

Future of Europe

Policy Paper 56



Contents

Executive Summary	4
Introduction	6
Prosperous Europe	8
1.0 The Single Market	8
1.1 Monetary Policy	9
1.2 Governance	9
1.3 Interest Rates	9
1.4 EU Fiscal Policy	9
1.5 The Exchange Rate	11
1.6 Social Policy	11
Secure Europe	13
2.1 Schengen	13
2.2 Police and Judicial Co-operation	13
2.3 Europol	14
2.4 Fraud	14
2.5 Asylum and Immigration	14
Influential Europe	16
3.1 Common Foreign and Security Policy (CFSP)	16
3.2 European Security and Defence Policy (ESDP)	18
3.3 International Development and Aid	20
Democratic Europe	22
4.0 Introduction	22
4.1 A Constitution for Europe	22
4.2 The European Parliament	22
4.3 The Commission	22
4.4 The Presidency of the Council	23
4.5 Simplifying the Decision-Making Process	23
4.6 Transparency	24
4.7 National Parliaments	24
4.8 Monitoring Subsidiarity and Proportionality	24
4.9 The Regions	25
4.10 The European Court of Justice	25

Executive Summary

The European Union is at the point of transformation. On the eve of enlargement, the EU's purpose and character are under the spotlight. At the same time, the challenge of maintaining prosperity, internal and external security face all Member States new and old. The pooling of sovereignty by member states to develop common policies has contributed to unprecedented levels of peace and prosperity within the Union during the last 50 years. To safeguard and extend the achievements of the EU, reform is imperative.

This paper sets out a programme of policies for that purpose. The paper does not re-state well determined existing Liberal Democrat policies for Europe, for example, on the environment and the reform of the Common Agricultural Policy. Rather, it focuses on those policies needed to enhance the effectiveness and efficiency of the EU's decision-making and to strengthen its democratic basis.

A defining Liberal Democrat principle is that public power should be exercised as close to the citizens as possible and the EU is no exception. There are some actions where a European-wide approach is in the interests of every Member State, such as tackling cross-border crime or strengthening the internal market. There are others where national institutions are the appropriate level of decision-making such as taxation or pension arrangements. The time has come clearly to delimit the EU's powers, to provide explicitly that those not conferred on the Union reside with the Member States. This settlement, designed to last, should be embodied in a Constitution for the EU.

Prosperous Europe

The EU has been most successful in providing a framework within which the Member States have enjoyed growing prosperity. Britain must play a full part in the development of the EU to help promote continuing economic prosperity; this means joining the euro. Liberal Democrats propose the following reforms for that purpose:

- A referendum should be held to enable Britain to join the euro when the economic conditions are right.
- The single market should be developed further to include service industries.
- We advocate the adoption by the Member States of environmental taxes, particularly a carbon tax and an aviation tax.
- The financial services sector and the energy market within the European Union should be liberalised.
- The Stability and Growth Pact should operate under a code of conduct proposed by the Council, which takes account of the business cycle, recognising underlying structural deficits.

Secure Europe

Following the events of 11th September 2001 Member States were swift in their cooperation to crack down on terrorist financing, share intelligence and introduce the European Arrest Warrant. However, if the EU is effectively to tackle cross-border crime and potential terrorist networks further reforms are needed. We propose:

- Britain should fully subscribe to the Schengen Convention arrangements when we are satisfied that strong and effective EU external border controls are in place.

- To enhance cooperation to strengthen EU external border control policed by European forces to assist newer members to effectively control international borders.
- To expedite effective policy-making in the field of justice and home affairs decisions in that sphere should be taken by Co-decision with Qualified Majority Voting.
- A 'European Criminal Law Institute' should be established to promote reform and develop mutual trust in European criminal justice systems.
- There should be common asylum procedures and just treatment of immigrants throughout Europe secured by a common policy, including effective burden sharing.

Influential Europe

The EU has had a measure of success in developing common positions on a whole range of international non-trade issues. The challenge now facing member states is how to build on these achievements to enhance the influence of the EU on the world stage as a force for good. To achieve this we propose:

- The High Representative (HR) should be appointed to head the EU's external policy, taking over the responsibilities of the Commissioner for External Relations. He would be accountable to the Council with a seat in the Commission.
- A new executive agency to co-ordinate, develop and implement the EU's foreign and security policy, properly funded, which will be answerable to the HR.
- To increase the effectiveness of the Common Foreign and Security Policy with procedures to assist the implementation of strategic goals agreed by consensus.
- To strengthen the security identity of the EU by working with the NATO alliance and increase European capabilities to enable the ESDP to be effectively operational.
- To target external aid primarily towards poverty alleviation.

