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“Will the Minister concede that it is crystal clear that the Greek situation, like those of Ireland and Portugal, does affect us? Does he also accept that the idea that is being put forward in the European Union Bill of not having a referendum on treaties that relate to the eurozone would mean that, although we are affected by the situation, we would not be allowed to have a referendum on it? Will he ensure that when the Bill returns to the House of Commons, there are amendments to ensure that there is a referendum on this matter, which affects us, so that the British people can vote on it?”

Bill Cash MP, House of Commons, 20 June 2011

www.europeanfoundation.org
‘The Liberal Democrats and certain elements in the Conservative Party are quite prepared to allow further European integration’

Bill Cash MP

In a debate on 24 May, the following Motion was put down by Mark Reckless MP: ‘That this House notes with concern that UK taxpayers are potentially being made liable for bail-outs of Eurozone countries when the UK opted to remain outside the Euro and, despite agreement in May 2010 that the EU-wide European Financial Stability Mechanism (EFSM) of €60 billion would represent only 12 per cent. of the non-IMF contribution with the remaining €440 billion being borne by the Eurozone through the European Financial Stability Facility (EFSF), that the EFSM for which the UK may be held liable is in fact being drawn upon to the same or a greater extent than the EFSF; further notes that the European Scrutiny Committee has stated its view that the EFSM is legally unsound; and requires the Government to place the EFSM on the agenda of the next meeting of the Council of Ministers or the European Council and to vote against continued use of the EFSM unless a Eurozone-only arrangement which relieves the UK of liability under the EFSM has by then been agreed.’

The Chairman of the European Foundation, Bill Cash made the following intervention in response to the debate:

Mr William Cash (Stone) (Con): The Government amendment—theys have not tabled it in their own name, but that is what it is, to a great extent—reflects badly on the integrity of the coalition. It has nothing whatever to do with the national interest. It also says a great deal about a commitment to Liberal Democrat ideology, and it is primarily about numbers. The Liberal Democrats, and certain elements in the Conservative party at a very high level, are quite prepared to allow further European integration. There are alternatives that would allow us to renegotiate the treaties and/or to say no, but they are simply not doing so.

Indeed, only a few days ago, the Prime Minister made it abundantly clear that the object of the coalition was to stabilise the economy. We understand that. The problem is that this is about numbers, not about principles or policy. There are many people in the Conservative party, outside and inside the House, who know that the arguments we are seeking to address in a reasonable fashion are in the interests of the country.

There is no question about that; the press outside believe it as well. The bottom line is that those of us who have relentlessly pursued the issue of the eurozone bail-out and have tabled many questions have invariably received what could reasonably be described as somewhat evasive answers.

Why should the British taxpayer or British hospitals and schools in our constituencies in any way underwrite what goes on in Portugal, or indeed any other country in the eurozone, particularly in times of austerity? It is nothing to do with the question, as suggested on a number of occasions, of qualified majority voting. This is completely contrary to the assertion made in reply to me today by the Financial Secretary. Article 122 is not compatible with the treaty and cannot possibly be used to support the European financial stability mechanism. Indeed, in their acquiescence, as shown in the amendment, the Government accept that the position is legally unsound. By saying that, they completely undermine their position. The Government know it and everyone knows it: it is not compatible with the treaty, and the Minister is wrong.

Mr John Redwood (Wokingham) (Con): My hon. Friend makes a powerful legal point. Does he agree that what these states in trouble need is a work-out, not a bail-out? We do not give alcoholics more drink; we cure the alcoholism. We should not give the over-borrower more borrowing.

Mr Cash: I could not agree more, and a course of Alcoholics Anonymous would not be out of place.

It is not just the European Scrutiny Committee that said the position was legally unsound or unlawful. Madam Lagarde herself, the prospective head of the IMF, said on this issue on 17 December:
“We violated all the rules because we wanted to close ranks and really rescue the eurozone.”

This is a stitch-up of the British people to maintain the so-called solidarity for further integration of a failing European project. That is what lies at the heart of the matter.

Why are people protesting and rioting all over Europe—in Madrid, Greece, Italy and the list is growing? What is not growing is the European economy and the reason is that the sort of policies needed—here and in all the other countries—to engender growth to deal with the deficit that the Government rightly say we have to address are impossible to achieve without generating the growth that is needed by repealing legislative burdens and generating policies that the integrationists in Europe simply refuse to allow. I would go further and say that the coalition in this country cannot achieve growth simply because the Liberal Democrats, as part of the coalition, have silenced the Prime Minister’s promise to repatriate burdens on business. It is called 56 votes and the keys to No. 10.

Jim Sheridan (Paisley and Renfrewshire North) (Lab): The hon. Gentleman might have heard, as I did, the Liberal part of the coalition talking clearly about what might happen “if” these loans are repaid, which suggests some ambiguity and concern within the coalition Government about whether the loans will be repaid. He will also recall that when the Conservatives were in opposition, they opposed the bail-out of Northern Rock. What has changed between then and now?

Mr Cash: Very simply, we now have a new coalition Government who have been seeking to achieve a reduction in the deficit, but they are not doing the accompanying things that are required in respect of the failing European project. That is the key problem. There are young people throughout Europe—and, for that matter, in this country—who simply cannot get jobs because companies will not take them on as a result of European employment regulations and because the deficit in the public sector cannot be stabilised without reasonable tax revenues from the small business community, which is being deliberately destroyed by the refusal to repeal the burdens that strangle it.

In the meantime, Germany has had unit labour costs of a mere 2% on average over the last 10 years, whereas the average for the rest of the European Member States is between 25% and 30%. It is an impossible situation, making it impossible for Europe—this entity that the integrationists believe in—to be able to compete with the BRIC countries. Germany invests in cheaper labour markets in Europe, with 67% of all its trade being with Europe, while 45% of all European trade with China is German.

The reality is that what we are debating today is symptomatic of a failure in the coalition Government’s strategy. We are not going to get out of this problem—I say this in all sincerity and in the great hope that people will listen at last—as long as we go on with this failing project. We will not get out of the mess. Today’s debate is an opportunity to get the issue straight. As Michael Stürmer, the chief correspondent of Die Welt argued, the dream is over and the Maastricht treaty has to be revised, but the coalition has no will to do so. The European bail-out of Portugal is a symptom of this deeper problem.

Claire Perry (Devizes) (Con): Given my hon. Friend’s very pessimistic view of the outlook for the eurozone, which many of us share, doesthenotfeel like giving just a tiny cheer that, thanks to the Chancellor’s efforts last December, we will take no further part in a permanent bail-out mechanism for Europe?

Mr Cash: I did not say anything adverse about it at the time other than that the opportunity was not taken, despite advice I tried to give, to use the treaty opportunity to say to other Member States that we would not agree to the treaty and would veto it unless we were taken out of the EFSM; we could then have brought forward the arrangements currently proposed for 2013. That proposition was eminently reasonable, eminently possible and €440 billion was available under the facility, which is in operation until 2013. In other words, the whole EFSM issue pivots on vanity and a determination not to unravel something that cries out for unravelling. It is not just; it is not right; it is completely irrational.

There are going to be further and deeper riots and protests. Worse still, I believe that the Government are contributing towards instability throughout Europe while claiming that within the time frame extending to 2013, bailing out the German and French banks—we should remember that that is what lies at the root of the problem—as well as Portugal and Greece will achieve stability. It will not. The argument is not only wrong, but totally—

Mr Deputy Speaker (Mr Lindsay Hoyle): Order.
The future of democratic control at Westminster

Jacob Rees-Mogg MP

Shortly after I was elected to Parliament last year I was nominated for the European Scrutiny Committee (ESC). The Chairman is Bill Cash, a man well-known to readers of *The European Journal* and someone who I have greatly admired since I first met him at the time of the debates of the Maastricht Treaty. The Scrutiny Committee’s remit is to examine any decision made by a minister which may lead to pan-European action. This includes plans for legislation or establishing a common position where the European treaties give the EU competence.

