



GMB BRIEFING: The European Council summit 8-9 December 2011

Background

After weeks of turmoil with the Eurozone debt crisis reaching dramatic new heights, the summit of EU leaders in Brussels on 9 December was billed as the moment when the Euro would be saved.

By the start of the week leading up to the summit, Eurozone leaders began to reach tentative consensus on the need for reform, believing that the debt crisis proved that the Eurozone needed much stronger budget discipline and effective crisis management systems in order to survive and prosper in the future. German Chancellor Merkel and French President Sarkozy signalled that a Treaty change would be the best way to take steps towards fiscal union in the Eurozone.

Revising the Lisbon Treaty was seen as necessary because the new rules would make major changes to the balance of national-EU power on budgetary policy. However, Treaty revision needs unanimous agreement among all 27 countries, not just the Eurozone.

It was clear in the run-up to the summit that David Cameron was likely to take a tough stance during negotiations. Before setting off for Brussels, he promised to get new protections for the City of London from future EU financial regulations. He made clear that safeguarding the City was his major redline in the negotiations for a Treaty change, despite the fact that in preliminary meetings earlier that week with Merkel and Sarkozy it was made obvious to him that the summit was not the occasion for him to make these demands.

The negotiations: an overview

The aim of negotiations between the EU leaders was to agree first on what was needed to make the Eurozone stronger, and then to work out how exactly to achieve it. It was during the second part of these discussions on the means, not the objectives, in which Cameron began to lay out his demands. He effectively asked for a softening of financial regulation for the City of London, perhaps even complete exemption of the UK's financial sector from new EU rules.

Within minutes of outlining his demands, it was clear that other EU leaders were in no way supportive of his idea for special treatment or even an opt-out for the UK financial sector. Cameron stated that if this concession was not made, he could not support a Treaty revision.

At this point, the European Council President Herman Van Rompuy presented the idea of an intergovernmental agreement, rather than a Treaty change, between the 17 Eurozone members and any other non-Eurozone member state who wished to join. According to reports, within a matter of seconds, all Eurozone members had backed the decision. Within a matter of minutes, the non-Eurozone

members decided they would also sign up to the agreement (some on the proviso of national parliamentary approval), leaving Cameron completely isolated. The Prime Minister was visibly shocked by the speed at which his potential allies left him alone. He clearly thought he would have negotiating room to manoeuvre and underestimated the unity of the rest of the EU member states to reject outright any attempts to derail the core objective of saving the Euro.

Discussions then continued on the exact content of the agreement, with Cameron excluded from the talks (although he remained in the room). The 26 EU leaders agreed to a 'fiscal compact' (see details below) which will lead to much tighter control over national economic and budgetary policies. The Eurozone leaders also agreed that changes needed to be made to the bailout fund (potentially increasing its size even further), but postponed making a definitive decision until the next summit in March 2012.

Outcome for the UK: Cameron in the corner and the veto which wasn't a veto

Prior to the summit, Cameron had a clear choice: he could either participate in the important discussions with EU leaders on how to save the European and British economy, or he could buy off his backbenchers and donors in the financial sector by refusing outright to participate in negotiations unless the City was protected. He chose the latter, despite the fact that financial regulation was not even on the agenda for negotiations. Cameron therefore attempted to hijack a hugely important summit for the future of Europe's economy with his demands for protection and concessions for his friends in the City.

In doing so, Cameron isolated himself from the other EU leaders, who find it incredulous and completely unacceptable that the UK Government is so desperate to protect the financial sector, which bears so much of the responsibility for causing the ongoing crisis in the first place. Consequently, the UK's relations with other EU countries could be hugely damaged by Cameron's bid to safeguard the City.

The fractures between the UK and other EU countries are already apparent with a series of spats this week between Cameron and Sarkozy and his colleagues. Although Sarkozy's behaviour is indefensible, it is sad that the actions of Cameron have triggered such a breakdown of trust between the two leaders. By choosing isolation on the issue of the Treaty, Cameron has consigned the UK to a future of isolation and distrust by other European countries, potentially for many years to come.

Moreover, although media reports refer to Cameron using a 'veto' to block the Treaty, it is not a veto in the traditional sense because the agreement has gone ahead regardless, rather than blocking progress. As a result, Cameron has not only failed to achieve his objective of protecting the financial sector from regulation (which will continue to be subject to the usual EU policy-making procedure), it is also likely that he has undermined the UK's credibility in all other future negotiations by completely overplaying his hand. In other words, building like-minded alliances with other countries will prove very difficult due to the deterioration of relations between the UK and the rest of the EU. Even his supposed allies in the world of business and finance are concerned that he has damaged both the reputation of the UK and the trust of other countries.