Democratic Europe

If the EU is to be more effective it must have stronger institutions that are subject to closer scrutiny and which have greater democratic legitimacy. We propose:

- The adoption of a Constitution for the European Union, delimiting the powers of the Union, protecting the fundamental rights of citizens and simplifying the procedures of decision-making.
- That the President of the Commission should be elected by the European Parliament and would choose a reduced number of Commissioners from a pool of nominations put forward by Member States.
- To ensure that the European Parliament has the power of oversight and approval on all legislative matters, and that the Council, when acting in a legislative capacity, sits in public, with full reporting.
- Extending the jurisdiction and amplifying the resources of the Court of Justice and the Court of First Instance to be the guardians of the Constitution.

Introduction

The European Union – originating half a century ago as the EEC - stands at the point of transformation. Today's European Union is changing both its geography and its nature. In 2004 it expands to embrace many of the nations previously part of the former Soviet Union's East European Empire, taking the frontiers of the Union to the borders of Russia. In the Mediterranean, Malta and Cyprus will also join. A few years later other East European countries will become members, with Turkey seeking membership as well. Clearly this expansion could prove unmanageable, diluting the purpose of the Union and straining its institutions to breaking point. Moreover, the Union is now as committed to deepening as to widening. The Euro has been successfully introduced but has not established itself as a global currency, in part because Britain has not joined. Will the Euro initiate the period of economic integration, leveraging the dynamic of the European Single Market or will it mark the last high point of economic and monetary union?

Beyond dispute is the scope and sharpness of the challenges now facing Europe. Part of the response to these challenges is the European Convention, which may report in time for a new Treaty of Rome in the summer of 2003. Its aim is nothing less than a Constitution for Europe spelling out the rights and obligations of European citizens, defining the values of Europe and drawing a line under 'ever closer union'. We fully support this. Such a stable framework would delimit the powers needed to enable the Union to act effectively. It would ensure that within the Union, as within the Member States, that political power is exercised democratically.

Therefore, this is a critical moment to propose a distinctive position for Liberal Democrats on the future of Europe. The peoples of the United Kingdom need to understand the choices that lie ahead. The electorate has been deprived for too long of real debate on the future of Europe by the sterile exchanges between Europhiles and Europhobes and by inadequate or distorted information. The Liberal Democrats, and before them the Liberals, have consistently, although not uncritically, supported the European Union since its beginnings in the 1950's. But that is history. What matters now is the future. How should the EU develop in a way that is distinctive, democratic, practical, and in both this country's and Europe's interests?

This paper lays out a Liberal Democratic approach to creating a Europe which is prosperous, secure, democratic and constitutional. In doing so it recognises the rich and necessary diversity of Europe, the different cultures and traditions of regions and nation states. Its guiding principle is that the legitimacy of the European Union must be rooted in the will of the people exercised by them as individual citizens entitled to vote in European elections as well as in the democratic elections for national governments and regional authorities.

There is another consideration. The end of the Cold War has not brought peace but unpredictable tensions. If Europe is to exercise its power for good in the world and ultimately be able to defend its citizens it must develop common foreign and security policies. While the United States now finds itself the world's only military super power, the European Union needs to develop the capability to share burdens with America. In development aid, in peacekeeping and crisis management, and to an extent in peace making, the European Union owes it to itself and the rest of the world to develop adequate resources and organisation. Europe's moment of transformation coincides with global danger and here again the United Kingdom electorate deserves a clear indication of the choices available.

The paper includes new suggestions for policy, advocating the creation of a new agency to conduct EU foreign policy. It recommends cooperation in defence policy and procurement to increase the value for money attained by EU Member States. It argues for increases in overseas development aid by all EU states to 0.7% GDP. It supports key measures to complete the Single European Market and unleash its dynamic, for example, the liberalisation of the energy market and the financial services sector. It argues for British participation in the euro and ultimately in the Schengen agreement thus enabling the consistent policing of the EU's external borders.