The volume of paper which comes through is more than even a die-hard Eurosceptic would fear. We have already issued our thirty-third report, the thickest of which contains eighty proposals for European action with the thinnest having about a dozen. Our scrutiny is done as diligently as possible but with limited powers. We may approve documents, refer them to a House of Commons committee or send them to the floor of the House for debate. Only the last of these has a chance of gaining the attention of the British body politic.

Compared to this an Act of Parliament has four major debates in the House of Commons before or after being considered by the House of Lords. Financial matters are subject to no time limit in the Commons and the Lords can dwell for as long as it likes on any non-financial matter. The most that can be devoted to considering a further extension of Europe’s powers is an hour and a half.

This ought to be a matter of deep concern. Europe is now said to be responsible for 60% of our new laws but with less than a quarter of the scrutiny. The ESC under Bill Cash’s robust chairmanship does its best to bring the steady erosion of our nation’s powers to Parliament’s attention. However, this is insufficient democratic control and will ultimately be rejected by the British people.

I am afraid for the United Kingdom

Roger Helmer MEP

An event recently took place which causes me to fear for the future of the United Kingdom. Of course I am aware that there are all sorts of arguments in favour of, and against, the Union of Great Britain and Northern Ireland, and I could write a long piece telling you why, on balance (and despite the unwarranted subsidies paid by England to Scotland) I come down overwhelmingly in favour. But I don’t feel the need to make that case — I just know it is right.

So what was the event that alarmed me?

My confidence was shaken by the alarming news that none other than Gordon Brown (Watch out! Here comes another mobile phone!) is being touted as the figurehead of the pro-union campaign.

Yes, Gordon is Scottish, but he’s a Scot who took the high road to Westminster, and he’d be up against a Scot who stayed behind and achieved an electoral miracle at home in Scotland. Gordon is grumpy, withdrawn, unclubbable, verging on paranoid, with a well known and furious temper. He had one chance to lead his party to electoral success, based on his record in Number 11 and Number 10, and he crashed and burned.

And Salmond? Clever, subtle, likeable, exuding an aura of confidence and success. Unlike Brown, Salmond is a people person. And Miliband thinks that Gordon Brown can front a campaign head-to-head against Salmond, and win? Tell me another one.

Don’t get me wrong. I disagree profoundly with Salmond’s politics. In general terms, he’s just another socialist tricked-out in nationalist trimmings. He still talks the talk on climate alarmism (although, on the plus side, his commitment to emissions reductions has been criticised). On Europe, he’s just plain confused. He thinks in terms of “a Scotland independent within Europe”, failing to see that that’s a contradiction in terms, and that whatever he dislikes about government from Westminster will be ten times worse with government from Brussels.

If, heaven forfend, Scotland ever became independent, he’d find that he’d added another “S” to the PIIGS — we’d have Portugal, Ireland, Italy, Greece, Spain and Scotland in the euro dog-house. I think that the Scottish people, broadly speaking, understand that in an independent Scotland, the RBS débâcle would have bankrupted the nation. Indeed they’d be worse off than the PIIGS — and more like Iceland.

So I think that Salmond will get his referendum, but like Nick Clegg, he may not like the answer. All we need is a credible campaign on the other side. And with that in mind, spare us Gordon Brown!
“Most people”, the Pridnestrovian Moldavian Republic’s burlesque propaganda website admits, “don’t know Transnistria exists”. For the sake of the survival of the Transnistrian regime, that’s probably a good thing.

Located on the left-bank of the River Dniester between Moldova to the west and the Ukraine to the east, the Pridnestrovskai Moldavskai Republic is one of the few remaining scars the Soviet Union left on South East Europe – a province suspended in a frozen conflict and stuck in a time warp where grand statues of Stalin and Lenin still dominate the skyline.

The province of Transnistria, much like the rest of the Republic of Moldova, is typical of many countries in South Eastern Europe for its rich ethnic mix, being home to diverse groups of Moldovans, Romanians, Ukrainians, Russians, Gagauz, ethnic Jews, Poles, Bulgarians and Roma. Across sovereign Moldova, Moldovans comprise around three quarters of the country’s 4.3 million citizens with ethnic Ukrainians and Russians making up much of the remainder – the bulk of who live in Transnistria.

Since 1956, Transnistria has been home to Russia’s 14th Army who has capitalized on its convenient strategic geographic position to garrison troops and stockpile munitions. The collapse of Soviet rule in Moldova had inspired hope that such troops would depart the state’s newly-liberated territory. On August 27th 1991 the Moldovan Parliament – comprised of MPs from across the country’s territory – passed a declaration calling on Russia to “to terminate the illegal state of occupation and annexation and the withdrawal of Soviet troops from its national territory”.

Despite a binding agreement between Moldova’s Prime Minister Andrejz Sangheli and Russia’s Viktor Chernomyrdin signed on 21st October 1994 in which the Russian Federation pledged to “relocate troops to other sites” and guarantee “the political settlement of the Transnistrian region of the Republic of Moldova”, the 14th Army remains in situ today.

It appears unlikely that Russian Government ever had any intention of honouring their word. More than two thousand troops Russian remain on Transnistrian soil; all but guaranteeing the survival of Smirnov’s government against all enemies, external or internal.

All Moldovan attempts to reclaim their sovereign territory have failed; the most notable being the little-known ‘War of Transnistria’ between March and July 1992 where the 14th Army strongly backed the attempts of local ethnic Russian militias in their attempts to prevent the territory from integrating with the newly-sovereign Republic of Moldova.

Since August 27th 1991, Transnistria has operated separately from Moldova as the Pridnestrovskai Moldavskai Republica – and as personal property of the family and friends of “President” Igor Smirnov. Smirnov (of which more later), who first came to Transnistria a few years before taking office as President in order to manage a large manufacturing firm on behalf of the USSR, is exactly the kind of jolly and cuddly-looking figurehead one has come to expect from authoritarian regimes over the years.

Today, the Russian Federation’s influence and grip on life in Transnistria is plain to see.

Only one a third of Transnistria’s forty-three Members of Parliament were actually born inside the province’s territory – the remainder originating from other disparate parts of the former USSR. President Smirnov himself hails from the town of Petropavlovsk-Kamchatsky in Russian province of Kamchatka Krai, some 7,500 kilometres from the Presidential residence in Tiraspol. Tellingly, of the seventeen members of Transnistria’s government banned by the Council of Ministers from entering the European Union under Council Decision 2006/96/CFSP only three appear to be Moldovan citizens while fourteen are Russian nationals, many of whom are former KGB agents and Red Army commanders.

Clearly not untouched by Western public relations techniques, the Smirnov regime’s interactions with the outside world are largely limited to, an at times hilarious website lauding the province’s “free and fair” elections, the “rule of law” and a commitment to “minority ethnic rights”.

The reality is somewhat different.

In July 2004 the Transnistrian authorities forcibly closed four of the six schools in the province teaching the Moldovan language (a dialect of Romanian) using the Latin rather than Cyrillic alphabet. While these schools have now reopened, teachers and parents of children attending the schools have been subjected to continued harassment from the security services. Latin-script schools have no recourse to state education funding and qualifications obtained from them are not recognised by Transnistrian universities.

On an economic level, the overwhelming majority of Transnistria’s wealth is concentrated in the hands of the Sheriff Company, a sinister outfit headed by a cabal of former special services chiefs and President Smirnov’s favourite sons which has been directly linked to smuggling, people trafficking and money laundering.

The Smirnov/Sheriff cabal takes full advantage of
Transnistria’s status as a landlocked province, the country enjoying full use of the Port of Odessa on Ukraine’s south coast. In declaring the final destination of any imports handled to be Transnistria, goods passing Odessa are nominally still “in transit” and thus avoid inspection or scrutiny from Ukrainian customs officials.

