

The Institute of International and European Affairs

TOWARDS AN IRISH FOREIGN POLICY FOR BRITAIN

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There must at least be a possibility that a future stronger pull towards Britain ... could conflict with Ireland's need to enjoy a capacity for independent action in the European sphere

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The success of Queen Elizabeth's visit to Ireland in May 2011 underlines the huge improvement in the relationship between Ireland and the United Kingdom. This relationship changed as a result of the ties that developed between London and Dublin as they together sought to resolve the conflict in Northern Ireland. The improvement was also greatly facilitated by their common membership of the European Communities, and then the European Union, to which they acceded in 1973.

There is now a possibility, some would say a probability, that the UK will lessen its ties with the European Union, or may even withdraw from it altogether. The euro crisis has led to a deepening of the relationships between the members of the Eurozone, who are heading towards a banking union to be followed by elements of a financial and, perhaps, a political union. Simply put, it looks as if the UK will move further away from Brussels while Ireland will move closer.

The implications for Irish foreign policy of this divergence between London and Dublin are examined in this paper. First, the paper will assess the current state of bilateral relations between Britain and Ireland, as exemplified by the Taoiseach and Prime Minister's Joint Statement at Downing Street on 12 March 2012. It will then examine the UK's position on Europe and how its place within the EU may change over the coming years. The intensity in the UK of the debate about its membership of the EU suggests that it will follow one of two paths: repatriating key competences from Brussels or withdrawing completely from the EU. The paper will analyse what Ireland's options might be in each of these cases in light of the Irish Government's stated aim of remaining a full and active member of the EU.

JOINT STATEMENT OF COOPERATION

In March 2012, Taoiseach Enda Kenny and Prime Minister David Cameron met in London and issued a Joint Statement that sets out a programme of work to reinforce the British-Irish relationship over the next ten years.¹ The statement was a milestone because it was the first joint British-Irish statement at Prime Ministerial level that was not wholly or primarily concerned with Northern Ireland. The first and longest section of the statement dealt with business and trade relations and noted Ireland and Britain's shared commitment to boosting growth in order to accelerate economic recovery and job creation. The flow of goods and services between the two economies amounts to one billion euro every week and the two states want to see this expand and develop even further. Accordingly, the statement announced that a joint evaluation of the depth of economic relations between the UK and Ireland will be prepared. This evaluation – the first of its kind – will provide an up-to-date analysis of the complexity of the economic relationship between the two states and of 'the opportunities for closer collaboration in support of growth to our mutual benefit'.

The wide range of shared interests and opportunities for collaboration between Britain and Ireland were acknowledged in the statement. Education, research and development, the creative sectors and the construction sector were mentioned as areas in which cooperation could be intensified to the advantage of both countries. The need for secure, competitive and sustainable sources of energy was singled out as a common long-term challenge. The Taoiseach and Prime Minister particularly welcomed the progress achieved on the all-Ireland Single Electricity Market and on the new East-West

¹ An Taoiseach Enda Kenny and Prime Minister David Cameron, Joint Statement on British-Irish Relations – the next decade, 12 March 2012



interconnector, which is due to be commissioned later in 2012. They also recognised the untapped potential in renewable energy and committed to promoting mutually beneficial investment and deployment in this area. Emphasis was placed on the agri-food sector as an area of cooperation that could help overcome growing uncertainty in global food and commodity markets. This could be very beneficial for the Irish agri-food sector, which currently produces sufficient food to feed 36 million people and by 2020 wants to reach a point where it will be producing food for 50 million people.² The statement also committed the two countries to preserving the Common Travel Area.

The statement referred to Ireland and Britain as 'partners in the European Union' and committed the two states to working together to encourage 'an outward-facing EU, which promotes growth and jobs'. It highlighted areas of common interest, such as the single market, reducing the burden of regulation, online commerce and trade, an internal market in energy and the financial services sector. However, while their membership of the EU is an important dimension of the relationship for both parties, the statement overlooked the different approaches of Britain and Ireland to the EU, and the different paths that they have chosen to follow in Europe. The UK has always viewed the EU primarily as a trade agreement that promotes British economic interests. Support for the single market and the enlargement of that market has always been high in Britain, but efforts to deepen European political integration have generally been resisted. Ireland, on the other hand, has been a firm supporter of both a wider and deeper EU.

The Eurozone crisis has highlighted and accentuated the differences in Britain and

Ireland's approaches to Europe. As members of the single currency, including Ireland, move towards deeper fiscal and political integration, the Government in London has made it clear that Britain will not be a part of this. The refusal of the British Government to sign the Fiscal Compact, which was signed by twenty-five of the twenty-seven EU Member States, created further distance between the UK and the rest of Europe and added further complexity to the UK's position in the EU. Britain remains an important partner for Ireland within the EU, but there are as many issues at European level that divide the two states as there are areas of agreement. Although it was overlooked by the Joint Statement, managing the divergent approaches of Britain and Ireland to the EU will be an increasingly significant element of their relationship over the next ten years.

