As we have seen in Italy in recent months, this risks the rejection of mainstream parties willing to do what is necessary. This in turn exacerbates the crisis still further, giving impetus to increasingly radical political forces around Europe.

The inevitable outcome of this paralysis has been a surge in euroscepticism across the continent. Many in the eurozone’s debtor countries resent what they regard to be the punitive terms of the troika’s rescue packages. Many in creditor countries resent being resented for the solidarity they have shown, and fear future liabilities.

It is perhaps to be expected that many Britons, who for well-documented historical and cultural reasons have always taken a more sceptical approach to European matters, are even less convinced than they once might have been that EU membership is a boon rather than a bane to their country’s prospects. Although polling suggests that the British people are less likely than their French or German counterparts to blame the EU directly for their economic travails, the economic and therefore political case for staying in has, in the eyes of many, been severely weakened.

As a result, two complementary debates are being conducted: that of the future of Britain’s membership of the European Union; and that of the future direction of the European Union more widely – regardless of whether or not the United Kingdom has a part to play.

These debates would be necessary even if by some miracle the immediate economic crisis in the eurozone were to be resolved tomorrow. The question of Britain in Europe has been a running sore in British public life for too long, and as such has proved a constant irritant on both sides of the Channel. It needs to be settled. Likewise, the EU would always have had to face up to the full institutional implications of further enlargement and the euro project, as well as the challenge of the economic and political rise of the developing world.

The Prime Minister acknowledged these realities in his ‘Bloomberg Speech’ in January. Whilst addressing the immediate political question of Britain’s membership by pledging an In/Out referendum in 2017, he also outlined a constructive vision of how the European Union might best configure itself so as to tackle the challenges of the 21st century.
The purpose of my lecture this evening is to give you my thoughts on both aspects of this discussion, and to explore how the two might be reconciled so that by 2020 Britons might be satisfied participants in a successful European Union. The alternative would have been the United Kingdom’s departure from the European Union and a reversion to a new form of glorious isolation from the rest of Europe.

Let me begin my remarks by asking this audience whether you are able to guess who made the following statements:

(1) “Britain does not dream of some isolated existence on the fringes of the European Community. Our destiny is in Europe, as part of the community”

(2) “I want us to be where we belong. Right at the very heart of Europe.”

(3) “I believe something very deeply. That Britain’s national interest is best served in a flexible, adaptable and open European Union and that such a European Union is best with Britain in it.”

All three statements were made by Conservative Prime Ministers. The first quotation is from Margaret Thatcher’s Bruges Speech in 1988. The second is John Major speaking in 1991, and the third is from David Cameron’s Bloomberg Speech delivered earlier this year.

Now consider this:

“The European Union has evolved significantly since the last public vote on membership over thirty years ago. [We] therefore remain committed to an in/out referendum the next time a British government signs up for a fundamental change in the relationship between the UK and the EU.”

That is a passage from the 2010 General Election manifesto of the Liberal Democrats.

This illustrates two points that one should bear in mind when considering the European debate in Britain. First, the Conservative Party - which took Britain into the EEC in 1973 - is not nor has ever been inherently or implacably hostile to the European project. Second, the Prime Minister’s call for a referendum was not simply the product of the internal politics of the Tory party. It was an acknowledgement of the depth of eurosceptic feeling amongst the British people that has also been recognised even by our most radically pro-European party.
I cannot, in my remarks this evening, speak on behalf of all of my Conservative colleagues. We are all eurosceptics now, but some are more eurosceptic than others. I would like to set out for you the principles of what I choose to call ‘moderate euroscepticism’, the prism through which I consider these matters.

Like the Prime Minister, I have argued and continue to believe that Britain should remain in the European Union.

Where there is least controversy is that it is overwhelmingly in Britain’s interest, as the main champion of free trade and open markets, to remain a full participant in the biggest single market in the world, with the ability to shape the rules consistent with our own interests through a process of negotiation and compromise. There are those who claim that we can retain the benefits of the single market without remaining in the European Union. I will address those arguments but, first, I wish to emphasise that the United Kingdom’s interests in remaining in the EU are, by no means, limited to the Single Market.