On constitutional matters it advocates a clear break in the link between Member States and the European Commission. The representative institution of the Member States is the Council and therein lies its power. The Commission acting for the Union as a whole cannot and should not aim to represent individual Member States. We do favour however a direct link between the peoples' votes in the European elections and the government of the European Union. Thus we argue that the President of the Commission should emerge from the European elections as the candidate of the largest political grouping, charged with forming a Commission representing diversity but also coherence. People's votes have to make a difference in the priorities of what Europe does. We argue for a common electoral system for the European elections to confer legitimacy on the outcome. We argue for a new bond between national parliaments and the European Union, with a European Week, debating Europe's yearly legislative programme to be conducted annually in each national parliament.

Much of this will be controversial but it embraces fresh thinking and a willingness to tackle real problems rather than old arguments. We hope it will provide a new dimension to the British debate.

Prosperous Europe

1.0 The Single Market

1.0.1 The most demonstrable success of the EU has been in helping provide the framework within which the Member States have enjoyed growing prosperity. The progressive development of the Single Market has assisted innovation, mobility of labour and capital and greater responsiveness to consumer needs. Indeed the achievement of these levels of economic success in part accounts for the eagerness of the candidate countries to join the Union. However, much remains to be done. Sixteen years after the Single European Act, and a decade after the Single Market came into effect, significant obstacles still persist which hinder the full freedom of capital, goods, people and services to move across borders within the EU.

1.0.2 In particular, if the benefits of the Single Market are to be fully realised, urgent measures must be taken to enable service providers to offer their services freely in all EU countries. At present, a plethora of national or local regulations and requirements prevent service providers – from lawyers and financial advisers to architects and business consultants – from offering their services freely across EU borders. In order that European businesses should gain access to capital with the same ease as their competitors in the USA, it is particularly important that the ongoing efforts by the European Commission to create an integrated EU financial services sector should succeed.

1.0.3 A number of other areas also require attention if the Single Market is to be completed. Member State objections to

the proposal for a Community Patent, for instance, must be overcome to provide European businesses with the opportunity to register one patent for the whole EU, rather than for each national market. The ongoing efforts to create a proper Single Market in gas and electricity, against powerful vested interests in Member States, should also be pursued vigorously if energy consumers are to benefit from increased cross border competition. Liberal Democrats will continue to provide strong support to the European Commission in its efforts to curtail unjustified state subsidies which distort the Single Market's level playing field, and to push national Governments to open up their public procurement procedures to transparent competition. Finally, and perhaps most importantly, Liberal Democrats will strongly support measures to boost the ability of the European Commission to enforce EU Single Market legislation, and to penalise those national Governments which flout EU law. At present, Member States ignore Single Market legislation safe in the knowledge that Court proceedings are lengthy and that fines are almost never imposed. The European Court of Justice must be reformed to accelerate infringement proceedings, and the EC's ability to impose fines rapidly on governments must be strengthened.

1.0.4 The great economic change for the EU of economic and monetary union accomplished with technical effectiveness has already taken place without Britain. The development of this new union in ways which reflect the interests of Britain requires the full participation of Britain. Liberal Democrats have long argued that this significant step must be put to a referendum of the British people, and believe that the time is ripe for the decision to be made.

1.1 Monetary Policy

1.1.1 All three big Euro zone countries face problems in bringing their budgets within the guidelines laid down for the Euro zone by the Stability and Growth Pact (SGP), because they all cut taxes during the good years, thereby reducing their room for manoeuvre in the bad ones. Furthermore, they failed to deregulate and liberalise their labour markets and economies as they had agreed to do at the Cardiff and Lisbon summits since the euro-zone was created.

1.1.2 The European Central Bank (ECB) has repeatedly declared that it takes deflation as seriously as inflation. Recently, the target inflation rate has been 1-2%. Liberal Democrats believe that a symmetrical point target of 2 or 2.5%, like the Bank of England's, is preferable. This would require the ECB to lower interest rates when inflation falls below the target as well as raising them when inflation rises above the target. This would clarify the ECB's duties.

1.2 Governance

1.2.1 The Governing Council of the bank is composed of members of the Executive Board of the ECB and the governors of the national central banks. The Executive Board consists of the President and Vice-President of the ECB and four other members. At present the Governing Council makes decisions by consensus even though the treaty requires a simple majority vote. We believe that the structure of the ECB should place less emphasis on regional representation and give more power to the independent appointees. Otherwise, the need for bargaining and compromise between ever-larger numbers of state representatives could swamp the decision-making process after enlargement.