BRITAIN AND EUROPE

The debate about the UK's approach to Europe is likely to be a central theme of British politics in the coming years. David Cameron's veto of an EU-wide treaty change to resolve the Eurozone crisis in December 2011 signalled Britain's desire to disengage from any further European integration. Further integration would in any case be politically difficult given the passing of the European Union Bill in July 2011. This piece of legislation provides for a referendum to be held on any proposed EU treaty or treaty change that would transfer powers from the UK to the EU. Since the veto in December 2011, many Conservative Party MPs have become more assertive in calling for a referendum on the question of continued British membership of the EU. On 30 June 2012, just a few days after one-third of his MPs signed a letter urging him to legislate for a referendum on Britain's EU membership, Prime Minister Cameron asked his own party to have more 'tactical and strategic patience' on this issue. He argued that it is not

² Simon Coveney TD, Minister for Agriculture, Fisheries and Food, "Agriculture and Fisheries: Statements, Questions and Answers", Seanad Éireann, 20 July 2011

in the UK's best interests to leave the EU and for this reason opposed an in/out referendum on membership. However, he agreed that the EU involves 'too much cost, too much bureaucracy, too much meddling in issues that belong to nation states or civic society or individuals' and promised to work for 'a more flexible and less onerous position for Britain within the EU'. This would entail the repatriation of powers from the EU and then, perhaps, a referendum on British membership of the Union.³

Demands for a referendum on Europe are not only to be heard in the Conservative Party. On 14 May 2012, Ed Balls, the Shadow Chancellor, suggested that a future Labour Government might hold a referendum on Britain's relationship with the EU. This followed a speech on 4 May 2012 by former Labour cabinet minister and EU Commissioner, Lord Peter Mandelson, in which he called for a referendum on the UK's membership of the EU:

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A fresh referendum on this will be necessary because the political parties cannot reconcile their own differences and come to a final conclusion on their own, and nor should they. While the Conservative Party is the home of visceral hostility towards Europe, to an extent, negative feelings about Europe are now more present in all the parties”.⁴

Calls for a referendum within the Labour Party indicate a desire to outmanoeuvre the Conservatives on the issue and to affirm Labour's commitment to the EU, since the party would almost certainly campaign in favour of UK membership of the EU if a referendum were to take place.⁵

The increasingly assertive Euroscepticism within the Conservative Party, which one commentator has described as “Europhobia”,⁶ reflects growing distrust of Europe in British public opinion. Eurobarometer polls reveal that UK attitudes towards the EU are the most negative of all twenty-seven EU Member States. In 2011, just 22% of the UK's population had a positive image of the EU, while the UK also had the smallest percentage of people who believe that membership of the EU is beneficial to their country (35%).⁷ A survey of British attitudes published by Chatham House and YouGov in July 2012 indicated that a clear majority of the public (57%) would like to vote on the UK's membership of the EU. In such a referendum, almost half (49%) would vote for the UK to leave the EU altogether and only 30% would vote to remain a member. It is worth noting that, in stark contrast to the general public, 63% of “opinion-formers” from a wide range of sectors including government, business and media would vote to remain in the EU, and only 27% would vote to leave. However, the fundamental scepticism of the British public about the benefits of EU membership is reflected

3 David Cameron, Prime Minister of the UK, “We need to be clear about the best way of getting what is best for Britain”, The Sunday Telegraph, 1 July 2012

4 Lord Peter Mandelson, The Hands Lecture: Europe, is it the end of the project?, Mansfield College, Oxford, 4 May 2012

5 Toby Helm, “Ed Miliband set for decision on Europe referendum”, The Guardian, 19 May 2012

6 Adam Hug, The New British Politics and Europe: Conflict or Cooperation? The Foreign Policy Centre, August 2011, pg. 13

7 Ireland, by contrast, had the highest proportion of people (78%) who said that European membership is beneficial and the third highest percentage (54%), after Romania and Bulgaria, of positive opinions of the EU. Eurobarometer 75, Spring 2011. Public Opinion in the European Union. pg. 34 and 46



in the most common words and phrases that they associated with the EU: ‘bureaucracy’

(46%), ‘loss of national power’ (41%), ‘a waste of money’ (32%), ‘lack of border security’ (32%), ‘undermining our national culture’ (28%) and ‘corruption’ (27%). The highest positive response from the public – ‘freedom to study, work and live anywhere’ (25%) – was only seventh in the list.⁸