We also have an overwhelming interest in peace, stability and security in the continent of which we are part and in which both world wars of the last century began. While NATO continues to be the main guarantor of the security of European nations, including ourselves, from external threat; it is the European Union which has been the most important means of creating, ensuring and extending friendship, co-operation, democracy and the rule of law within Europe.

There may be strains, at the current time, between Germany and some other states arising out of the Eurozone crisis, but that does not detract from the historic friendship that has been sustained between Germany and France, the voluntary absorption of the former Communist countries of Eastern Europe into the European family of nations, and the substantial progress that is now being made, led by the EU, in building democracy and the rule of law in the Balkans.

These achievements are as important to Britain as to other European nations. But they are not irreversible, and cannot be taken for granted. The harm that would be done both to Britain and to the rest of Europe by the United Kingdom walking out of the EU should not be underestimated. It would damage the credibility and authority of Europe in the wider world. It would remove one of the three largest member states from the deliberations of the EU, leaving France and Germany to dominate its membership to the consternation of the smaller members. It would be the most serious setback for the stability and security that the peoples of Western Europe have enjoyed since 1945.
It was Ludwig Erhard, a former Chancellor of West Germany, who said “Without Britain, Europe would remain only a torso”. That is not only a comment on the geography of Europe but on the UK’s essential role, both for its own benefit and for that of others, in the political integrity and authority of Europe in the wider world.

The United Kingdom, too, benefits enormously by being part of the European Union in the trading negotiations that take place with the rest of the world in the WTO, with the United States and elsewhere. As a state with a population of only 65 million we would carry relatively little weight as against China, the United States, Japan and, as the years go by, the new giant economies such as India, Brazil, and Indonesia. The EU is the world’s largest trading bloc and, as regards its trading policy, Germany and the UK carry the greatest weight.

A further example of where Britain needs to be in the European Union is the international action needed on the environment. When a nuclear reactor exploded at Chernobyl in Ukraine the effects damaged the health of the sheep of Welsh hill farmers. Pollution does not recognize national borders; an international response is essential; and British interests in these international negotiations are very similar to those of France, the Netherlands, Germany, Ireland, and all our other neighbours.

Of course our membership of the European Union has constrained our sovereignty on issues covered by the single market, on global trade policy and in environmental negotiations. But Britain has always been pragmatic about constraining or sharing our sovereignty when we have been convinced that there are solid benefits for our security, prosperity or quality of life which will be achieved as a result.

Our membership of NATO involves significant reduction in our sovereignty because of our acceptance over the last 60 years of American command, in peacetime, over our forces committed to NATO. It was France under de Gaulle that walked out of NATO’s Integrated Military Structure and insisted on nuclear weapons entirely built and developed in France because of a refusal to compromise its sovereignty.

Margaret Thatcher, who was far more pragmatic than she is given credit for, understood perfectly well the benefits of sharing sovereignty at the European level in certain circumstances. She recognised that for a real single market to function properly, it would require common rules agreed through Qualified Majority Voting and enforcement by the European Court of Justice.
The resulting Single European Act of 1986 was a step forward for European integration and a triumph for the advancement of the British national interest. It struck a blow against protectionism across the Community and after the Eastern enlargement, across the continent. British prestige and influence was enhanced through its association with the success of the project. And it was welcomed by the British people, for whom the advantages were obvious. They do not want preferential treatment, just the opportunity to trade and compete with their neighbours on a level playing field.

Britain has also found it acceptable to allow some of our most strategically important industries, such as energy, to be run almost entirely by foreign companies. Again, contrast with France, which in 2005 adopted a ‘strategic yoghurt policy’ by declaring yoghurt-maker Danone as off-limits to foreign acquisition.