1.3 Interest Rates

1.3.1 The ECB faces a special problem of having to apply one interest rate to a

large and diverse region. Interest rate decisions can therefore become extremely politicised. The ECB should be more open and it should improve the predictability of its decisions. It already publishes 6-monthly projections and details of its econometric models and it has a good and co-operative relationship with the Economic and Monetary Affairs Committee of the European Parliament. However, it does not publish a summary of the arguments for and against its decisions on interest rates and should do so. The ECB Council should have the votes of each member made public following the practice of the Monetary Policy Committee of the Bank of England. An expressed consensus diminishes individual accountability and it is desirable that the votes of each member are made public. This would make the ECB actions more predictable and should increase the market's confidence in its management.

1.4 EU Fiscal Policy

1.4.1 The effective co-ordination of fiscal policy is one of the most important issues facing the Euro zone. Fiscal and monetary policy should work in tandem. If fiscal policy is unduly lax, the strain falls on monetary policy, interest rates have to be higher than they need be and this has an adverse effect on growth and employment.

1.4.2 The EU Budget

However, this does not require a central budget. In this regard, comparisons with the US are misleading. Stabilisation policies in the US have to be federal because the states do not possess the requisite funds and none of the states, except Vermont, have borrowing powers. Only the central government has the capacity to intervene. In the EU, due to its particular history, the situation is the reverse: only nations have the capacity to intervene with counter-cyclical policies (subject to the conditions of the SGP) and if policy is applied in accordance with sensible economic guidelines, nation states can provide the necessary automatic stabilisation.

1.4.3 All states at present agree that the EU budget should not be increased. It is, limited to 1.27% of the EU's total GDP, and is mainly spent on the CAP and regional aid. If that ceiling is kept, as seems likely, reform of the CAP will be all the more urgent to provide the resources needed to match the goals set by the Union. Raising the ceiling presents particular problems because of its impact on the proportionate contributions of member states. Yet logically the budget should provide the resources needed to match the goals set by the Union. These should, in the view of Liberal Democrats, include extra regional funds to help the new states of an enlarged Union to catch up in prosperity with the rest and also the necessary funds to meet the requirements of the Union's aims in foreign and security policy. We favour more environmental taxation, in particular a carbon tax and an aviation fuel tax. However, taxation must ultimately remain a matter for the Member States.

1.4.4 Tax Harmonisation

Fundamentally, subject to the need for some EU constraints on overall budget deficits, taxes and spending, and what form taxes take, should and will remain a matter for the nation states to decide. For the foreseeable future we see no economic reasons why the unanimity rule should be abandoned; major tax changes should continue to be made by unanimity, as they are fundamental to national sovereignty.

1.4.5 We believe that in most cases tax competition is the future for the EU, with exceptions. Theoretically there is a case for harmonising corporation taxes because these could affect the decision where to locate a business. However, the factors which are most important in determining the location of a business are unrelated to levels of corporation tax. We do not advocate harmonising corporation tax. Germany, for example, has much higher corporate tax rates than the UK, but its yield from corporate taxation as a percentage of GDP is only about half of

the UK's, because its tax base is much narrower.

1.4.6 It should be noted that there are some particular forms of tax harmonisation we support, usually in cases of unfair tax competition. We support the efforts of the European Commission to promote cross-border European pension schemes. As European business becomes more integrated, equal tax treatment of pensions for those who move from country to country becomes increasingly important. Further, as the government has recognised, it is in all member states' interests to avoid particular forms of unfair tax competition (e.g. tolerance of tax havens). Britain has always argued strongly against anti-competitive state subsidies. Thus we cannot defend unfair tax competition, which has the equivalent effect.

1.4.7 Co-ordinating Fiscal Policy

The Euro zone must work through co-ordination, not central direction; the alternative would be cumbersome and would have little support. One frequently neglected argument is that, given the common shocks faced by Euro zone countries, the operation of the automatic stabilisers provides automatic co-ordination. The SGP's role is to ensure that automatic stabilisers are allowed to work; this requires a focus on booms as much as on busts.

1.4.8 It is now widely accepted that the SGP should be interpreted flexibly. Several states are likely to exceed its limits on budget deficits in 2002/3. Nevertheless, the EU needs effective and workable rules for fiscal policy. Rules are needed to replace the discipline of exchange rates. An active fiscal policy is an inefficient instrument of economic management and fiscal measures often take effect at a time when the situation and the needs of policy adjustment have changed.