A ComRes poll for the *Independent on Sunday* on 20 May 2012 reveals another important factor in the Eurosceptic stance of the Conservative Party: the threat from the United Kingdom Independence Party (UKIP). The poll found that 10% of 2010’s Tory voters have already switched to UKIP, while a further 26% are ‘seriously considering’ switching to the Eurosceptic party, which campaigns for a complete withdrawal of the UK from the European Union. 11% of Labour voters and 14% of Liberal Democrat voters will also consider voting for UKIP.⁹ The UK Independence Party, led by Nigel Farage MEP, is hoping to capitalise on the economic crisis in Europe and build on the three percent of votes it secured in the 2010 general election. Both David Cameron and Ed Miliband are, therefore, under increasing pressure to promise a referendum on the terms of Britain’s future membership of the EU before the next general election. The pressure on the Government has lessened somewhat since the Foreign Secretary, William Hague, announced on 12 July 2012 a review of the competences of the EU and how they affect the UK. According to Mr. Hague, the extensive audit ‘will look at where competence lies, how the EU’s competences, whether exclusive, shared or supporting, are

used and what that means for our national interest’.¹⁰ The audit will last for two years, it will be jointly coordinated by the Foreign Office and the Cabinet Office but will involve all government departments, and it will consult as many interests as possible. The fact that it will conclude at the end of 2014 means that it will almost certainly be a factor in the 2015 election campaign.

The deepening of political integration among some European countries, the ongoing Eurozone crisis and increasing Euroscepticism within British public opinion and political discourse make it highly likely that the UK will have its first referendum on its membership of the EU since 1975, perhaps shortly after the expected election in 2015. This vote could lead to a fundamental change in Britain’s relationship with Europe, which would present Ireland with difficult choices in its policies towards the UK and Europe.

IRELAND AND EUROPE

Statements from representatives of the Irish Government over the past year have affirmed Ireland’s commitment to positive engagement with the EU, which is seen as fundamental to the country’s future economic development. The intention for Ireland to remain an active and engaged member of the EU has never been more evident. In his speech to the IIEA Brussels Branch on 27 February 2012, the Tánaiste and Minister for Foreign Affairs, Eamon Gilmore, stated: ‘We have always been clear that our membership of the European Union is central to our recovery. [...] Naturally the overriding national priority at this time is to get the economy back on track and to work with our

8 Jonathan Knight, Robin Niblett and Thomas Raines, *Hard Choices Ahead: The Chatham House-YouGov Survey 2012. British Attitudes Towards the UK’s International Priorities*, July 2012

9 Matt Chorley and David Osborne, ‘Cameron hit by big rise in hostility to Europe’, *The Independent on Sunday*, 20 May 2012

10 William Hague MP, Secretary of State for Foreign and Commonwealth Affairs, Foreign Secretary statement on the Balance of Competences of the European Union, 12 July 2012

EU partners in ensuring a strong and stable Eurozone into the future.’¹¹

If, as appears increasingly likely, a “two-speed Europe” is to emerge, with Eurozone countries integrating further to form an avant-garde core, Ireland’s foreign policy objective is to be a part of that core. One of the main reasons for this is that Ireland’s place at the core of the EU will give foreign investors confidence and will eliminate any doubt about Ireland’s future relationship with Europe. According to Barry O’Leary, Chief Executive of IDA Ireland, global companies invest in Ireland mainly because ‘they view Ireland as a springboard, or gateway, to the wider European market, which has 500 million potential customers’.¹² A survey of global foreign direct investors published in March 2012 identified access to EU markets as Ireland’s most important competitive advantage and the foundation of the country’s success in attracting foreign direct investment.¹³ For this reason, Ireland does not want to risk its position in Europe. This understanding informs the European policy of the Government, as the Minister of State for European Affairs, Lucinda Creighton, explained to the IIEA in June 2011: ‘An investor in Ireland would be safe in a country which was on the frontline of the European market and central to the political system. [...] We can move from being a country narrowly and myopically defending national interests, to one which leads the field in seeing our national interest, and our neighbours’

interests, best served by advancing the common European interest.’¹⁴

Although the focus of government narrative at present is on the economic benefits of EU membership, Ireland’s commitment to European integration runs deeper than trade. The reason for this is that Ireland’s accession to the six-member European Community in 1973 was seen as liberating the country from its overwhelming economic – and therefore political – dependence on the UK. Membership of the European Community (EC) transformed Ireland’s relationship with the UK by constraining Britain’s ability to exercise its sovereignty to Ireland’s economic disadvantage and by making the two states equal members of an intergovernmental organisation within which their relations became multilateralised. This boosted Ireland’s self-confidence on the world stage and afforded Irish leaders a more prominent place among their European counterparts. Membership of the EC also contributed to the economic development of the country and the transformation of Ireland from a predominantly agricultural economy to a modern knowledge economy with high living standards.¹⁵ Membership of the EC, and now of the EU, has therefore been an emancipating experience for Ireland and is seen as such by the Government and the majority of Irish citizens.

