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Conference report

British German Forum

Europe's place in a challenging world

Sunday 15 – Thursday 19 July 2012 | WP1155

In association with:

Robert Bosch **Stiftung**





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The 2012 British-German Forum convened around 50 of Britain and Germany's young 'high fliers' (aged 25 – 35) to explore and discuss Europe's place in a challenging world, looking in particular from the perspectives of the two countries and their common and differing challenges. The Forum was funded with support from the Robert Bosch Stiftung, PricewaterhouseCoopers and the Foreign and Commonwealth Office.

Key points

The 27th British-German Forum addressed Europe's place in a challenging world. The theme allowed scope for a wide-ranging discussion on the threats and opportunities facing Europe, Britain and Germany, particularly in the light of the current crisis in the Eurozone, the ongoing austere global economic climate, the implications of increasing resource scarcity, and the rise of new economic powers. Debate focused on the type of Europe that Britain and Germany respectively would want to see in the future, and how, whether separately or as partners in Europe they could help achieve this vision and overcome the significant challenges faced, both domestically and externally.

The Forum noted that the term "Europe" itself could be one of several definitions, but generally the debate focused on the policies and challenges of those countries within the European Union. Discussions dwelt significantly on the current debt-related difficulties facing the European Union, with an impact not only on Europe's future economic stability but on the whole European project. Decisions to overcome the debt crisis will have a profound effect on the future political nature of Europe, and indeed on the future relationship between Britain and Germany.

Europe remains a powerful region in the world both in terms of its economy and political influence. But the global centre of gravity is moving east. European countries need to work together to retain influence and competitive advantage. The rise of China and decreasing influence of the US will have a significant impact.

We want a Europe that is a credible international power, good trading partner, a force for good, and a force for democracy. We want a well-functioning single market, security from external and internal threats, prosperity, democracy, prestige, influence and economic security.

But Europe at the moment is in crisis: internal problems are leading to loss of external influence. There is uncertainty and division on the way forward, a lack of vision, leadership and agreed narrative. In terms of identity, the European Union needs to signify more than its historic precept of securing peace within its borders, or as a mechanism to create a free market. Yet can national governments and European institutions meet greater expectations, and also address the increasing voices of scepticism as a result of increased nationalism or economic disillusionment?

Summary of conclusions

1. In working groups and in a final plenary session the Forum participants presented their conclusions on aspects of Europe's place in a changing world, including some recommendations and observations for the future. These are summarised below, representing some points which were generally agreed, but some more disputed:

On the vision for Europe:

- We want a well-functioning single market, security from external and internal threats, prosperity, democracy, prestige, influence and economic security.
- Keep calm and carry on. Be a credible international power, good trading partner, a force for good, and a force for democracy.
- Need greater political leadership and will to strengthen Europe
- Must lead by example, not lecturing others (eg on climate change)
- Streamline European Commission (fewer commissioners, combining Presidencies)
- Make European institutions more visible and understood in member States
- Communicate vision to the people; better PR for Europe, more positive media image, better use of social media
- Prepare a road map of where we want to be and how we can get there

On the European debt crisis:

- Accept a two-speed Europe, and get leaders to make quick decisions and acknowledge past mistakes. No time for referenda.
- Accept some members may not want to be part of an inner ring, but work closely with them nevertheless (such as the UK)
- Create banking union and common fiscal policy (this was disputed)
- Make a clear decision on Greece: probably debt mutualisation
- Ensure the UK is fully engaged, even if outside Eurozone

On German/British relations:

- Improve mutual knowledge through more education, youth programmes
- Germany to encourage UK to be more constructive on Europe

On resource scarcity challenges:

- Greater investment in Research and Development relating to resource scarcity and climate change mitigation, perhaps choosing certain regions as champions of a particular project rather than duplicating efforts
- More concerted risk assessment
- Greater involvement of business in energy policy issues, and ensuring continuity beyond the life of one Parliament. Need for political consensus and leadership
- Improving the narrative of climate change: not just about the environment but about survival of humankind
- Greater integration between transport and energy sectors
- More coherent energy policy
- Greater state role in helping companies innovate (allowing failure)

On defence and security:

- Encourage more common positions on defence and security, greater pooling/sharing of defence spending (some mooted a European army); more bilateral cooperation

On growth and jobs:

- Prioritise measures to reduce unemployment
- Consider an energy fiscal stimulus
- Build on strong sectors and comparative advantage, especially as defined by trade not borders
- More investment in R and D, despite austerity measures
- More consideration of how to boost domestic consumption
- New metrics for sustainable growth eg wellbeing not just GDP
- More vocational pathway system in UK: more business skills, languages, civics
- Match university courses and places with skills required