On an amusing note, the European Union Border Assistance Mission figures show that enough chicken meat is imported into Transnistria for each resident to consume an average of 90kg of the foodstuff each year. In Germany, the annual figure is 10kg per head. The reality for Moldova – Europe’s poorest country with average annual earnings of less than $US2000 – isn’t so funny. Figures estimate that the total financial cost of fraudulent imports passing through Transnistria each year is equivalent to double the country’s annual GDP.

The repeated efforts by the Governments of Moldova and Ukraine to tighten controls on goods either lost “in transit” or smuggled over Transnistria’s borders have failed, largely as a result of Russian-backed threats from Smirnov’s governments to cut off electricity supplies to its neighbouring regions. As the USSR’s former regional industrial heartland, Transnistria’s power plants produce more than ten times as much electricity as its own resident population is able to consume. One could not find a better microcosm of diplomatic realities of the global energy crisis than Transnistria’s (population: 500,000) ability to hold Moldova (population: 4.3 million) and Ukraine (population: 46 million) to ransom on this issue.

Media outlets are almost exclusively owned by Smirnov’s administration, the exceptions being those operated by Sheriff. According to a report from Reporters Without Borders it is forbidden to bring Moldovan newspapers into the province and the opposition Glas Naroda newspaper has been closed down for engaging “anti-state activity.”

Besides the suppression of the free press, widespread financial impropriety and the evils of people trafficking, the situation in Smirnov’s Transnistria has further implications for global and regional security. If the Putin and Medvedev Government is to gain the international credibility it evidently craves, it is on this issue that Russia must take immediate action.

Since the collapse of the USSR, the former Soviet weapons stockpiles in Transnistria have been almost entirely neglected by Russian. No formal audits have been carried out by Russia to assess the types of amount of weapons stored in Transnistria and no real attempts been made to remove any remaining weapons from this South East European province. As a result of this, numerous Soviet weapons – from handguns to nuclear suitcase bombs – have simply gone missing from Transnistria.

The Organisation for Security and Cooperation in Europe (OSCE) estimates that between 20,000 and 40,000 tonnes of Soviet-era weaponry remain in Transnistria at sites like the Kolbasna Military Depot which remain largely off-limits to international inspectors. Informal estimates from the organization suggest that explosives stored in Kolbasna alone have a force equivalent to twice that of the Hiroshima bomb.

In addition to the stockpiles of weaponry remaining in the territory, well-calibrated Soviet-era Transnistrian factories continue to churn out low-level assault rifles, mines and mortar bombs – chiefly for Russian clients. The Transnistrian authorities bitterly deny that arms are manufactured on their territory, going as far as to invite French television crews to scrupulously-organised tours of gargantuan factories “producing knives and forks”.

Weapons directly traced back to Transnistria have been found in use in Iraq, Afghanistan, Abkhazia, South Ossetia and Nagorno-Karabakh, to name but a few of the global conflicts fuelled by Tiraspol. Little is known about how these weapons leave Transnistria although the OSCE has identified smuggling (uninspected) through the Ukrainian port of Odessa, across the 500km Transnistria border and by air from the former Soviet air base in Tiraspol as the most likely routes.

The lack of Russian action to stem the flow of these weapons is even more perplexing given the discovery that weaponry originating from the province has been used against the country’s own troops in Chechnya and the North Caucasus.

The reason for Russia’s continued presence on Transnistria can likely be linked back to power games reminiscent of the Soviet era.

Just as Russia’s intervention into South Ossetia ended the possibility of Georgian membership of NATO in the medium-to-long term, their ongoing presence in Transnistria ends any hopes the Moldovan government may have of moving towards eventual European Union membership which has been promised to all countries in South East Europe. More importantly to Russia, by ensuring the survival of a sympathetic pro-Kremlin “buffer zone” the prospect of Ukrainian EU membership is simply out of the question – a seemingly wise decision from Moscow’s perspective given that even elements of President Viktor Yanukovych’s Party of the Regions have begun making decidedly pro-Brussels noises in recent times.

If Russia’s wish to come in from the cold and be taken seriously by the international community is genuine, the Kremlin must acquiesce to the demands of NATO demands for the country to “withdraw its illegal military presence [including munitions stockpiles] from the Transnistria region of Moldova”.

In helping the Russian Federation to achieve this treaty obligation, technical, economic and political support from the European Union, United States and the British Conservative-led government would surely be forthcoming.
It has already been reported that David Cameron and other EU leaders’ call for the EU 2012 budget to be cut or at least to be frozen fell on deaf ears. The calls in the letter to the President of the European Commission, for “payment appropriations should increase, at most, by no more than inflation over the next financial perspectives” are set to have the same fate.

Last November, the European Commission adopted a Communication on the EU budget review, starting up the discussion on the financial framework post 2013. The Commission presented its ideas on how to reform the EU budget and is now seeking the Council and the European Parliament’s views on it. On 8 June, the European Parliament voted on its position for the next multiannual financial framework negotiations.

The European Parliament is calling for a five percent increase in the next multiannual financial perspectives, for a system of own resources, meaning a system of EU direct taxes, and the abolition of national rebates. The European Parliament’s position reflects the Commission Communication on the budget review, as it is also the Commission’s plan to introduce EU direct taxes and scrap the UK rebate. The European Parliament’s position is seen as realistic.

The European Parliament has criticised the existing funding system (national contributions), which, according to the MEPs “places disproportionate emphasis on net-balances between Member States thus contradicting the principle of EU solidarity, diluting the European common interest and largely ignoring European added value”. The European Parliament recalled that Article 311 TFEU provides that “The Union shall provide itself with the means necessary to attain its objectives and carry through its policies.” It wants, therefore, to replace “the current national contributions with genuinely European resources.”

The European Parliament has called for the introduction of a 5% increase in the next multiannual financial framework (MFF) for 2014-2020, whereas several Member States, including the UK, are calling for any increase to be limited to the rate of inflation. The MEPs believe “that freezing the next MFF at the 2013 level, as demanded by some Member States, is not a viable option.” The ECR group voted against such proposals and its chairman, Jan Zahradil MEP, said: “The ECR is the only mainstream group that is listening to taxpayers who reject EU taxes and who want Brussels to spend money with greater efficiency.” In fact, it is important to mention that several Liberal Democrats MEPs voted in favour of scrapping the UK rebate and introducing EU direct taxes. They voted, therefore, against their government’s policy.

Unsurprisingly, the main focus of the Commission EU budget review has been the reform of EU financial resources. The European Union has its own resources to finance its expenditure, which are collected by the Member States and then transferred to the EU budget. However, the Commission wants to replace some or all of the existing resources by direct EU taxes and that idea has now been re-endorsed by the MEPs.

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At a time of severe strain on the majority of Member States’ public finances, where governments are reducing public spending and implementing austerity measures, and when Member States are demanding the EU’s next multiannual financial framework to be frozen, for the European Parliament to come up with such proposals is a complete joke. The European Parliament’s position does not reflect economic and budgetary constraints at the national level. As Richard Ashworth MEP, noted “One day national governments are being told by Brussels to cut their deficits and the next they’re being asked to pay tens of billions more to the EU.” However, according to the European Parliament “the solution to the crisis is more and not less Europe.”

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Commission has presented a “non-exclusive list” of possible new EU own resources: EU taxation of the financial sector, EU revenues from auctioning under the greenhouse gas Emissions Trading System, EU charge related to air transport, EU VAT, EU energy tax, EU corporate income tax, and the MEPs took note of it.

A share of a financial transaction or financial activities tax is, therefore, one of the options for the EU’s new own resources. The European Parliament considered “that an FTT could constitute a substantial contribution, by the financial sector, to the economic and social cost of the crisis, and to public finance sustainability” and it believes “that an FTT could also contribute partially to the financing of the EU budget...” The Commission has noted “There could also be a perceived national imbalance as, due to network externalities, financial asset transactions are highly concentrated in certain markets.” In fact, if such proposals go ahead the UK could become the main net contributor to the EU budget.