The issue in Britain is not about the need or desirability of conceding sovereignty in certain circumstances, but our insistence that this should only be done when there are demonstrable, substantial benefits in doing so. Sovereignty transferred or reduced for doctrinal, aspirational or political reasons is rarely justified because it can only be done at the expense of self-government and democratic accountability. Much of the extension of EU competence into domestic areas of policy, including the Single Currency and employment policy, has been advocated in order to “build Europe” and harmonise for harmony’s sake rather than for demonstrable and substantial benefits for the peoples of Europe that would justify the consequential loss of self-government.

I can understand the rationale of some European countries such as Germany, France and the Benelux states for the Single Currency. Euro membership may make sense for economic reasons if you are at Europe’s geographical core, or for political reasons if you are a post-Communist country in the East, or a post-Fascist country in the south anxious about your status in Europe. But even in such cases there needs to be an acceptance that a single currency will not work without much greater loss of political sovereignty over fiscal and economic policy.

That is why the strains are now so great, and are growing. As a recent paper from the European Council on Foreign Relations – by no means a Eurosceptic thinktank – has argued, the basic contract between EU institutions and member states in the eurozone is unraveling:

“In the past, there was an unwritten rule that EU institutions would police the single market and other technical areas of policy – from common standards for the composition of tomato paste to lawnmower sound emissions – while national governments would continue to have a monopoly on the delivery of services and policymaking in the most sensitive areas on which national
elections depended... [now] Eurocrats have crossed many of the red lines of national sovereignty, extending their reach way beyond food safety standards to exert control over pensions, taxes, salaries, labour market, and public jobs. These areas go to the heart of the welfare states and national identities.”

To have the ability to tax and spend as you see fit is the very essence of statehood and self-government. That is why we had the Civil War in England. That is what led up to the Declaration of Independence in America in 1776. These powers must be underpinned by direct popular legitimacy. Discord is being sown across the eurozone because voters in Greece, Italy, Spain and even in France are coming to the realisation that while they can vote for a change of government, fundamental issues on tax and spending are increasingly being determined at the supranational level. It was in the interests of our democracy and self-government, not because of nationalism that Britain decided not to join the euro.

Some eurosceptics complain that three-quarters of our laws are decided in Brussels. It is good rhetoric, but such complaints have very little substance. The overwhelming majority of European laws are the detailed, technical regulations required to establish common standards in many different sectors of our economy and the single market, in particular. They do not constitute a threat to our democracy, and go largely unnoticed by those who do not work in the sectors concerned. Nor can a single regulatory system be regarded as more burdensome than the thicket of twenty-seven different national regulatory systems it has been designed to replace.

Britain remains an independent country because she retains the core facets of her sovereignty. Furthermore, our opt-outs from the euro and numerous other areas mean that we enjoy self-government to a greater degree than many of our European partners. Just as we retain ultimate control of our national defence even though we have chosen to be integrated into NATO command structures, we retain control of our fiscal policy even as full participants in the single market. In both cases, we would be free to leave should we decide to do so.

But we should not allow ourselves to be seduced by false alternatives. The suggestion that we could continue to be part of the Single Market without being part of the European Union, like Norway or Switzerland does not survive as an attractive option after even cursory examination.

The Oxford English Dictionary defines a chimera as ‘an unreal creature of the imagination, a mere wild fancy; an unfounded conception.’ I can think of no better way of describing what some consider to be the Norwegian or Swiss options for British membership. Norway, in order to have access to EU markets, is obliged to pay into the EU three quarters of the amount, in per capita
terms, as that paid by the UK. In exchange they have the dubious privilege of being bound by the same regulations whilst having little or no influence over their formulation.

Switzerland’s approach has been to try to negotiate as much access to EU markets as it can, but on a bilateral basis. The Swiss arrangement has been permitted because its market is tiny compared to that of the EU and therefore much more likely than the UK’s market to be tolerated as an anomaly. Switzerland’s high social charges also reassure more protectionist members of the EU against the prospect of the Swiss undercutting EU members through deregulation. But Switzerland has even less influence over the content of EU law than does Norway. And it is obliged to pay for the operational and administrative costs of the policy programmes or agencies in which it participates. For example it contributed 1.26 billion Swiss francs in 2006 to help cover the costs of enlargement.