The changing global framework

2. Europe has shrunk as a percentage of the world's population from approximately 20% to 7% in one generation. The centre of gravity is moving east, though, conversely, the world as it develops is becoming more European. As small to middle sized countries we can achieve more together. The key challenges for Europe will be:
 - The rise of China
 - Decline of the US. Though remaining a world power, the hollowing out of its influence is expected to gather speed.
 - Enlargement of the EU. This has been rapid but inadequately digested.
 - Launch of the Euro. The Euro was the price the French extracted for Germany to agree to reunification, rushed through in the 1990's, but "birth defects" only now emerging.
3. All these challenges need a big institutional response from Europe, perhaps, some suggested, through a deepening of cohesion within a core of the Eurozone, with other EU countries forming less integrated outer rings. The question is who will lead a new strategic European vision in this changing global framework? Germany traditionally has provided the motor for Europe, and France the steering. But France is now less powerful, and Germany is uncomfortable taking the lead. Within Germany there are increased numbers changing their mind on Europe and becoming impatient that Germany should pay for what are perceived to be others' mistakes. Meanwhile the UK cannot be convinced on European integration, and may sign up to some supranational policies in its interest e.g. energy policy, but would balk on other issues.

"Germany is not ready to play a global role in foreign policy"

Europe: a crisis of identity?

4. Has Europe been "lost in transition," with internal problems leading to loss of external influence? A key challenge is how to ensure a European leadership that can operate effectively without being trapped by the complexity of the decision making. How we govern is being changed by the internet, the power of the market and the erosion of the state. NGOs, business, and groupings such as the G8, G20, are wielding increased power at expense of Parliamentary decision-making. There is a democratic deficit within European institutions: how can we create greater connectivity between European institutions (e.g. the European Parliament) and its constituents? Who does a citizen turn to if it doesn't like something about the EU? People can vote but do not feel they have a real choice on the future of Europe. But there is a trade off between efficiency and democracy (China/Europe). How can we resolve the balance between sovereignty and equality: should a small member state such as Malta have the same billing as, say Germany?

"What will Europeans die for?"

5. Does Europe need a clear identity or has it always intentionally and necessarily been an ambiguous concept and roof over many ideas? A straw poll at the Forum revealed that the majority of German participants considered the concept of “Europe” as something felt from the heart, whereas for the British, it was more a pragmatic relationship for political and economic mutual benefit. Perhaps a strength of Europe is its diversity and that there is room for both views. However, it is the financial markets that are pressing Europe to define and resolve its identity, but the financial crisis that is making the question so difficult to resolve.
6. There were three questions for Europe to address in terms of its identity:
 - Do we want to be more like a state e.g. some form of fiscal federalism?
 - What type of social contract do we want and how do we define the labour/capital relationship?
 - Who is in and who is out?
7. European countries lack cohesion and the strategic vision needed to answer these points. Perhaps Europe needs to focus more on improving social cohesion first than on changing European institutions.
8. Europe has been a success as a framework for peace, though we have to acknowledge its limitations and that peace does not solve the debt crisis. Without the euro Europe would still have been as vulnerable after the US crash in 2008, possibly more so. But the dialogue between Germany and Greece is now belligerent. There is no handbook for the strategic next step. This generation sees Europe as something it has been born into, not an artificial construct to keep the peace.
9. Do we need a cultural union in order to have an economic union? Can a transnational democracy work without a common language? How can we transcend nationalism? What will Europeans die for? What will bind us together? Does the public discourse lack sophistication? From a business perspective the discussion on Europe is perhaps too elitist and esoteric. Business is less interested in nation states, more likely to be more pragmatic and weigh up advantages to business versus disadvantages.
10. It is difficult to estimate the limits of the entity Europe is able to achieve, and to what extent it can take its people with it. Do we have to reinvent Europe and if so what is the goal? A straw poll at the Forum suggested that most participants felt that the eurozone would not survive in its current form, but most felt that the EU would (perhaps with some slight enlargement). Most still consider that, despite their problems, the concepts of Europe, and the European Union are a force for good.

Branding of Europe

11. The words most commonly used to describe Europe today at the Forum were: *uncertain, in crisis, introverted*. The most common words to sum up what participants would like Europe to be in the future were: *leading, united, happy*.
12. “Branding” Europe is a challenge, perhaps one that cannot be resolved. For Europe, no one “owns” the brand. It is more defined by others’ perceptions of us. All relationships are based on knowledge, interest and feelings. If you have a good product it is easier to sell, thus the internal and external distrust of and disillusionment with Europe as a result of the eurozone and integration create difficulties for the brand. However there are some common truths as to what Europe does or should stand for: prosperity, stability, rights, combating nationalism, and multilateral cooperation.
13. A further challenge is that European countries will not sacrifice national individuality to European branding. A strong brand for Europe may require a debranding of the component national brands. Yet region competes with nation – one could feel Scottish, British and European at the same time, or in different measures depending on the circumstance. The brand also needs clear communication and a narrative. Identity

needs the participation and involvement of people, not just politicians and nations.