Outcome for the Eurozone: the agreement reached

EU leaders agreed on a so-called 'fiscal compact': an agreement to implement "significantly stronger coordination of economic policies". It was hoped that the agreement would take the form of a new EU treaty, but following the UK Government's refusal, the agreement will now be between the EU member states but outside of the legal framework of the EU.

The exact legal workings of this remain to be seen, but it is likely to be very closely integrated into the EU institutional and constitutional system, despite not being a formal treaty. The finer details must now be hammered out by the participating countries, with the UK participating in the negotiations but only with observer status, unable to have any influence or leverage in the discussions. The first negotiating meeting will take place on 20 December, with the hope of finalising the text by the end of January 2012.

Once finalised, the agreement is scheduled to be signed at the beginning of March. It is envisaged that the agreement will enter into force as soon as nine states have ratified it (half of the Eurozone members).

The main aspect of the agreement is that Eurozone states must have balanced or surplus budgets, with a maximum annual structural deficit of 0.5% of GDP. This rule must be integrated into the national legal systems of each Eurozone country, with the obligation to report national budget plans for European approval in advance. Automatic consequences, possibly including sanctions, will be put in place for states which fail to respect this rule.

The Eurozone states also agreed to review the size of the bailout fund, but delayed this decision until March 2012.

GMB response

1. Despite the rhetoric of "we're all in this together", it is clear to GMB that David Cameron is only bothered about the interests of his banker friends and his own backbenchers

At EU summits, national leaders must represent the interests of their country. At this weekend's summit, Cameron failed to represent true British interests and instead chose to speak only in the name of the City of London. Cameron's objective at this summit should have been to protect and to promote the interests of the UK's economy, British workers and their jobs. Instead, he chose to promote the interests of the less than 1 million overpaid and under-regulated bankers, as well as protecting his own position in the face of angry backbenchers.

GMB is astounded that Cameron sought concessions and special privileges for the British financial sector, which bears so much of the burden for causing the ongoing global economic turmoil. By solely representing the privileged and blameworthy few, Cameron left the UK without a voice at one of the most important EU summits for saving our economy.

2. GMB also criticises Cameron for undermining democratic decision-making processes by unilaterally calling for concessions from EU legislation

The EU is currently in the process of deciding on over 20 different pieces of financial regulation which aim to prevent a future crisis and return the financial

sector back to its intended role of providing capital to the real economy. This legislation is subject to the EU's policy-making process, involving negotiations between all 27 Member States and the European Parliament.

By unilaterally seeking to obtain written concessions for the City enshrined in the Treaty, Cameron has undermined the legitimacy of the decision-making process, as well as the efforts by the EU to implement much-needed reform to the financial sector.

In fact, by abandoning the UK's place at the negotiating table, Cameron has weakened British influence over negotiations concerning the new regulations by burning bridges with his potential allies. The City actually wants the regulatory certainty and fair competition that EU legislation would provide; and so by overplaying his hand so spectacularly, Cameron has not even pleased the bankers he sought to protect!

3. GMB calls on Cameron to admit that by completely overplaying his hand, he has potentially damaged UK interests as a whole within the EU

By giving up his seat at the table and by angering his EU counterparts, David Cameron has left the UK seriously exposed, rather than protecting the British economy and British workers.

The difficulties in finding allies and coalitions of interest with other countries will not just be limited to negotiations on financial sector regulation. With his decision to inflame tensions, rather than calm the crisis, Cameron has jeopardised the UK's position in all future EU negotiations across all issue areas. GMB is disappointed that the UK now appears dangerously isolated in the EU, at a time when it is vital that the interests and needs of British workers are protected.

The absence of Deputy Prime Minister Nick Clegg in the follow-up parliamentary debate confirms GMB's assessment that Cameron made a huge strategic error.

4. GMB regrets that Cameron failed to represent the British public in the resulting negotiations, which led to enshrining austerity into law

Cameron's decision to wield his 'veto' meant that the voice of British workers was absent from the hugely important discussions which followed concerning Europe's economy.

GMB is disappointed that the agreement reached by the rest of the EU's leaders enshrines austerity into law. It would have been far easier to understand if the UK Government's opposition to this new agreement had been on the grounds of its failure to acknowledge that the crisis cannot be helped by ever-increasing spending cuts. The new 'fiscal compact' enshrines austerity as the 'golden rule' and it is simply unacceptable that Cameron refused to participate and to represent the interests of British workers in the negotiations that led to this agreement.

The outcome of this summit is bad for Europe and worse for Britain: more wrong-headed austerity to resolve the crisis and dangerous isolation for the UK, jeopardising the interests and needs of British workers and the British economy.

The repercussions of Cameron's strategy will be felt beyond economic and financial policy. The trust of EU countries in the UK has been dented, meaning that finding potential allies in all future policy negotiations is now likely to be much harder.