1.4.9 Thus there should be a review of the operation of the Pact. The actual pact and Treaty provisions allow for reasonable flexibility, but there has been

understandable concern about the Commission's interpretation of these provisions. We propose that the Council adopt a Code of Conduct for the Operation of the Pact, building on current initiatives by the Commission and a number of member countries. This Code should take account of the business cycle so that the emphasis is on underlying structural deficits rather than headline deficits. It should particularly stress the role of the Commission and the Council in ensuring that cyclical budget adjustments are made in boom years. We also propose that for countries, such as the UK, which have low ratios of public debt to GDP the structural balance aimed for should exclude borrowing for public investment. While the current provisions include taking account of public investment we would aim to avoid a situation where the UK is reprimanded by the Commission for a budget deficit while there was a underlying current surplus and low debt ratio.

1.5 The Exchange Rate

1.5.1 The exchange rate at which Britain joins the Euro should be the sixth, and probably the most important and difficult, of the economic tests. This will also facilitate entry negotiations with those countries already in the Euro zone, as we will then be seeking entry at the market rate, rather than looking for a competitive devaluation. The Liberal Democratic Expert Commission recommended in September 2000 that the range should be €1.25 to €1.45, but noted that a higher rate might be achievable in future. This range should not be engraved in tablets of stone. It is clear we need a lower rate for sterling than currently prevails, but the exact rate will depend on the circumstances when the decision to join is taken.

1.5.2 The Government is not powerless to influence the rate at which sterling enters the euro. It should announce a target range that it intends to make the basis for negotiations. This is likely to send a strong signal to the markets. Before

the existing Euro zone members fixed their currencies, which were already closely linked by the Exchange Rate Mechanism, markets accepted declarations by different governments that they would comply with the conditions of entry. There were no great fluctuations between currencies before the rates became permanent. Our declared target range should have a substantial influence on the market. Existing members, who will have some interest in denying us an "unfair" competitive advantage, may not immediately accept our proposals. On the other hand if the pound has actually fallen to a level within the proposed range before negotiations begin, it will be hard for others to deny the market's valuation.

1.6 Social Policy

1.6.1 EU legislation in the field of Social Policy has brought manifest benefits for UK citizens. The EU has frequently led the way in protecting individual rights, for example gender and equality rights, forcing the UK to act. Liberal Democrats have supported such EU legislation, which coincide with our attitudes to individual rights. There have been considerable advances in this area in the last twenty years, often necessitated by the desire to complete the internal market and create a level playing field in Europe.

1.6.2 We accept the need for a certain degree of employment legislation at the European level but do not think it is necessary for the EU to assume what are currently national responsibilities in this area. The EU should act where required for the smooth functioning of the internal market but the main responsibility for social policy should remain with the Member States. In areas where the EU is involved we support the use of broad framework directives relating to employment rights. These should ensure that decisions are taken as closely as possible to the citizen and should be sufficiently flexible to accommodate different national conditions.

Secure Europe

2.0.1 The Treaty on European Union provided for cooperation in the areas of justice and home affairs. Security is an area where the European citizen looks to the EU to be able to act effectively and would welcome 'more' Europe. If people can travel freely across borders, they can perpetrate crimes in varying jurisdictions and the completion of the Internal Market increases such opportunities for cross-border crime. Member States therefore cannot control transnational crime alone and increased action at the European level would be in the collective interest.

2.0.2 Events propelled Ministers to act after September 11th 2001. Co-operation in cracking down on terrorist financing, the sharing of intelligence and the introduction of the European Arrest Warrant was swift. The internal security context has changed significantly in light of the newly articulated threat from international terrorism. But further reforms are needed, however, if the European Union is to be able to effectively tackle cross-border crime and potential terrorist networks that Member States cannot deal with alone.

2.1 Schengen

2.1.1 Formally, the UK and Ireland have opted out of the Schengen *acquis* (i.e. the arrangements for gradually abolishing controls at internal frontiers) but in practice it participates in almost all aspects of Schengen and we should recognise this. Our island status means that our land borders are effectively external EU borders and the same level of control would be required once we signed up to the *acquis*. This means that the UK would be required to impose strict border controls; accession would **not** mean a weakening of standards.

2.1.2 In addition, we are missing out on many of the benefits of co-operation

within Schengen. Schengen has a large international crime dimension providing for systematic sharing of information through databases and police co-operation mechanisms for the tracking of individuals and illicit goods with which the UK only co-operates in part. Liberal Democrats would recommend that the UK should fully sign up to the Schengen *acquis* once we are confident that improvements to external border controls are working fully and effectively.