The British perspective is quite the opposite: membership of the EU is not perceived as liberating but as a restriction on British freedoms and Britain’s ability to compete in fast-growing and emerging markets elsewhere. The Eurozone crisis has highlighted the sharp divergence in British and Irish policies towards Europe, at a

11 Eamon Gilmore TD, Minister for Foreign Affairs and Trade, Ireland’s Role in the World, IIEA, 27 February 2012

12 Barry O’Leary, “Foreign investment hopes hinge on treaty poll result”, Irish Times, 26 April 2012

13 Economist Intelligence Unit, Investing in Ireland: A survey of foreign direct investors, sponsored by Matheson Ormsby Prentice, March 2012

14 Lucinda Creighton TD, Minister of State for European Affairs, Strengthening Ireland’s Relationship with its EU Partners, IIEA, 23 June 2011

15 See: Paul Gillespie (Ed.) Britain’s European Question: The Issues for Ireland, IIEA, 1996, and Paul Gillespie (Ed.) Blair’s Britain, England’s Europe: A View from Ireland, IIEA, 2000



time when their bilateral relationship has never been stronger. The danger of this development for Ireland was presciently outlined by the previous Chair of the IIEA UK Group, former Taoiseach and Minister for Foreign Affairs Dr. Garret FitzGerald, in 2000:

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It could well be the case that, in the future, tensions between Ireland's relationship with Britain on the one hand and with Germany and France on the other, which have hitherto been largely absent, might become more of a problem for Irish diplomacy. There must at least be a possibility that a future stronger pull towards Britain, with which successive Irish Governments have had to work closely in seeking to resolve the Northern Ireland crisis, could conflict with Ireland's need to enjoy a capacity for independent action in the European sphere. As we move into the new century, maintaining a balanced relationship simultaneously with all three of our major European partners may pose a challenge to Irish diplomatic ingenuity”.¹⁶

The challenge for Ireland is to formulate a foreign policy towards Britain that addresses the concerns expressed as early as 2000 by Dr. Fitzgerald. Ireland's UK policy has traditionally been determined by the Northern Ireland issue and by the fact that both states are members of the EU. Now that Northern Ireland no longer dominates the agenda of Irish-British relations

and the UK appears to be stepping back from further EU integration, Ireland must adopt a strategy towards Britain that will draw out the areas of common interest between the two states without damaging relations with its European partners.

AN IRISH FOREIGN POLICY FOR BRITAIN

Ireland's options vis-à-vis the UK depend very much on Britain's ultimate decision on Europe. Given the two states' shared economic views, including on the single market, financial services, corporate taxation and transatlantic relations, it is central to Irish interests that the UK is at the heart of Europe, as fully participant as possible. Moreover, the EU would be far less economically and politically powerful without the active participation of the UK, which would not be in the interest of any Member State. However, as has already been outlined, the status quo is no longer tenable. Some form of renegotiation of the UK's membership is likely to take place and this will result in two possible outcomes: repatriation or withdrawal.

1: REPATRIATION

Although any form of British pullback from the EU is not in Ireland's interests, an effort to repatriate certain powers while remaining in the EU is certainly preferable to withdrawal, since this first option would allow Ireland greater room to manoeuvre between its neighbour and its commitment to deeper European integration. In the case of repatriation, as opposed to outright withdrawal, the Government could work at European level to keep the distinctions between the Eurozone and non-Eurozone Member States as small as possible. The EU can work with a considerable amount of internal diversity. There are examples of the EU already operating at two speeds, like the Schengen area

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Dr. Garret FitzGerald, Blair's Britain, England's Europe: A View from Ireland, IIEA, 2000 pg. 259

and the single currency. A more formalised “two-speed Europe” would consist of an avant-garde group of specific Member States, probably based on the Eurozone, cooperating together in all areas. These states would develop common policies and actions before the other Member States, who would join the core group when willing and able to do so. The remaining Member States would not constitute a separate group, as each of them could decide to integrate at its own pace or not at all. This is the key difference between a “two-speed Europe”, in which the core is open to all EU Member States, and a “two-tier Europe”, in which the two groups within the system have separate agendas. Ireland must play its part in preventing the emergence of a “two-tier Europe”, which would see a ‘permanent and irreversible separation’ between the inner core and the remaining Member States, including the UK.¹⁷