So much for the present. What of the future for Britain and for Europe?

It has become fashionable for people to declare the imminent arrival of a “two-speed Europe.” There are two fundamental flaws with this analysis.

Firstly, the idea that all EU members have, until now, been travelling at the same speed towards the same destination is at variance with reality. It is demonstrably untrue.

Since the creation of the euro in 1999 the EU has been divided in two by the 17 member states that participate and the 10 that do not. Some of the 10 do not want to; others do not meet the criteria for membership, and in many cases will not do so for many years.

But the EU is not just internally divided by the Eurozone. There are Schengen and non-Schengen states. Most member states are in NATO, 4 are neutral and are outside. There are those, not just Britain, who have opt-outs or special provision in various areas of EU competence. And there are those who prefer decisions using Community institutions while others, like France, often insist on intergovernmentalism.

The sheer complexity of today’s European Union of twenty-seven - going on twenty-eight - members must be acknowledged, and a more flexible approach to European governance developed accordingly.
Indeed, the very notion of ‘speeds’ of European integration is past its sell-by date. It carries the assumption that although countries may be moving at different speeds, they all expect eventually to reach the same destination.

This is not the case. There is not, and is unlikely ever to be, political consent in the United Kingdom, Sweden, Denmark and, perhaps, some other states for a federal or confederal European Union with some form of European Government. Opinion amongst the political class in Germany, France and Benelux does not yet demand such a level of political and economic integration but it will become increasingly unavoidable if full economic union, as currently contemplated, is to be combined with political accountability.

Nor is it possible to argue that it is just a matter of time before all EU states join the Eurozone. Quite apart from Britain and the Scandinavians who do not wish to join, countries such as Romania and Bulgaria are light years away and if the EU extends one day, as it should, to the states of the former Yugoslavia, or to Moldova or Ukraine, membership of the Eurozone is not even remotely on the horizon. Ireland, as well as Britain, are not in Schengen, Cyprus is as divided as ever; Austria, Finland, Ireland and Sweden remain neutral states with reservations as to the degree of defence integration they can contemplate.

So it is not a European Union moving to the same destination but by different speeds that we have now or are likely to have in future. Rather we have an EU with different tiers of membership reflecting the political and economic realities of individual member states.

This should neither sadden nor depress any reasonable person. Given the unique historical objective of the European Union project which will, ultimately, involve over 30 European states with their own histories, languages, economic challenges and special circumstances; such a diverse European Union is both inevitable and welcome. Only conquest can aspire to imposing uniformity. Any union based on the consent of peoples, whether as individual citizens or as separate nations, must accept a high degree of diversity as not only inevitable but also as desirable.

My core message in this lecture is that these factors also, as it happens, provide a credible and attractive basis for reconciling British moderate euroscepticism with an evolving European Union in a manner that will enable us to retain our membership of the European Union over the years to come.
If British exceptionalism could only be accommodated by all other EU member states abandoning their interests and agreeing to the dismantlement of an otherwise uniform European Union, then the British Prime Minister’s proposed negotiation would be doomed to failure. But an EU with substantial diversity and with more than one tier of membership already exists and will continue for generations to come regardless of any British requirements.

This will not make a successful British negotiation easy but nor does it make it impossible. Angela Merkel has already signaled that by the substantial and friendly dialogue that she has initiated with David Cameron since his Bloomberg Speech.

A further consideration is that the timetable for any new British negotiations should be compatible with the priorities of the other member states. The Eurozone countries are of course preoccupied with their own collective crisis which threatens the Single Currency. They neither wish to be nor are prepared to be distracted by one member state wishing to begin a general negotiation of its terms of membership. As it happens, the British Government shares that view. The Prime Minister has made it clear that any negotiation would begin only after the next British General Election which is unlikely to be before 2015. Therefore there is substantial time for the British Government to develop its case and ensure that it is both reasonable and persuasive. Other member states - Germany and France in particular - are aware that this will be future business, but only after the Eurozone crisis is resolved. In any event, it will only be at that time that decisions on further economic and fiscal integration of Eurozone countries and the implications for the 10 non-Eurozone member states will be known.