According to the Commission “The introduction of new own resources would mirror the progressive shift of the budget structure towards policies closer to EU citizens and aiming at delivering European public goods and a higher EU added value.” Citizens are already facing austerity measures therefore the last thing they need is an EU tax, which will be an additional burden. If such proposals go ahead, they would end up paying more for the EU budget than presently, Brussels should reduce Member States contributions by cutting the budget, not by introducing EU direct taxes to raise money. If Brussels is allowed to levy direct taxes, Member States would lose control over how much they send to Brussels. It is for national governments to levy taxes and not for Brussels. As Bill Cash said “The people who decide the taxation of this country exclusively are those in the Westminster Parliament on behalf of the voters of the UK.” Such proposals would entail a major transfer of powers to Brussels, which would be able to raise its own funds. This would encroach on national tax sovereignty. The UK must, therefore, veto such proposals.

It is important to recall, under the provisions concerning the system of own resources, the Council acting unanimously on a proposal from the Commission through the special legislative procedure (consultation) shall adopt a decision setting up provisions concerning the system of own resources of the Union. The European Parliament must be consulted, but the Council is not bound by the Parliament’s opinion. The Lisbon Treaty has provided that such “decision shall not enter into force until it is approved by the Member States in accordance with their respective constitutional requirements.”

According to the European Commission the reform of the EU financing could include “the progressive phasing-out of all correction mechanisms”, meaning the UK rebate. Unsurprisingly, the Commission wants to scrap the UK rebate in the next Financial Perspectives. The EU budget commissioner, Janusz Lewandowski, has already said, “The rebate for Britain has lost its original justification.” The European Parliament has endorsed the Commission position and called “for an ending of existing rebates, exceptions and correction mechanisms.” David Cameron and George Osborne have already made clear that the UK is “not going to give way on the abatement [rebate].”

In 2005, Tony Blair gave up £7bn of the UK rebate in return for CAP reform and there is no serious reform on the way, and such move has already cost the UK economy billions of pounds. The government is under increasing pressure from various Member States and from the European Commission for the rebate to be abolished. The Government must therefore put its foot down and stick to its policy that the rebate is not negotiable. The UK has the right to veto the adoption of the financial framework, so it has a strong negotiating position.

The Commission has made clear that it is planning to introduce new financial instruments. According to the European Commission, the EU budget should be used “to leverage both funding and financing to support strategic investments with the highest European added value.” The Commission wants to put in place a “more general use of the EU budget as an instrument to guarantee loans and bonds.” The Commission confirmed, in the abovementioned Communication, its willingness to use financing instruments such as EU project bonds. The European Parliament also calls on the Commission “to present a fully fledged proposal on EU project bonds.” One could wonder which legal basis the Commission is planning to use. Such plans will have fiscal implications for all EU Member States, as they will guarantee them.

According to the European Commission “the current budget has proved too inflexible to meet the pressure of events”, so the Commission wants to change the extent of the possible changes in the direction of spending as well as the procedures by which the European Parliament and the Council exercise scrutiny over such changes. The Commission is suggesting setting up an obligatory figure (5%) to increase margins so that “new priorities” can be taken into account. The Commission has also suggested other ways to increase budgetary flexibility such as “A reallocation flexibility
to transfer between headings in a given year, within a specific limit” a “possibility to transfer unused margins from one year to another…” as well as “Freedom to front or backload spending within a heading’s multi-annual envelope, to allow for countercyclical action and a meaningful response to major crises.” So much for budgetary discipline. The European Parliament noted “the Commission’s proposal to establish a fixed percentage for margins” but believes “that this option could provide better flexibility only if the future ceilings were set at a sufficiently high level, allowing for such additional room for manoeuvre.” According to the European Parliament “flexibility below the ceilings should be enhanced in all possible ways” hence, it welcomes the Commission’s proposals put forward in the budget review.

Moreover, the European Parliament calls for a ‘global MFF margin’ to be created, which will consist of “unspent margins as well as the decommitted and unspent appropriations (commitments and payments) of the previous budgetary year” According to the European Parliament “unused margins, de-committed and unused appropriations (both commitments and payments) in one year’s budget should be carried over to the next year and constitute a global MFF margin to be attributed to the different headings” consequently the MEPs believe “that the money allocated to the EU budget should only be spent in this context and not returned to the Member States, as is currently the case” This is unacceptable, unspent EU money must be returned to national governments.

The European Parliament is also calling for “an additional ‘reserve margin’ below the own resources ceiling and above the MFF ceiling” to address “the risks of defaults linked to the loan guarantees of the European Financial Stabilisation Mechanism and the Facility providing medium-term financial assistance to non-Euro area Member States’ balances of payments, as well as a possible intervention of the EU budget in the European Stability Mechanism after 2013.” Such suggestion is unacceptable, if there is an intervention of the EU budget in the European Stability Mechanism after 2013, this would mean that the UK would continue liable for eurozone Member States’ bailouts. It is important to recall, at the UK’s request, the EU leaders agreed that Article 122 (2), once the new mechanism enters into force, would no longer be needed to safeguard the financial stability of the euro area.

Under Article 312 TFEU, the Council, acting unanimously, shall adopt the multiannual financial framework, after obtaining the consent of the European Parliament. The consent of the Parliament is, therefore, compulsory for the adoption of the MFF by the Council. The European Parliament may accept or reject the proposal but cannot amend it. It is important to recall that the main controversial issue during the negotiations of the EU 2011 Budget was the MEPs demands for a greater say in future negotiations on the EU’s multi-annual financial framework. In fact, the European Parliament has only accepted the EU 2011 budget in exchange of having a greater role in the future negotiations. The MEPs recalled that the Lisbon Treaty provides in Article 312 “Throughout the procedure leading to the adoption of the financial framework, the European Parliament, the Council and the Commission shall take any measure necessary to facilitate its adoption.” Hence, according to the European Parliament “the three institutions must agree on a working method, making clear how to put this into effect.” The European Parliament has suggested having three MEPs participating in all negotiations, as observers. But, Member States, including the UK, Netherlands and Sweden, have been against such demands and pointed out that they go beyond what is foreseen in the Lisbon Treaty. The then Belgium EU presidency and the next four EU Member States to hold the rotating presidency agreed on a political declaration, committing to ensure the European Parliament participation in the EU’s multi-annual financial framework negotiations. This will grant MEPs a greater say in the upcoming negotiations. Unsurprisingly, the European Parliament welcomed the commitment of the Council Presidencies and urged “the Council and the Commission to comply with the Treaty and to make every effort necessary to swiftly reach an agreement with the Parliament on a practical working method for the MFF negotiating process.” The European Parliament also reiterated “the link between a reform of revenue and a reform of expenditure and demands, accordingly, a firm commitment by the Council to discuss in the context of the MFF negotiation the proposals on new own resources.” The MEPs may reject the multiannual financial framework if their demands are not met. However, it is important to mention that under Article 312 (4) TFEU if the financial framework has not been adopted “by the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted.” Such an outcome would be welcomed.
It is well known that the Lisbon Treaty has given the EU competence to legislate in the general area of criminal law. And now, it has become crystal clear that the Commission is seeking to harmonise criminal law in the Union. In fact, the European Commission in the last few weeks took several steps towards this aim.