In a “two-speed Europe”, Ireland could work to ensure that the inner core does not dictate terms to the other Member States or condemn them to an inferior status on the periphery, which would accentuate tensions between the UK and the rest of Europe. Whether the future of European governance is rooted in the Community Method or the Union Method,¹⁸ Ireland should work to ensure that decisions in Europe are taken in a spirit of inclusiveness and solidarity. In this regard, Ireland could find natural allies among other like-minded Eurozone states. In an effort to preserve the integrity of the Union and to ensure that they do not lose a key ally in

upholding a system of liberal trade in Europe, members of the single currency like Ireland, the Netherlands, Finland and Estonia have an interest in cooperating to keep the differences between the Eurozone and the EU-27 as small as possible. Furthermore, Ireland could seek to revive a sense of community within the Union, where the crises of the past few years have taken their toll on the solidarity and morale of Member States. As a very pro-European state with all of the positive stories of what EU membership has achieved, Ireland can play a vital role in reminding its EU partners, including Britain, of the significance and value of European cooperation. By seeking to keep the EU27 as united and harmonious as possible, Ireland would be pursuing its own strategic interests. However, there is a risk that Ireland may be perceived as acting on Britain’s behalf in the core of Europe. This would probably not be conducive to positive relations with Ireland’s two other main partners in Europe: France and Germany. Therefore, as long as it wants to remain in the inner core of European integration, Ireland will have to be especially innovative in pursuing its own interests while maintaining a balanced relationship with the UK, France and Germany.

In a “two-speed” Europe, the UK may be content to simply stand aloof from further integration as long as the inner core does not impose its will on the other Member States to the detriment of British interests. However, the rhetoric of British Eurosceptics indicates that they will not be satisfied with a mere brake on further integration and will seek a repatriation of competences from Brussels. This would see the UK seeking opt-outs from a number of contentious policy areas like social and employment regulations, justice and home affairs and financial services regulations, as well as seeking a reduction in Britain’s contribution to the EU budget. This is what Mats Persson of Open Europe, an influential

17 Jean-Claude Piris, *The Future of Europe: Towards a Two-Speed EU?* Cambridge University Press, 2012, pg. 7 [see also pgs. 62, 102]

18 On the Community Method, see José Manuel Barroso, President of the European Commission, *Moving Europe Forward*, Speech at the European Policy Centre, Brussels, 26 June 2012. On the Union Method, see Angela Merkel, Chancellor of the Federal Republic of Germany, *Speech at the opening ceremony of the 61st academic year of the College of Europe, Bruges*, 2 November 2010.



Eurosceptic think tank in Britain, calls a “pick-and-mix approach” to EU membership. The Eurosceptic Fresh Start group of Conservative MPs, who aim to renegotiate the terms of Britain’s EU membership, also advocates this approach, which would see the UK having almost complete freedom of choice on whether or not to participate in certain policy areas and legislative initiatives within policy areas. Accordingly, in July 2012, the Fresh Start group published a Green Paper entitled *Options for Change*, which sets out the changes Britain can make to the terms of its EU membership in a number of key policy areas. The paper repeatedly emphasises that: ‘The UK will have negotiating leverage when EU treaty change is sought as a result of the Eurozone crisis’.¹⁹ British Eurosceptics believe that other EU Member States will grant concessions to the UK – one of the world’s largest economic, financial and military powers – in order to keep it in the Union at this time of economic crisis. Other liberal, northern Member States in particular will not want to risk losing a key ally within the EU, they argue. This should enable the UK to remain within the single market and to retain its voting power while opting out of unpopular legislation and giving less to the EU budget.²⁰ If the UK goes down this particular route, an Irish foreign policy towards Britain would have to take account of the various options facing the UK and prepare for all possible outcomes. Two key areas of legislation that would have implications for Ireland - justice and financial services - are currently on the agenda in the UK. Since changes in these two important policy areas may indicate the UK’s future strategy towards Europe, they will be considered in detail here.

JUSTICE AND HOME AFFAIRS

In the Justice and Home Affairs (JHA) area, the Lisbon Treaty offers Britain the possibility of opting out of approximately one hundred and thirty EU policing and criminal law measures by June 2014. If London decides to opt out en bloc of these acts, which were all adopted before the Lisbon Treaty, none of the legislation will apply to the UK from 1 December 2014. However, in theory it can opt back in to individual acts at any time afterwards. In this case, either the Commission would have to decide if the UK should be re-admitted or, if the measure builds upon the Schengen *acquis*, the Council would have to decide by unanimity. It is not yet clear what decision the UK will make, although backbenchers in the Tory Party strongly support a block opt-out, with the option of opting back in afterwards to key areas of cooperation such as the European Arrest Warrant (EAW), Eurojust, Europol and the establishment of databases to share criminal records and DNA between Member States. Another option would be for the UK to negotiate a new agreement with other EU Member States on crime and policing, but outside of the EU legal framework and therefore without the jurisdiction of the European Court of Justice (which is an important bugbear for the Tory right).