2.2 Police and Judicial Co-operation

2.2.1 The decision-making process in the area of Justice and Home Affairs is highly complicated, not least because the 1997 Treaty of Amsterdam split up the justice and home affairs pillar, transferring civil law matters, asylum and immigration policy into the first, Community pillar, leaving police and judicial cooperation in criminal matters in the third, intergovernmental pillar. To simplify procedures and strengthen cooperation and common action to deal with cross border crime Liberal Democrats recommend that police and judicial cooperation be transferred to the first pillar, with policies agreed by the Community Method.

2.2.2 As outlined elsewhere in this paper we propose abolishing the pillar structure and creating a single institutional framework for the EU with the Commission acting in most cases on a mandate from the Council while member states would retain the veto in key areas. Using the Community method in this area will permit more effective scrutiny of a wide range of executive activities that currently run unchecked. These are clearly areas where the Member States need to work together in order to reduce cross-

border crime but such cooperation does require adequate parliamentary scrutiny and judicial review, which are not available within the third pillar framework.

2.2.3 The progress in judicial cooperation in civil law under pillar one has not been matched by cooperation in criminal law. Increased legal cooperation, including in the area of criminal law, should take the form of mutual recognition of judicial decisions rather than harmonisation, so that states may retain their own legal systems and values. This system has worked well within the UK, as Scotland has a different legal system from England and Wales, each sometimes taking from the other system a model for reform.

2.2.4 To promote reform and develop mutual trust we advocate the establishment of a 'European Criminal Law Institute'.

2.3 Europol

2.3.1 Europol came into effect in 1999 and aims to improve police cooperation in order to combat all serious forms of international crime. It provides practical benefits to the British police forces and it enjoys their strong support. More needs to be done, however, to strengthen Europol's effectiveness and accountability. We propose that its resources and powers should be strengthened to promote effective police cooperation. The Director of Europol should be nominated by the Commission, subject to scrutiny by the European Parliament, where he would face a 'hearing' of MEPs, and confirmation in office by the Council.

2.4 Fraud

2.4.1 Fraud against the Community budget is clearly a 'European crime' and is a continuing problem. We believe that the sanctions against such crime should be the same across the EU. Oversight of the spending of the EU budget resides with the European Commission via its anti-fraud unit, OLAF, and with the Court of

Auditors, whose powers need to be strengthened. We believe that national courts should adjudicate on such crimes and impose appropriate fines. If they do not, the European Court of Justice should be empowered to act.

2.4.2 At present, however, it seems that some courts turn a blind eye to fraud in implementing the EU budget; only if the Court of Auditors and OLAF are strengthened significantly are national courts likely to be embarrassed into action. The European Parliament should actively scrutinise the disbursement of the budget and have close oversight of OLAF and the Court of Auditors.

2.4.3 The European Court of Justice should be given a stronger role in initiating infraction proceedings against national governments, while the Court of Auditors should co-ordinate their work with national audit bodies.

2.5 Asylum and Immigration

2.5.1 Asylum and Immigration are among the most emotive issues on the current European political scene, although overall levels of migration are lower than they were during the 1990s. Member States have failed to resolve the conflicting desires of people to work and reside in the EU, the economic necessity for more migrants, the bureaucratic nightmare of processing applications and to meet the concerns of those who perceive immigrants to be a threat.

2.5.2 Despite efforts at Seville to put the issue on the agenda, the EU does not yet have an effective policy for dealing with asylum-seekers or immigrants generally. The Dublin Convention, which was intended to refine the system, has not worked in practice. Nor are there any clear guidelines yet for repatriating illegal migrants, whose claims to reside in one of the EU countries have been rejected. As with cross border crime, no single EU state acting alone can deal effectively with asylum and immigration within the

existing legal frameworks. There is a need for a common asylum procedure, just treatment throughout Europe secured by a common policy and for proportionate burden sharing among Member States.

2.5.3 A joint approach would also improve the protection of the rights of those being repatriated, while also serving as a deterrent against illegal migrants.

2.5.4 The Union must work with countries of origin to try to reduce the economic, political and security issues that are causing people to leave. This form of co-operation would benefit both the sending and the receiving countries.