But what are likely to be David Cameron’s negotiating objectives when he presents his shopping basket in due course?

There are those who are willing for Britain to remain in the EU but assert that our membership must be restricted to trade and the Single Market.

It is inconceivable that that would be conceded by other member states. It would make our membership of the EU hollow in the extreme. It would point to us having to go the way of Norway and Switzerland which, as I have indicated, would be strongly against our national interests.

But in any event what do such advocates actually mean when they wish to restrict our membership to the Single Market. They must know that for the Single Market to work requires both Qualified Majority voting and the supranational jurisdiction of the European Court of Justice.
I was Margaret Thatcher’s Europe Minister for three years. She was well aware of that when she signed the Single European Act.

And how can one have a Single Market without having some kind of Common Agricultural Policy to ensure a single market in the agricultural sector? Of course the CAP still needs significant reform. I recall it was once remarked that the CAP was all about reconciling net income with gross habits! But there will still need to be a CAP.

The same considerations logically apply to fisheries and the Common Fisheries Policy. There the need for reform has been even greater. However, an historic deal was done, at long last, earlier this year to reform the deeply unpopular Common Fisheries Policy. The deal was welcomed by Scottish and English fishery industry spokesmen. We will now have regional control of fisheries management, and a ban on the discarding of fish at sea. What more would the British Government want to change?

We already have a full opt-out on the Single Currency. We are not part of Schengen on uncontrolled borders and we are not under any pressure to reverse that. Our budget rebate, negotiated by Margaret Thatcher at Fontainebleu, continues to operate and has saved the United Kingdom billions of pounds over the years. We have opt-outs on Justice and Home Affairs measures. There are debates about whether it will be in our interest to exercise all these measures such as the European Arrest Warrant but these are decisions we will take for ourselves.

So Britain already has a conditional membership of the European Union. There is no great principle involved if we wish to add to these opt-outs in other areas. Some other member states have their own opt-outs though only a few, such as Denmark’s, are as substantial as ours.

Nor need it be so dramatic if we wish to withdraw from some areas of integration which currently bind us. The EU now has statutory provision that permits repatriation of areas of policy that have been harmonized, though these powers have not yet been exercised.

A likely and reasonable package for the United Kingdom might be as follows.

Firstly, there are powerful arguments either for the total repeal of the Working Time Directive or, at the least, British exemption from it. It has little or nothing to do with preventing unfair competition in the EU and has had many damaging consequences.

Secondly, the UK, as by far the country with the largest financial services sector, is entitled to negotiate safeguards that will ensure that no new financial or fiscal harmonization measures
will be introduced, which would have a major impact on the City of London, without the consent of the United Kingdom.

Thirdly, we should press for enhanced safeguards that would continue with the free movement of labour for all citizens of the EU but ensure that member states can prevent this right being abused when it is welfare benefits, free health provision or social housing that is being sought by migrants rather than legitimate employment. It is very likely that we would have considerable support from other member states for such a reform.

The most important objective of the United Kingdom should be a binding guarantee that no proposals for significant further harmonization of social, justice, employment, or fiscal policy would apply to the United Kingdom without our consent.

That, to a considerable degree, is already ensured by the statutory referendum that would now be required before the British Government could ratify any new Treaty that transferred more powers to Brussels. There is a major problem that remains, however.

If the United Kingdom, in a referendum, prevented the British Government ratifying a proposal that had been passed by Qualified Majority Voting that would create a major crisis, as we have seen with other member states in regard to previous new Treaties.

What is needed, not just for the UK but for the EU as a whole, is a new system of reciprocal rights in regard to any future proposals for further harmonization. Instead of such proposals being divisive and controversial, member states that wish to adopt them should have a right to do so. But, equally, those who do not wish to adopt them, would have a similar right. Britain, and likeminded states, could not prevent those who have a genuine commitment to further integration from going ahead. But nor could the federalists impose their view on the rest.