However, the Association of Chief Police Officers (ACPO), the Serious Organised Crime Agency (SOCA) and the Director of Public Prosecutions have in the past welcomed the role of European instruments like the EAW in helping to track down criminals who have fled abroad.²¹ Over the course of the last year, the UK used the EAW to extradite 93 individuals

19 Fresh Start Project, “Options for Change” Green Paper: Renegotiating the UK’s Relationship with the EU, July 2012, pg. 186

20 Mats Persson, “Britain should pick-and-mix over Europe instead of apeing Norway”, Daily Telegraph, 10 July 2012

21 House of Lords and House of Commons Joint Committee on Human Rights, The Human Rights Implications of UK Extradition Policy: Fifteenth Report of Session 2010-12, June 2011, pg. 37
See also: Toby Helm and Jamie Doward, “Tory hostility to EU extradition law ‘risks a new Costa del Crime’”, The Guardian, 8 November 2009

from other EU Member States to face criminal prosecutions for crimes committed in the UK.²² The benefits of cooperation in policing have also been demonstrated by a number of high profile investigations coordinated by Europol, which were widely reported on in the British media.²³ Therefore, if the UK does decide to opt out from the bulk of JHA legislation in 2014, in spite of likely opposition from the police and organised crime forces, it will be a clear indicator that the Europhobia of the Tory right may be allowed to undermine the UK's strategic interests in other key areas of European cooperation in the future. Moreover, the decision of the UK in the area of JHA legislation will have important implications for Ireland. For instance, in 2011 Ireland issued 71 European Arrest Warrants for crimes including murder, sexual offences, drug offences, assault and robbery. Out of the 71 EAWs transmitted to other Member States in 2011, 53 concerned individuals in the UK.²⁴ There are alternative international legal frameworks that Irish-British cooperation in this area could fall back on should the UK decide to opt out of JHA legislation in 2014, including the Council of Europe's Extradition Convention (1957), Convention on mutual assistance (1959) and Convention on the transfer of sentenced persons (1983).²⁵ However, the point of European instruments like the arrest warrant and Europol

is to make cooperation in policing and criminal matters more straightforward, effective and efficient for participating states. For this reason, Ireland must be fully prepared for any break, temporary or permanent, in the UK's involvement in JHA cooperation from 2014.

FINANCIAL SERVICES

Financial services is another area in which Ireland may face difficulties in the coming years due to London's European policy. Financial services account for 10% of the UK's GDP and the UK represents 61% of the EU's net exports in financial services.²⁶ As Eurozone states, including Ireland, move towards a banking and fiscal union, concerns are growing in London that, without safeguards, the UK could be forced to accept more stringent rules in the European Single Market written by and designed for the Eurozone. David Cameron failed to secure those safeguards at the December EU summit, but the Chancellor of the Exchequer, George Osborne, has insisted that the argument for safeguards for the UK is now 'more relevant than ever'.²⁷ The safeguards seek to ensure that the City of London will not be subject to future EU financial services regulation and that a Financial Transaction Tax (FTT) cannot be imposed without unanimous support. It remains to be seen if the damage done to the City of London by the Libor scandal will cause a shift in British attitudes on EU regulation in financial services.

London's refusal to participate in the proposed European banking union, and any threat to the single market that might arise from this decision, will pose serious questions for Dublin given the

22 Serious Organised Crime Agency, Annual Report and Accounts 2011-12, 4 July 2012, pg. 107

23 Kevin McVeigh, "Police shut down global paedophile network in Operation Rescue", The Guardian, 16 March 2011

24 Department of Justice and Equality Report on the operation of the European Arrest Warrant Act 2003 (as amended) in the year 2011 made to the Houses of the Oireachtas by the Central Authority in the person of the Minister for Justice and Equality pursuant to section 6(6) of the European Arrest Warrant Act 2003

25 For a complete list of fall-back agreements see Steve Peers, The Mother of all Opt-outs? The UK's possible opt-out from prior third pillar measures in June 2014, Statewatch Analysis, Annex 1

26 Fresh Start Project, "Options for Change" Green Paper: Renegotiating the UK's Relationship with the EU, July 2012, pg. 147

27 George Osborne MP, Chancellor of the Exchequer, Mansion House Speech, 14 June 2012



depth of the trading relationship between the UK and Ireland. Moreover, if the UK were to obtain safeguards in the area of financial services, this could put Ireland's financial services industry at risk. At a meeting of EU Finance Ministers on 22 June 2012, the Minister for Finance, Michael Noonan, stated that Ireland would not participate in a new European FTT due to fears that financial services business would move from Ireland to the UK if Dublin introduced the tax and London did not. However, in a full banking and fiscal union, Ireland may not be able to opt out of legislation that Britain could avoid. This could disadvantage the International Financial Services Centre in Dublin, which directly employs some 33,000 people.²⁸ The Government therefore has a strong interest in ensuring that a more integrated Eurozone is fully compatible with the EU's single market in financial services and that the UK does not feel threatened by Eurozone regulatory proposals.