2.5.5 Open borders across an enlarged EU will be a difficult goal to achieve. The richer Western European nations argue that external border controls in the newer

countries are not as rigorous as those in their own. We need stronger border controls and there is a case that these should be policed by European forces and resourced by the European budget. This would have the effect of relieving the burden on states with external EU land and sea borders and of addressing the concerns of the richer states that newer members do not have the capacity effectively to police borders of the required standard.

2.5.6 A secure Europe need not however be a 'fortress' Europe. Immigrants are required if Europe's economy is to thrive, especially in light of its ageing population. The Union's policies should not be for zero immigration but should reflect the economic requirements of the member states as well as the pressures upon the would-be immigrants.

Influential Europe

3.0.1 For the last 50 years the process of economic and political integration in Europe has played a fundamental role in guaranteeing peace and freedom for the people of Europe. By pooling sovereignty, European nations have successfully built a system based on constructive co-operation between nations in order to advance the common interest. The EU now stands for peace, prosperity and stability.

3.0.2 Guaranteeing that peace and stability, extending it to the newer members of the EU and shouldering Europe's fair share of security responsibilities around the world can only be achieved collectively. In the new international environment with the increasing pace of globalisation, events in one nation can have a profound impact elsewhere, in economic, military and migratory terms. The terrorist attacks in Washington and New York on 11th September 2001 have illustrated that even the most powerful of nations cannot guarantee security in isolation.

3.0.3 The Member States have resolved in the Treaty on European Union to "*implement a common foreign and security policy including the progressive framing of a common defence policy*", in order to "*promote peace, security and progress in Europe and in the world*". The Common Foreign and Security Policy (CFSP), and within it the European Security and Defence Policy (ESDP), aims to safeguard the common values and fundamental interests of the Union: preserving peace and international security, promoting international cooperation and helping to develop and consolidate democracy, the rule of law, and respect for human rights and fundamental freedoms.

3.0.4 Despite the difficulties of forging a consensus, the EU has had a measure of

success in developing common positions on a whole range of international non-trade issues, from the Code of Conduct on Arms Exports, debt relief, human rights, organised crime to agreements at the OECD, NATO and OSCE. The challenge now facing member states is how to build on these achievements to enhance the influence of the EU on the world stage as a force for good.

3.1 Common Foreign and Security Policy (CFSP)

3.1.1 The Maastricht Treaty, which entered into force in 1993, and the subsequent treaties of Amsterdam and Nice have created a confusion of institutional arrangements and instruments for the undertaking of common foreign policy. If the Union is to act progressively as a serious partner in seeking global peace and security, greater coherence is required across the range of external affairs instruments and between official bodies.

3.1.2 The partnership with the USA needs coherence in particular. Since the end of the Cold War, the new strategic environment, epitomised by September 11th 2001 has not yet engendered a major rethink of the strategic purpose of the transatlantic relationship that gave birth to the European Union and NATO.

3.1.3 Forging a new strategic consensus with the US is a challenge that only a Europe acting collectively can achieve. A strong collective security and diplomatic apparatus is thus a strategic imperative.

3.1.4 A great majority of EU citizens want the EU to play a more effective role on the world stage. And in many cases, the EU carries significant weight, especially when it uses its economic leverage through sanctions. On human rights issues, across

the world the EU has condemned abuses and it has acted as a single point of contact for rehabilitation and reconstruction efforts. But the Union is often unable to react swiftly, purposefully and with the full backing of Member States in a crisis.

3.1.5 The current ‘intergovernmental’ method, where decisions are taken, through the work of the General Affairs and External Relations Council, comprised of the Foreign Affairs Ministers of member states and their representatives militates against strong common positions. The Common Foreign and Security Policy (CFSP) is a relatively new strand of co-ordinated policy making, with Member states retaining the veto in the Council on CFSP and ESDP. Inconsistency is exacerbated by the existence of three mouthpieces for EU foreign policy. This role is shared by the rotating Presidency of the Council, the High Representative for CFSP and the External Affairs Commissioner together with a number of ‘special representatives’ dedicated to diplomacy in a particular region or helping to resolve crises situations.

3.1.6 The present system of fragmented representation in the EU’s external relations is unsatisfactory. It splits the responsibility for external relations between two institutions: the Council and the Commission. The Council deals with short-term, political and diplomatic matters while the Commission is concerned with long term structural, trade and co-operation affairs. The linking of these two strands of foreign policy would enhance the leverage of the EU on the international stage.