The future of the Euro and Eurozone economies

“We are out of the zone where we have easy or cheap solutions to the Eurozone crisis”

14. Germany and the UK agree that resolution to the debt crisis is through austerity in the short term with long-term growth to be delivered through strong supply-side economics. But the steps to be taken are complex, particularly regarding the fate of the countries facing the most crippling debt. Political ambitions for Europe cannot wipe out its financial limitations. Markets demand swift action which it is difficult for governments to provide. Decision-making at speed and at scale is unwieldy. Great Power crisis management does not bode well for consensus. The key challenges faced are:
 - I. economic disparities. This has led to a North/South gap, a flight to nationalism adding to increased anti-German sentiment, and corresponding resentment in Germany.
 - II. political fragmentation and “Eurosclerosis”. There is increase friction in the EU 17 and the Eurozone 7, exacerbated by “the British question”. Britain ironically is marginalising itself in Europe, just at a time that Europe generally is becoming more British. An anomaly in that UK is one of the “big 3”, yet also at the margin.
 - III. Distrust. Leaders are largely powerless in the face of the markets. The markets are faceless and difficult to satisfy.
15. There is debate about success of the euro so far. It remains a relatively strong currency which has delivered results for many e.g. Germany, Arguably it helped Europe cope better with the crisis than the US. But the US has the advantage of acting and speaking as one country, with better labour mobility. And how can we really count it a success with 50-60% youth unemployment in some European countries today?
16. There has always been a multi-speed Europe: the trick is to construct a better mechanism for this. How can we orchestrate a Europe of different speeds, and how can we convey the complexity of interdependencies to the public?
17. Is Germany prepared to do what is necessary to save the euro? Some opinion polls state that up to 80% of Germans are against Eurobonds, and Eurobonds will only work with a degree of financial integration. The German constitutional court may rule formally that German taxpayers’ money is not to be used to help other nations reduce debt. Nor can the EU take German strength for granted: there are some worrying demographic trends such as a falling population, (possibly dropping from today’s 82 million to 70 million by 2050) and more debt than Italy. A possible way forward is a proper, managed default in Greece followed by structural reforms for Portugal, Italy, Spain, and root and branch reform. No country has done what Greece has been asked to do (enforce a public spending cut of 24%).

“Germany is prepared to pay a price, but maybe not the price”

UK relationship with Germany and the EU

“Germany shares a long border with France – but nothing else”

18. The UK/German relationship will change fundamentally, whatever happens next in the Eurozone. The UK is Germany’s key ally. Although Britain and Germany often “talk past each other”, much more unites them than separates them. If the euro disappears it will be up to the UK and Germany to spearhead a new vision. If a new Eurozone emerges it is likely to be less French and less southern European, more Berlin and less Paris. Europe will be likely to be more attractive to the UK than at present.
19. There is unlikely to be a rosy future for the UK outside Europe. There would be just as many barriers and regulations to trade, and less open access. Britain would become a “rock in the Atlantic” with no competitive advantage. To succeed it needs to be a gateway, politically and/or economically: that is its use to the US. Most of British business would say “yes to Europe”. But the UK population generally will remain Eurosceptic for a long time, particularly on monetary union, with deeply embedded historical and cultural notions that are difficult to erode. European leaders must be creative to sell a European concept to Britain that a wider Europe can also accept.

“Do we want to be strapped to a corpse?”

Meanwhile Britain should help constructively from the side-lines, such as work on reform of the CAP, and IMF structural funds.

Meeting the domestic challenges

20. Within Europe there is a crisis in growth; skills and jobs (25 million unemployed); an ageing population; and failing public services. Businesses are not investing in the required training or skills. European governments and businesses need to collaborate to meet the skills gap, for example, through a multilateral skills initiative. A third of Europe's population will be over 60 by 2050, though there will be some benefits too from the "silver economy".
21. For the UK, the key challenges over next few years will be:
 - I. economic: the fiscal deficit
 - II. political: the lack of trust in politicians, bankers and the media creating decreased trust in representative democracy and current leaders in society
 - III. cultural: the challenges of absorbing constructively a population up 3.7 million in 10 years, from a largely non-white demographic.
22. In Germany the issue of migration is a reverse problem, with a struggle to attract skilled workers. In both countries there is a decreased trust in a representative democracy and a need for more participatory democracy.