On 26 May, the European Commission adopted a Communication entitled “On the protection of the financial interests of the European Union by criminal law and by administrative investigations.” Presently, Member States have their own procedural rules and decide whether to initiate criminal investigations into fraud and other crimes against the EU financial interests. Hence, criminal investigations into fraud are initiated by Member States’ prosecution services acting, obviously, under their respective criminal law. However, the Commission noted “the level of protection for EU financial interests by criminal law still varies considerably across the Union.” According to the Commission there is a “lack of equivalence of criminal law protection throughout the Union.” In order to change the existing situation, the Commission “will rely on the Lisbon Treaty” which, as the Commission stressed, has set “a clear framework for the EU to reinforce its action in the field of criminal law.” The European Commission, in this Communication, indicated its intention to increase the level of harmonisation of criminal law across the Union. It stressed “The Union should aim at an effective, proportionate and dissuasive level of protection of its financial interests through speedy criminal procedures and sanctions across the Union, increasing their deterrent effect.” According to the Commission definitions of criminal offences, such as embezzlement or abuse of power, vary widely among the Member States as well as the sanctions applicable to those offences. Unsurprisingly, the Commission intends to make use of the competences granted by the Lisbon Treaty, and “strengthen substantive criminal law” by establishing rules concerning the definition of criminal offences, such as embezzlement and abuse of power.

In fact, the Lisbon Treaty introduced a new provision, which allows the Union to define certain criminal offences and set minimum sentences for those found guilty of them, overriding Member State criminal law and sentencing policies. Article 83 (1) provides that the Union may define criminal offences and sanctions in areas “of particularly serious crime with cross border dimension”: terrorism, illicit arms trafficking, money laundering, corruption, counterfeiting of means of payment and computer crime. Some of these areas of crime are quite broad which might lead the EU to regulate offences without a cross border dimension. The European Parliament together with the Council, acting by QMV, thorough the ordinary legislative procedure, may adopt directives establishing minimum rules concerning the definition of “criminal offences and sanctions” in the areas abovementioned. Furthermore, such list of areas of crime is not exhaustive as this provision provides that the Council, acting unanimously after obtaining the consent of the European Parliament “may adopt a decision identifying other areas of crime that meet the criteria specified in this paragraph.”

The European Commission has also urged Member States and the European Parliament to agree on “new tools” to combat fraud. The Commission wants to strengthen the European bodies so they can deal with criminal investigative measures. According to the Commission, in order to protect its own financial interests, Brussels needs to strengthen the Eurojust role. Presently, Eurojust is unable to initiate criminal investigations and to prosecute crimes on its own. However, the Lisbon Treaty expressly provides that Eurojust may have the power and the responsibility to initiate criminal investigations and also the power to propose the initiation of prosecutions even though the prosecution would be then conducted by the competent national officials. This provision (Article 85 TFEU) implies a major take over of the responsibilities of national public prosecutors. However, the Commission is planning to put forward, in 2012, a proposal for a Regulation providing Eurojust with powers to initiate investigations. Such proposal would be subject to the ordinary legislative procedure and QMV in the Council. The European Commission also reiterated its plans to create a European Public Prosecutor’s Office (EPPO), as foreseen in the Lisbon Treaty, to combat crimes affecting the financial interests of the Union. The Treaty also provides for the extension of powers of the EPPO to include “serious crimes having a cross-border dimension.” The EPPO jurisdiction would prevail over the jurisdiction of the Member States enforcement authorities. Under the Coalition Government Agreement “Britain will not participate in the establishment of any European Public Prosecutor.” The UK is very likely to opt out from a proposal establishing the EPPO. The establishment of the
European Public Prosecutor’s Office requires unanimity in the Council and consent of the European Parliament. Hence, the UK could veto such proposal. However, the veto of one or more Member States will not be enough to stop its creation. If the European Council is unable to find an agreement, nine Member States may establish ‘enhanced cooperation’, on the basis of the draft regulation, in question. Hence, the non-participating States cannot prevent the others to go ahead with further integration.

On 6 June, the European Commission adopted a Communication entitled “Fighting Corruption in the EU.” The Commission noted “the implementation of the anti-corruption legal framework remains uneven among EU Member States and unsatisfactory overall” and recall “The Treaty on the Functioning of the European Union recognises that corruption is a serious crime with a cross-border dimension which Member States are not fully equipped to tackle on their own.” The Commission is, therefore, planning to propose, this year, a revised EU legal framework on confiscation and recovery of criminal assets, and in 2012 it will present a strategy to “improve criminal financial investigations in Member States.” The Commission has also announced that it will conduct “an assessment of the protection of persons reporting financial crimes” and then will consider “further action at EU level.”

The Commission pointed out that presently “there is no mechanism in place monitoring the existence, and assessing the effectiveness, of anti-corruption policies at EU and Member State level in a coherent crosscutting manner.” Hence, the Commission has decided to put in place a specific EU monitoring and assessment mechanism. The Commission argues it has a political mandate, given by the adoption of the Stockholm Programme, “to measure efforts in the fight against corruption and to develop a comprehensive EU anti-corruption policy.” Moreover, the Commission pointed out “Article 83 of the TFEU lists corruption as one of the particularly serious crimes with a cross-border dimension.” Hence, the European Commission adopted a decision establishing an EU Anti-corruption reporting mechanism. The so-called EU Anti-Corruption Report, accompanied by country analyses and recommendations for each Member State, will be published every two years, starting in 2013.

The mechanism will periodically assess anti-corruption efforts in all Member States. The Commission believes it “will create an additional impetus for Member States to tackle corruption effectively, notably by implementing and enforcing internationally agreed anticorruption standards.” The Commission is expecting to obtain information not only from Member States but from different sources, such as existing monitoring mechanisms (GRECO, OECD, UNCAC), independent experts, the European Anti-Fraud Office (OLAF), Europol and Eurojust, the European Anti-Corruption Network, and civil society. Once again, the Commission is applying “one size fits all approach.”

It is important to recall that the Lisbon Treaty enshrines the principle of mutual recognition of judicial decisions in criminal matters. Under Article 82 (1) (a) the Council, acting by QMV, and the European Parliament, through the ordinary legislative procedure, may adopt measures to “lay down rules and procedures for ensuring recognition through the Union of all forms of judgments and judicial decisions.” Such measures affect fundamental issues of sovereignty and will be adopted by QMV rather than unanimity. This provision implies mutual recognition of non-custodial pre-trial supervision measures in the investigation procedure, mutual recognition of final judgments which implies mutual information on convictions, enforcement of criminal penalties, enforcement of non-custodial measures, suspended sentences, and mutual recognition of disqualifications. Hence, this provision prevents any judgment from the courts of another EU Member State from being challenged in the UK courts, with grave consequences for individuals, business and UK legal system. The Member States have different criminal systems, some Member States have low standards of rights for the accused, therefore mutual recognition raises concerns of fairness. Yet, the solution, for Brussels, lies in harmonising criminal procedures. Under Article 82 (2) the Council acting by QMV together with the European Parliament through the ordinary legislative procedure may adopt directives establishing minimum rules to “facilitate mutual recognition of judgments and judicial decisions and police and judicial cooperation in criminal matters having a cross-border dimension.” Hence, this provision represents a new EU competence to adopt measures concerning criminal proceedings. The Union is now allowed to adopt minimum rules concerning the rights of individuals in criminal procedure. These so called minimum rules apply to cases with cross border implications but they are likely to affect pure national cases. This provision stresses that the adoption of minimum rules “shall take into account the differences between the legal traditions and systems of the Member States.” However, the experience tells us that the Commission has not taken into account the special nature of UK common law. The Commission puts forward proposals in complete disregard of the different legal systems within the EU, particularly the common law system. In fact, this provision might raise concerns over limitation of the right to trial by jury and habeas corpus.

It is important to mention that in November 2009 the Justice and Home Affairs Council adopted a Resolution on a roadmap for strengthening procedural rights of suspected or accused persons in criminal proceedings. The UK loses protection every time it decides to opt in, as it will be subject to the ECJ and the European Commission enforcement powers. However, in the meantime, the Coalition Government has already decided to opt into several proposals, including the draft directive creating the European Investigation Order. The government has also opted into the directive on the right to interpretation and translation of criminal proceedings as.
well as into the Draft Directive on the right to information in criminal proceedings, ceding jurisdiction in that area to the European Court of Justice.