The purists will be appalled and proclaim that this would create a Europe ‘a la carte’; but the reality is that the EU already has different levels of membership. An EU that relishes diversity is much more likely to survive and prosper than one which seeks to impose a rigid uniformity regardless of national circumstances.

I wish to make a few concluding remarks on the way in which the United Kingdom and its Government should approach this proposed renegotiation.
If the United Kingdom wants to leave the EU, that is a decision it can take unilaterally. It does not need the approval of other member states, though even then negotiations would be needed on the future relationship of the UK with the EU.

If, however, we wish to remain in the European Union, but with different rights and obligations, that requires negotiation, which usually means a degree of compromise. In any negotiation, you cannot expect to get 100% of what you would, ideally, like to achieve.

The Prime Minister understands this, even if not all MPs appear to do so. To get 100% of your objectives means your negotiating partners might end up with 0% of theirs and that is hardly a likely outcome. Achieving, say, 80% would be a very satisfactory outcome indeed and should not result in howls of derision or accusations of betrayal from those watching on the sidelines.

Even Margaret Thatcher, with her historic victory at the Fontainebleu Summit on the British budget rebate compromised on the percentage of Britain’s net contribution that should be refunded.

It will be sensible, wherever possible, for Britain’s negotiating objectives to be concentrated in those areas where they can be conceded without other member states suffering damage to their own interests as a result which would be difficult for them to justify to their own Parliaments and public opinion.

To take an example: Releasing Britain from the obligations of the Working Time Directive for British doctors or nurses would not damage the interests of France, Germany or other member states. The other heads of government are also democratic politicians. The overwhelming majority will want Britain to remain in the EU. If they can help the British Prime Minister without angering their own public opinion there will be good prospects of agreement.

It must also be highly desirable for the British Government to seek, wherever possible, alliances with other member states when they are negotiating specific reforms. Some in Brussels fear that other countries might be encouraged to make similar reforms in their relationship with the EU if the United Kingdom succeeds. If that were to be the case, it would merely demonstrate the need for reform throughout the EU to reassure all the peoples of Europe, not just those in the UK, that their interests, concerns and aspirations are not threatened by European integration.

We should also remind ourselves - and the British public - that the European Union is not to blame for the great majority of our ills. The United Kingdom has legitimate concerns about the
EU and the implications for our sovereignty, but the EU is not the reason for our appalling level of debt. It is not to blame for the low level of our exports to the developing world. Nor is it the reason we have a crisis of skills in our country.

One final point. When we consider how best the European Union can survive and flourish over the years to come, and when we advocate a Europe of diversity that respects national interests and priorities, we do so as citizens of a United Kingdom that has had to face the same challenges with regard to our own internal unity and diversity.

For three hundred years since the Treaty of Union in 1707 the citizens of England, Scotland and Wales have enjoyed a single Parliament and Government. In the last twenty years we have seen the establishment of a Scottish Parliament and Government and an Assembly and Government for Wales within a United Kingdom. Alongside these developments we have also experienced the reestablishment of a Parliament in Northern Ireland.

While these constitutional changes have been controversial, few would doubt that they were necessary. By recognizing the need for much greater diversity and devolution within the United Kingdom we have safeguarded the future of the Union. All the evidence, at present, suggests that Scottish voters in the forthcoming referendum on independence will reject the nationalists’ call for the break-up of Britain and vote, by a very healthy majority to keep the Union.

Perhaps this has powerful lessons both for the UK and for all other member states of the EU. The United Kingdom will survive and prosper by recognising the need for reform and diversity. There is every reason to believe that that will be true for the EU as well.

The Treaty of Rome proclaims that the signatories are ‘Determined to lay the foundations of an ever closer union among the peoples of Europe’. We, and our fellow Europeans should never lose sight that the Treaty refers to ever closer union of the peoples, not the states of Europe.

Our commitment in the United Kingdom is entirely consistent with this sentiment. Although European integration could not have got off the ground without the post-war idealism of our continental colleagues, Britain’s focus on practical achievements rather than political vision has helped shape the project for the better. Long may it continue to do so.

END