2: WITHDRAWAL

British Eurosceptics see the threat of withdrawal as the UK's leverage in the renegotiation of its membership terms. However, they probably exaggerate this leverage because Europeans are in fact quickly losing patience with the national demands of the UK. The euro crisis has had the effect of weakening the British position in Europe, as demonstrated by the short shrift given to British demands at the December 2011 summit. It is highly unlikely that the other Member States will accept a form of "pick-and-mix" membership for Britain, as this would give the UK access to the single market without applying the rules that all Member States must obey. In the case of the Eurosceptic approach being rejected by its fellow Member States, the UK may fulfill its threat of withdrawing from the Union. While this has always been the stated aim of UKIP, withdrawal from the EU has also

now become an acceptable outcome for key members of the Tory Party. On 2 July, Dr. Liam Fox, the former Defence Secretary and leading Tory Eurosceptic, gave a speech in which he stated that 'life outside the EU holds no terror'. Dr. Fox called for 'a new relationship with the EU based on economic rather than political considerations'.²⁹

It is, nevertheless, worth reiterating that a complete UK withdrawal from the EU is unlikely for a number of reasons. It was noted earlier that in the Chatham House-YouGov poll of July 2012, 49% of respondents said they would vote to leave the EU in an in/out referendum. However, when presented with a variety of options for further European integration, a plurality of respondents (31%) opted for the idea of the UK remaining in a less integrated EU, against 26% who would prefer to leave the EU. Moreover, despite the high proportion of respondents that want withdrawal or a much looser relationship with Europe, between two-thirds and three-quarters said that Britain should cooperate with the European Union on issues like counter-terrorism, policing, energy, climate policy, trade, border security, and foreign, security and defence policy.³⁰ The logic behind these contradictory views can probably be explained by the Eurosceptic conviction that Britain could adopt the Norwegian or Swiss model of benefitting from European cooperation without any of the corresponding obligations. Of course this is not the case. Neither Switzerland nor Norway offers a satisfactory model for the UK because they do in fact have to implement EU laws, but without representation in the EU's institutions.

28 Suzanne Lynch, "Financial services may be at risk after UK veto", *Irish Times*, 12 December 2012

29 Dr. Liam Fox MP, Britain, the euro and the European Union, Speech to the Taxpayers Alliance, London, 2 July 2012

30 Jonathan Knight, Robin Niblett and Thomas Raines, *Hard Choices Ahead: The Chatham House-YouGov Survey 2012. British Attitudes Towards the UK's International Priorities*, pp. 15-16

An independent study of Norway's relationship with the EU published earlier this year, *Outside and Inside*, concluded that Norway, as a member of the European Economic Area (EEA), has had to adopt three-quarters of the *acquis communautaire* without the ability to influence the decision-making process in Brussels.³¹ Switzerland is not a member of the EEA but has negotiated a series of bilateral agreements to obtain access to some areas of the single market. Switzerland too must accept EU legislation pertaining to the markets it wants access to, but cannot influence the rules that govern the decision-making process. Moreover, both Norway and Switzerland are expected to contribute to the Union's structural and cohesion funds. It is unlikely that such a model would be acceptable to the UK.

Another factor that will undoubtedly weigh in to the debate on the UK's membership of the EU is the opinion of business leaders, particularly those in the City. Traditionally Eurosceptic, the City seems to have realised since Cameron's veto in December 2011 the serious trouble it would be in if the UK was cut off from the EU. There are signs that the City is shifting towards a more moderate stance on Europe and that it has made its views known to the British Government.³² Furthermore, in a survey of more than 1,800 smaller businesses in July 2012, the British Chambers of Commerce found that, although 47% wanted a looser relationship with the EU, only 12% favoured withdrawal.³³

A further influential source of anti-withdrawal sentiment could come from the US. A close working relationship with the US is a priority

for Britain. However, the UK's active participation in the EU is in America's interest, as British influence makes the EU a more reliable partner for the US. If withdrawal from the EU were detrimental to American interests, the US would make this clear to the British Government. And while the US will certainly not dictate London's European policy, the fact that Britain's usefulness to America rests largely on its membership of the EU will at least have some bearing on its future relationship with Europe.