On 8 June, the European Commission presented a proposal for a directive on the right of access to a lawyer in criminal proceedings. The proposal intends to “approximate” Member States’ procedural rules regarding the time and manner of access to a lawyer for suspects and accused persons and for persons subject to an EAW, aiming at enhancing mutual trust.

The draft proposal promotes the application of the Charter of Fundamental Rights, particularly Articles 47 and 48, which provide for the right to a fair trial and defence, by building upon Article 6 ECHR, which enshrines the right of access to a lawyer. There are several rulings of the European Court of Human Rights (ECHR), which have clarified the scope of these provisions. In fact, the draft directive reflects the ECHR jurisprudence.

The present draft directive is not intended to regulate the issue of legal aid, article 12 states “This Directive is without prejudice to domestic provisions on legal aid, which shall apply in accordance with the Charter of Fundamental Rights of the European Union and the European Convention on Human Rights.” Hence, Member States may continue to apply their domestic provisions on legal aid, however they must be in line with the Charter, the ECHR and the case law of the European Court of Human Rights.

The Commission is planning to present a legislative proposal on legal advice and legal aid by the end of the year. One could say that the Commission will try to harmonise the different rules governing legal aid, which differ from one Member State to another. In fact, any proposal on legal advice and legal aid is likely to increase the UK existing obligations under the ECHR as well as raise the UK legal aid expenditure.

Originally, the procedures and remedies for breaches of Community law were a matter for Member States. The ECJ in order to ensure the judicial protection of EU rights has developed two principles, the principle of equivalence and the principle of effectiveness concerning the adequacy of national remedies. The Lisbon Treaty codifies the ECJ’s principles of effectiveness and equivalence. Obviously, this provision will have a major impact on Member States, as the requirement to provide for sufficient remedies is primary law. Hence, the Member States have to establish provisions within their rules of procedure, which provide effective remedy for potential violations of rights conferred by Union law. Moreover, Article 47 (1) of the Charter of Fundamental Rights also provides “Everyone whose rights and freedoms guaranteed by the law of the Union are violated has the right to an effective remedy before a tribunal in compliance with the conditions laid down in this Article.” Under the draft directive Member States are required to ensure that a suspect or accused person is entitled to an effective remedy where their right of access to a lawyer has been breached.

This Directive would have to be implemented according to the fundamental rights and principles recognised by the Charter. In fact “Member States should ensure that the provisions of this Directive, where they correspond to rights guaranteed by the ECHR, are implemented consistently with those of the ECHR and as developed by case law of the European Court of Human Rights.”

It is important to mention that the UK has a Protocol on the Application of the Charter (Protocol 30), which states that the UK courts or the Court of Justice may not declare UK law incompatible with the Charter. However, the Protocol is not an opt out from the Charter, and will not prevent the UK Courts of being bound by the ECJ interpretations of Union law measures based on the Charter. Moreover, if the ECJ recognizes a fundamental right as a general principle of EU law, the UK is legally bound by it, irrespective of the Charter and the Protocol 30. It is important to recall that Article 6(3) TEU provides that fundamental rights, as guaranteed by the ECHR constitute general principles of EU law.

The Council’s Resolution on a Roadmap for strengthening procedural rights of suspected persons in criminal proceedings also asked the Commission to present a Green Paper on pre-trial detention. The Stockholm Programme also calls for a “more efficient principle of mutual recognition in the area of detention.” The European Council also asked the Commission to consider “alternatives to imprisonment, pilot projects on detention and best practices in prison management” taking into account “possibilities offered by the Lisbon Treaty.” The European Parliament has been calling for the creation of an EU criminal justice area, which could be developed, according to the MEPS, by “minimum standards for prisons and detention conditions and a common set of prisoners’ rights in the EU.” Moreover, according to the European Parliament “EU funding should be provided to build new detention facilities in Member States affected by prison overcrowding.”

Hence, the Commission has decided to address detention conditions and adopted, on 14 June, a Green Paper on the application of EU criminal justice legislation in the field of detention. The Commission wants to introduce “minimum standards in respect of provisions on review of the grounds of pre-trial detention and/or statutory maximum time limits on pre-trial detention” aiming at enhancing mutual confidence between Member States.

The Council of Europe adopted in January 2006 the European Prison Rules, which are not biding but provide “comprehensive guidance on the running of prisons and the treatment of prisoners.” The Commission is considering adopting “equivalent prison standards for the proper operation of the mutual recognition instruments.” The Commission is, therefore, ignoring the principle of subsidiarity. The problem lies in the mutual recognition, which should not have been introduced in the first place. And now, Brussels is moving towards harmonisation of criminal law, and is affecting the whole UK justice and criminal law system.
Ignore the doom mongers and naysayers – improve international relations by bringing Turkey in from the cold.

Ever since 1987, the European Union have been dangling the carrot of EU membership in front of Turkey while simultaneously keeping it far out of reach.

In truth, EU membership is the only device by which Turkey can be forced to improve its human rights record. But the integration of Turkey would not simply follow a humanitarian moral argument. Giving a seat at the table to a country with 90% of its population registered as Muslim would be a game changer in international diplomacy. No longer would the moderate Muslim world consider itself excluded from international policy developments.

However, the biggest obstacle to EU membership for Turkey is the same thing that stops the much-needed reform of many policies like the Common Agricultural Policy. Namely, the axis of power held in France and Germany. Delay after delay is created to ensure accession remains essentially a pipe dream. Although the Turkish government attempt to put on a brave face, the populace can see what is happening and public opinion on joining the EU has dive-bombed from 73% in 2004 to just 38% in 2010. Instead, support for closer ties to Muslim countries is increasing, which could lead to more repressive laws and reduced freedom for women.

Just last week the government in Turkey replaced its Ministry for Women and Family with the new Ministry of Family and Social Policies. Prime Minister Recep Tayyip Erdoğan chose to announce the change on June 8th, a mere four days before the general election, raising suspicions that it was timed to attract support from hardliners with more traditional views on women. Initial hopes that this was simply an aesthetic name change have proven to be unfounded.

A study by the Hacettepe University revealed that a shocking 42% of Turkish women experience physical or sexual violence inflicted by a relative at some point in their life. Considering this, it seems scandalous that the government would chose to remove the focus on women’s rights that the Ministry for Women and Family provided. The new ministry will deal with issues of concern to a variety of groups including the aged, the disabled and families of soldiers in addition to women and children. This split in focus cannot possibly be beneficial for Turkey’s female population.

While the government must be applauded for passing reforms designed to protect women, they are rarely enforced and often the institutionalised sexism prevalent in Turkish society means police and prosecutors ignore the claims of abused women. Anecdotal evidence suggests women who seek help from police are often sent home without receiving any support or assistance, creating a vicious cycle of violence.

By creating a timeline for accession to the EU and linking it to real, enforced improvements in human rights Turkey can achieve a fair and equal society. The alternative is to allow it to move closer to other, more radical Muslim nations who are unlikely to offer any support for the humanitarian reforms which are needed.

As expected, the general election on June 12th was a landslide. The Justice and Development party (AKP) won 49.9% of all votes, giving it a strong majority of 325 MPs out of 550. Turkey suffered from massive mismanagement under previous governments, but the AKP have had a relatively successful two terms leading to strong public support. They must not kowtow to the elements of society who would prefer women to be stripped of their recently acquired rights.

To get an impression of public opinion, I asked my Turkish Friend, Ebru, what the general feeling is in Turkey at the moment. Her response indicated strong disillusion with the European Union. They believe their country is more than qualified to be a member, but is refused entry due to the fact it is a Muslim nation. In addition, their economy is strong and their export industry is booming, so for the last five years support for accession to the EU has been dropping dramatically. Considering the perilous financial situation of nearly all of the Member States, adding a strong economy with booming industry could be a huge boost for the union.