Shift to emerging powers

23. Europe needs to be a credible economic block in the face of China's re-emergence. It needs innovative financing programmes, foreign trade promotion schemes, to develop other markets such as Africa. Generally the UK will remain more service and US oriented, Germany more manufacturing and Europe-oriented. The emergence of middle classes in emerging powers offers huge opportunities for Europe to help with the infrastructure boom, business and financial services. The pace and scale of growth in China in particular has been phenomenal but the position is complex: it has an imbalanced economy, aging population, and poor institutional infrastructure. If China does well, the West can do well. But there will be bumps along the way.

European foreign policy

24. In many ways the EU has been an extraordinary success. The EU with NATO, OECD and others rebuilt Europe. The EU is also important in terms of soft power and as a model of democracy. However a weakened EU economy reduces soft power; all strength is drawn from the economy. There are challenges and great competition not just in economic terms but also in strategic terms. A weakened EU economy has an impact on military ability longer term. Europe needs to be more effective in putting forward a collective policy in some areas, such as piracy and climate change. That said, foreign policy is a jealously guarded national prerogative. The European External Action Service (EEAS) is not an alternative to nation states –it is adding value to and complementing individual states.
25. There is a consistent and credible need for strong EU powers; Libya had good and bad points. Libya though successful at this stage revealed thin EU capacity and the need for US support. The end of Gaddafi's regime was a positive result but there has been a negative impact on Chinese and Russian relations which is impacting on international policy towards Syria now.

External challenges

26. Resource scarcity (in part exacerbated by climate change) is the key challenge. A dangerous nexus of shortages around food/water/energy is brewing. Production volatility in the energy sector makes it difficult to forecast what will happen. Europe is dependent on other markets and emerging powers are increasingly trying to secure

"climate change is at least as dangerous as terrorism, WMD and the euro crisis"

*“climate change
fatigue: an effect
not an excuse”*

their resilience e.g. Chinese land deals in Africa.

27. Climate security intersects with poverty, health and other drivers of instability. Policy makers have to be interdisciplinary especially with scientists on climate change. Europe needs better risk management – an art and a science – in order to increase resilience. Climate change will become more of a threat to Europe by mid-century, but is already affecting supply chains, insurance costs. Policy makers will need to improve current systems of production and supply, not just seek out new resources. Climate policy will need to overlap with trade policy, such as working together to set energy standards on imports. The extent of the threat of climate change depends on the severity of the shocks and speed of trends, how well we manage the risks, and what others do outside Europe.
28. The squeezed middle, drop in real incomes and alienation from politics is undermining the ability of governments and European Union to move decisively on any European-wide climate policy. Future shocks will be problematic but may conversely help to kick-start greater awareness and thus action. Countries will need to mitigate the underlying Other external challenges include the global economic downturn, security concerns including terrorism and nuclear proliferation, and the increasing isolationism of US and its greater focus on the Asian “pivot” instead of Europe. There remains an unstable periphery of Europe with high expectations concerning the EU yet without the instruments necessary to enable such enlargement.
29. Iran remains a serious challenge, both in terms of instability on Europe’s borders and its potential nuclear programme. Iran remains a test case for what Europe can do in the world, but Iran knows that it can exploit the weaknesses in Europe as a result of a lack of leadership and economic pressures.
30. Many of the main international organisations are in crisis or serious need of reform, such as NATO, the UN, and the World Trade Organisation. In some ways the EU and others are able to work through the paralysis in some areas of international decision-making by increased use of more informal forms of dialogue e.g. G8/G20. However, these smaller forums may be good for speed of convening and high rhetoric, but lack the infrastructure and continuity for subsequent implementation.

Europe and Parliament

31. UK Parliamentarians bridge a spectrum of UK political views on Europe. Some rue the gradual extension of the remit of the EU beyond the 1975 vote on the Single Market. Committee stages in Parliament now involve a significant amount of scrutiny of European legislation. The job of most parliamentarians today is turning European legal requirements into national law. Many would argue that the policy of subsidiarity (whereby decision-making happens at the lowest level possible for efficient execution) goes increasingly unheeded in the European Union. There are differing opinions whether EU planning regulations, for example, are an example of an extra, burdensome level of meddling bureaucracy, or a sensible and transparent way to ensure a level playing field for all companies within Europe.
32. For some, the increased role of the EU and a perceived lack of accountability illustrate a democratic deficit between Parliament and Europe. Others see this as a myth, with the problem being an anti-European, cynical media and a lack of communication about the process and benefits of the EU. Certainly the UK, including Parliament, often talks of Europe as though it is not part of it, and this is an issue to address.

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