A final factor that is worth considering when assessing the likelihood of a UK withdrawal is the pragmatism that is inherent in British foreign policy. The UK's membership of the EU has always been transactional rather than a matter of heart. The key question for successive British Governments has been: Do the benefits outweigh the costs? William Hague's announcement in July 2012 of an audit of EU competences is only the most recent manifestation of this pragmatism. If it is found that British interests are better served by being inside than out - as has always been the case in the past - then the Government is likely to be guided by this appraisal. However, the deepening of the Eurozone is a real conundrum for Britain. Being left outside the room when important decisions are made, as happened at the June 2012 European Council summit, is certainly not in Britain's interest. How the changing nature of European governance and decision-making impacts on Britain's pragmatic assessment of its EU membership remains to be seen. As David Rennie of *The Economist* wrote in May 2012: 'if Eurozone integration proceeds without Britain, and so deeply that the single market starts to fragment into inner and outer cores, the strongest argument for British

31 Official Norwegian Reports NOU 2012, *Outside and Inside: Norway's agreements with the European Union*, 17 January 2012

32 George Parker, Patrick Jenkins, Helen Warrell and Alex Barker, "Cameron warned with risks of EU exit", *Financial Times*, 25 June 2012

33 British Chambers of Commerce, *Snap Poll on Business Attitudes towards Europe*, 19 July 2012



membership will be undermined. The situation is stable and unstable, familiar and unfamiliar. How this ends is unknowable and is only partly in Britain's hands'.³⁴

A British withdrawal, however unlikely, would be a source of enormous instability and turbulence for Ireland and, for that reason, is a scenario for which Ireland must be prepared. The major trading relationship between the UK and Ireland could be threatened and an external border of the European Union would run through the island of Ireland. Steps would need to be taken in advance of a British withdrawal to safeguard bilateral trade and the Common Travel Area between the two islands. However, were the relations with Britain to be cultivated solely on a bilateral basis – rather than as today on a bilateral and multilateral basis within the EU – this might work out more to the UK's advantage than to Ireland's due to the relative size of the two countries. A UK outside of the EU would probably value its bilateral relationship with Ireland even more, and could put pressure on Ireland (as well as non-Eurozone states like Poland, Sweden, Denmark and the Czech Republic) to form a trade agreement outside of the EU framework. A UK withdrawal could, therefore, limit Ireland's freedom to stay at the core of Europe. If Ireland were unable to balance its membership of the Eurozone and close economic, political and social ties with a UK outside of the EU, it could force a binary choice on Ireland. Furthermore, Gavin Barrett warns that Irish popular support for European integration might be affected by the turbulence of a UK exit: 'British newspapers and television have, after all, a considerable influence in this State'.³⁵ An Irish foreign policy towards Britain must consider how Ireland can remain at the

core of the European Union, even if its nearest neighbour decides to withdraw.

CONCLUSION

The future of the UK's relations with the rest of Europe is therefore uncertain. Developments in the European Union, where closer integration among Eurozone states poses a problem for Britain, will almost certainly reshape the UK's relations with the rest of Europe. The first option outlined in this paper – the repatriation of competences – is the most likely strategy to be adopted by the British Government. The UK will stay in the EU but will seek opt-outs from particularly contentious legislation like social and employment regulations, financial services regulation and justice and home affairs policy. Total withdrawal does not at this stage appear likely but, for the first time since 1975, is not unthinkable. Among the Eurosceptic voices calling for renegotiation of the UK's membership, many point to the semi-detached relationship of Norway or Switzerland to the EU. However, this paper has noted the disadvantages of the Norwegian and Swiss models, which place them both "outside and inside" the EU, a situation that is unlikely to satisfy any British Government.

The UK and Ireland now regard each other as 'friends' and 'partners',³⁶ but it would be careless to overlook the difficulties that Britain's European policy may cause Ireland in the future. The Government appreciates the importance of the British-Irish partnership but also wishes to remain a core member of the EU. Britain's European policy may therefore force difficult choices on Ireland in the coming years. This paper has outlined the problems that might arise for Ireland as a result of Britain's changing place

34 David Rennie, *The Continent or the Open Sea: Does Britain have a European future?* Centre for European Reform, May 2012, pg. 78

35 Gavin Barrett, "UK engagement with EU is central to Irish interests", *Irish Times*, 9 July 2012

36 Enda Kenny, *Setting the Scene for Ireland's Export Led Recovery*, Bloomberg, London, 18 April 2011

in Europe and has suggested some of the actions the Irish Government could take at the bilateral and European level to maintain the relevance and strength of the British-Irish partnership without sacrificing Ireland's commitment to European integration.

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