The EU has a variety of problems which it thinks it can solve by increasing its powers. Instead, it should focus on reducing tension between the West and the East by concentrating on delivering accession to Turkey as soon as possible.

If and when the EU chooses to invite Turkey to become a member, they may not get the response they expect. That would be a hammer blow for both human rights and women’s rights in Turkey.
Austerity and Culture in Europe: A pragmatic approach
Emma McClarkin MEP

We need to be realistic. Across the EU, national governments are looking at their deficits and public spending. They are concluding, and rightly so, that painful and unfortunate cuts must be made – I repeat, must be made in order to balance budgets and reduce national debt.

The European Council agreement earlier this year, to restrict the rise in the EU's budget to 2.9% – excellently negotiated by Prime Minister David Cameron – is a clear indication that the people of Europe do not want to see the EU blatantly ignore the difficult fiscal situations they face in their home Member States.

The need to implement difficult austerity measures is something we all have to face up to. In individual Member States hard decisions are being made on an almost daily basis about where to make cuts and which sectors of government should be hardest hit. It goes without saying that we must ensure the health of our citizens is maintained, we have to push hard to increase growth and job prospects, and we must do our utmost to prevent a decline in prosperity.

I have a profound respect for cultural diversity in Europe and I do recognise how important cultural traditions can be for national solidarity and social cohesion. That being said, we need to prioritise our financial commitments. In areas where nations are best placed to conduct their own policies, as well as instigate cooperation with neighbours and other Member States, the EU should streamline its commitments, ensuring that in every instance projects and schemes add value to those already taking place at a national level.

This is why I believe that to ask for a year-on-year increase of 5.4% in spending (amounting to over €136 million) on the culture budget flies in the face of the actions Member States are being forced to make. In many areas, it will not add value; it will duplicate actions that can be done at Member State level; it is excessive at a time when national budgets are being severely cut; and it only serves to remind people just how out of touch with the economic reality the EU really is.

I would remind Members that many of your own governments are having to cut their budgets – in the UK our Department of Culture, Media and Sport has faced a 25% budget reduction – an action which is being echoed across the EU.

Now, clearly, in areas such as lifelong learning and volunteering, the EU can bring added value by supporting and supplementing Member States in their actions. This has a positive effect on mutual understanding, cultural education, and societal cohesion – and I certainly don’t want to see those areas limited by financial constraints.

But I must repeat the stark reality that, given the economic circumstances we face, can we continue to justify calling for increased budgets year after year. I ask you – is it right for the EU to spend more money on what amounts to cultural vanity projects? Is it right that we ask to spend €2.5 million extra “informing” the media of EU activities, which basically amounts to propaganda? Is it right that we are asking to spend almost €3 million on visits to the Commission? Is it right to sit back and see Member States slash their own budgets whilst we lavish additional spending on cocktail parties for Europe Day, Wind Art Festivals, 3D Whale displays, nomadic dance troupes, puppet theatre projects – I could go on and on...

The EU must not be immune to budgetary cuts and, as Members, we should be showing solidarity with our home governments, rather than embarking on wasteful and unnecessary spending on projects which will do little to get us out of our economic difficulties.

I would ask other Members, especially in the Culture Committee, to look again at the Council decision earlier this year which highlighted the need to address spending issues in line with national governments. Our priority must not be to arbitrarily raise budgets in areas that do not add real value – our only goals must be to balance our resources and re-prioritise our initiatives – and I would encourage Members to make changes to the current proposed budget along these lines.

Emma McClarkin MEP is a member of the ECR group in the European Parliament. She is a member of the Culture and Education Committee, and a substitute member of the Development and Internal Market Committees, as well as being ECR spokesperson for culture, education and sport.
The global economy is still in an economic quagmire, and a key reason for this was the political decisions of those in power in key economies over the past 15 years. As we all know, New Labour was an economic mess. Quite how Tony Blair and Gordon Brown were allowed to sell the idea that it was possible to have increased public services without the tax; a larger public sector and a larger private sector; and to spend far more than the country was earning for such a long period of time is a testament to the brokenness of the political opposition in Britain at the time, and the triumph of the New Labour Public Relations machine.

One of the most appalling decisions which Gordon Brown made was to sell half of Britain’s gold reserves and then watch as the price of gold took off, making the country a massive collective loss. The price British gold was sold at was less than a third of the present price. However, one of the better decisions was witholding Tony Blair from selling the nation’s future to Brussels by joining the Euro.

The Euro is naturally in trouble now. Surely the Euro-area will have to split, and a two-speed Europe emerge. The collapse of the Euro is virtually unthinkable, because it is not an economic project, but a political one, and we all know how committed Eurocrats are to the dream of a united Europe.

It is worth taking a look at the gold reserves of Europe at this moment, as gold prices remain sky-high and different economies, mainly the Southern ones, struggle with debt.

Gold reserves in Europe
Europe’s gold reserves tell an interesting story. We can definitely see some groups that exist. Eastern Europe stands out as one – these states acquired gold reserves and have largely kept them. They do not have much, but what they have is stable. These countries include Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia.

In this group we can also place bigger states with larger reserves, such as Finland, Germany, Denmark, France, Sweden and, more surprisingly, Italy and Greece. Sweden has been recording a gradual decrease in its supplies – 170 tonnes in 2005 and now only 125 now. Italy has registered a slight increase over the last 20 years in terms of its weight of gold in tonnes. Greece is the anomaly here – whilst its economy is laden with debts it cannot pay, it has registered a slight increase in gold reserves since 2005. It now has around 111 tonnes. This places Greece in an interesting position. A gold sell off would quickly raise a lot of money, especially now, to deal with the debts. However, in the long-term, it will undermine Greece’s future. And who would take this Greek gold?

Surely the central European power-house economies, like Germany, which would strengthen the disparities between Greece and Germany, adding more pressure on Athens to exit the Euro. Athens has done well to hold onto its gold, but the financial realities of the world mean that something has to break, or the Greek’s will be indebted to the rest of Europe for a very long time...

Finally we can see those states which have registered large and continuous decreases. It is no surprise to see Ireland on this list, along with leading federalist states such as Belgium and Luxembourg. Joining them is the Netherlands, Spain, Austria and Portugal, though Portugal’s decrease is more gradual – 462 tonnes in 2005, 382 now.

The effect of gold
This is important, for we have always used gold, and money, as a store place of value, and as a medium of exchanging that value. However, as Lord William Rees-Mogg has regularly noted, gold has proved a far better functionary for the usage of storing value than paper currencies. In terms of its purchasing power in relation to physical assets, little has changed with 300 years ago. Yet we know that with paper money, what one pound could buy 20 years ago compared with today has dramatically changed. Most paper currencies have in fact lost 98% of their purchasing power in just the last 100 years.

The global financial system, for the large part based on Fractional Reserve Banking, breeds inflation and thus the decline in the long-term value of paper money. As most economists have noted, the whole ‘quantative easing’ experiment has in fact been a competitive devaluation of the currency by printing more money, reducing the pounds value, making exports cheaper, but making everyone in the UK poorer on the world stage.

And so what does this mean? As most people know, especially the Conservatives in government, the excessive spending of the past needs to be reduced, because the massive debts Labour left the UK are no longer underpinned with a massive gold supply. The Pound is certainly no longer ‘as good as gold’. This is Labour’s economic legacy.

The Euro, however, is in a different situation. Italy, France, and Germany – core EU powerhouse states, have large and stable gold reserves. Looking purely at these countries, one could easily conclude that the Euro is potentially very strong. Statistically, Greece is in this category too. But Greece has ladenened itself with paper-money debt. This leaves two choices: creditors lend the Greeks money and the debt is restructured, or Greece needs to abandon the Euro, sell off gold, and massively devalue its economy. The first option is politically very difficult – why should sensible Germans pay for lavish Greeks, whilst the second option is economically far more sensible. With Portugal, Spain and Ireland also having economic troubles, and also having reduced their gold supplies, they too find their economies undermined. Of course, the Euro is a political project, and reluctance to reduce the Eurozone’s size is immense, but the economic reality will kick in soon. The Eurozone core is strong – strong economies, strong gold reserves; but the periphery needs to be cut-off. The two-speed Europe is on its way.
Future historians will surely see Ireland’s joining the Eurozone in 1999 and abolishing its national currency to adopt the euro as the worst policy mistake ever made by the Irish State. It was an act of gross irresponsibility on the part of a political class that had come to see themselves as “good Europeans” first and upholders of the national interests of its own people second. Explaining how this mindset came about will be a challenge to the country’s historians and social psychologists.

The Republic of Ireland joined the Eurozone on its establishment even though it did nearly two-thirds of its trade – exports and imports together – outside the area. It did some one-third of its trade with the Eurozone, one-third with the UK and one-third with America and the rest of the world. (The proportions for 2008 were: Total trade – Eurozone 34%, UK 24%, Rest of world 42%; Exports – Eurozone 39%, UK 19%, Rest of world 42%; Imports – Eurozone 25%, UK 33%, Rest of world 42%, in the Statistical Yearbook of Ireland 2009). Its Europhile politicians assumed at the time that Britain would adopt the Euro before long, which would put the bulk of Irish trade inside rather than outside the Eurozone. But of course Britain did not and will not.

Moreover when Ireland joined the Eurozone it had been experiencing for over half a decade its “Celtic Tiger” economic boom. The period 1993 to 1999 was the only period in the history of the Irish State, which was established in 1921, that it followed an independent exchange rate policy and let the Irish pound float, thereby giving priority to its real economy of production and employment. This gave it a highly competitive exchange rate, which encouraged massive inward foreign investment, boosted exports and underpinned average annual growth rates in those years of 9% of GDP.

In the early 2000s, the first years of Eurozone membership, the euro itself fell against the dollar and pound sterling, which added to Ireland’s competitiveness in external trade. Unfortunately the growth rate then slowed, as output expansion shifted from exports to the domestic sector in response to the Eurozone’s unsuitably low interest regime and the housing and property boom of the early 2000s.

Eurozone interest rates were low in those years to suit Germany and France, whose economies were in recession. Ireland more than halved interest rates on joining EMU, even though it needed higher rates to cap its boom. This gave huge impetus to the borrowing binge that followed between 2001 and 2007. This was concentrated on the market and expanding domestic demand. It made the Republic of Ireland’s property bubble one of the biggest in the world.

Having surrendered control of monetary policy on joining EMU, the Irish Government let fiscal policy rip. It cut taxes and raised spending, buoyed by revenue from the booming property market. This began the process which landed the State with annual public sector deficits of over 10% of GDP and set the scene for the disastrous bank policy it adopted post-2008.

Ireland’s blank bank guarantee
When the property bubble burst some Irish banks were insolvent because of bad property loans and all had serious bad debts. In September 2008 Irish Taoiseach Brian Cowen and Finance Minister Brian Lenihan gave their infamous blanket guarantee to the Irish banks, from which the intolerable debt burden, the credit crunch, and the current crucifixion of the Irish economy all stem.

It would have been reasonable enough for the Irish Government to guarantee peoples’ deposits in the banks, the savings of citizens, and so head off a bank-run. Its folly was to give a simultaneous State guarantee to the creditors and bondholders of the Irish banks, and in particular the notorious Anglo-Irish Bank, a property developers’ bank which was in no way “systemic” to the country’s finances.

Unlike depositors, who can withdraw their money, creditors/bondholders cannot run anywhere. These were mostly foreign banks from which the Irish banks had borrowed vast sums over the years for on-lending
to Ireland’s property market and which had made good profits on those loans.

At the time of the blanket bank guarantee Jean-Claude Trichet, Governor of the European Central Bank (ECB), phoned Finance Minister Lenihan from Frankfurt and told him that on no account should he let any Irish bank fail. If the insolvent Anglo-Irish Bank had been let go, the German, British and French banks which had lent that one bank alone some €30 billion for on-lending to the Irish property market, would have been badly hit. There could have been a chain reaction of bank failures across the Eurozone.

The European banks, and some American ones, had been happy to make money stoking the asset bubbles of the PIGS countries – Portugal, Ireland, Greece and Spain – under EMU and now feared these countries’ banks defaulting. Banks in Germany, France and Britain together had over €300 billion of exposure to the Irish banks and property market. In proportion to population size this was nearly ten times their exposure to Spain.

So with property prices plummeting and the investments of these foreign banks threatening to go belly-up, the Irish Government promised that the Irish State and Irish taxpayers would ensure that foreign creditors got their money back in full. There would be no default on senior bondholders of the country’s banks even if it meant years of pain for the Irish people, a credit crunch for local business, deflation, austerity, high unemployment and a return to mass emigration for the country’s youth.

The Irish Government gave this blanket bank guarantee on the assumption that its banks would have the backing henceforth of M.Trichet and the ECB. They got that for the next two years. During this time the ECB lent money at 1% interest to the Irish banks. Then in September 2010 the ECB grew alarmed at the size of the sums being demanded of it and the poor quality of the collateral the banks were offering against those loans.

Bailout/stitch-up by the EU
That month the two-year blanket bank guarantee was up, but the Irish Government, in line with ECB policy, renewed it. Although the Government had enough money to finance its own bills until mid-2011, it could not simultaneously guarantee the debts of Anglo-Irish and its other insolvent or near insolvent banks. With naïve trust in its Eurozone “partners”, the Government stood by its guarantee that no German, French or British bank would suffer. It would see to it that Ireland’s taxpayers would continue to pay off the debts of its insolvent local banks.

Two months later, in November, the EU pulled the ground from under the Irish Government. The European Central Bank told it that it would no longer lend Ireland money at 1% interest, but would organize a loan instead from its “shock-and-awe” fund which had been set up in May to lend to Greece, the European Financial Stabilisation Facility, at 5.8%. The Irish Government bowed to the harsh terms of the €67 billion loan being pushed on it by the ECB and the EU Commission, with the IMF in tow. US Treasury Secretary Geithner vetoed an IMF suggestion that senior bondholders in Ireland’s banks bear some of the costs. They would be paid in full. A troika of the ECB, the EU Commission and the IMF took over detailed management of Ireland’s finances and began supervising the release of the various tranches of the loan.

It was a humiliating culmination to the Irish political elite’s long love-affair with Brussels. As an editorial put it in the Irish Times, the paper which for decades had been the most uncritical advocate of each step of further EU integration by the Irish State: The EU/IMF loan and the conditions attached to it “represents nonetheless a defeat for this State which has turned us, in the blink of an eye, from European success story to a people at the mercy of the benevolence of others. It was notable that the announcement was made in Brussels and only after that was the Government able to hold its press conference in Dublin.” (29 Nov 2010)

In this way Ireland has been turned into a vast debt-service machine by the criminal incompetence of its own chief policy-makers and the demands of the European Central Bank. It has become a “bankocracy”, ruled by bankers. In December the Financial Times nominated Ireland’s Brian Lenihan, for the second year in succession, as the worst Finance Minister in Europe. In February this year the Fianna Fail Party, which had held office during the Republic’s boom and bust and which had dominated Irish politics since the 1930s, got its deserved come-uppance. It fell from 77 out of the 166 seats in the Irish Parliament to 20.

It was replaced by a Fine Gael-Labour coalition government, with 113 seats between them, which however has to date continued the same policy as its predecessor and is dutifully implementing the provisions of the Memorandum of Understanding with the ECB, the EU Commission and the IMF Troika.

This Irish debacle should make small countries that are outside the Eurozone thank heaven they are not in it.

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