3.1.7 Liberal Democrats believe that CFSP has to operate by consensus to mobilise the commitment and support of its Member States. At present, opposition of a member state to a proposed common foreign policy position or initiative can act as a veto. We would seek to reduce this limitation on the EU’s effectiveness by building on strategic external policy agreements whose implementation may

then be achievable by Qualified Majority Voting (QMV). We advocate the increased use of constructive abstention, whereby individual Member States might not participate in joint-actions, but would ensure that their own foreign policies did not run counter to those being pursued by the Union.

3.1.8 A stronger High Representative (HR) would act to promote consensus in this area. We advocate the creation of a new agency to conduct EU foreign policy to secure effective Union action in the external sphere. It would be headed by the High Representative, who would be responsible to the Council for those matters currently falling within the Second Pillar but would also act as a member of the Commission for those matters where the Treaty gives the Commission a role. The post of Commissioner for External Relations would be abolished.

3.1.9 The strengthened HR would retain all the foreign policy functions of the existing HR-CFSP and become an *ad hoc* member of the Commission. The HR would cease to serve as Secretary General of the Council and would only sit in the Commission when issues of foreign policy were negotiated. The HR would be able to submit proposals on first pillar issues to the College of Commissioners and proposals on second pillar issues directly to the Council. He should be able to make use of a new mechanism within the Community budget, which would allow the HR to finance on an urgent basis the preparatory steps of crisis management operations from a contingency reserve.

3.1.10 The HR would have increased authority, no longer competing with a Commissioner for External Relations as at present. The High Representative would assume the representative and negotiating functions presently possessed by the Presidency, giving the Union a much more coherent ‘voice’ in the conduct of its external affairs. The HR would have control of all the foreign policy machinery of the EU including the external

delegations of the commission for matters falling within the remit of the Agency.

3.1.11 This arrangement would greatly facilitate the strengthening of the machinery for reaching common positions, especially in third countries where much of the localised diplomacy is carried out.

3.1.12 The Commission has a network of delegations in third countries dedicated to undertaking community policies. These delegations are playing an increasing role in CFSP providing political analysis and co-ordinating common policies with Member State embassies.

3.1.13 We would like to deepen this co-operation and maximise the resources of the EU by establishing formal co-ordination mechanisms between member states' Embassies and High Commissions in third countries. Member states should have the option of delegating their representative rights in countries to the EU, with the EU afforded all diplomatic privileges accordingly.

3.1.14 We advocate the conferral of a single legal personality on the Union. This would provide for legal certainty, clarifying and simplifying the role of the Union in its external relations. Moreover, we believe that external political action would be more effective and credible if the Union succeeded in speaking with **a single voice**. Where possible, the Union should be represented in international organisations. In the event of joining the Euro, we would support the single representation of the Eurozone in international financial institutions.

3.1.15 The HR-CFSP would be granted a mandate from the Council to act in certain areas. The Council itself under this scenario would be faced with a heavily increased workload and a great many decisions to make regarding the negotiation of common positions. However, if the EU is to carry more weight in global affairs, a greater proportion of Foreign Ministers' time

should be spent fashioning common policies. We believe that the result – a more influential EU – is worth the effort.

3.1.16 In order to achieve this, we propose separating permanently the General Affairs Council and the External Relations Council. It would be the High Representative's responsibility to prepare and chair the meetings of the External Relations made up of EU foreign ministers.

3.1.17 A more powerful High Representative must be held properly accountable. The new role would be accountable to both the Council and the Parliament through the Commission, since the HR would report to the Commission on budgetary issues. In addition however, the new Constitution of the EU should provide for the involvement of the European Parliament in close consultation with the Council on matters involving external policy of the Union.

3.2 European Security and Defence Policy (ESDP)

3.2.1 The birth of the European project was intrinsically linked to US economic and military aid in the wake of the Second World War. The continuing US military presence in Europe is also a clear example of the link between NATO and the EU. The NATO security umbrella has gone hand in hand with European integration and should continue to do so.

3.2.2 Without an independent 'Security Identity', an EU beholden to the USA for its own defence is likely to lack the confidence to stand up for its values and to lack the ability to influence outcomes abroad. It will also lack the ability to act independently of the USA when the US is unable or unwilling to contribute forces to joint actions.

3.2.3 In a new strategic environment when Russia is a consultative-member of NATO, the USA and Russia have

withdrawn from the ABM Treaty and when the USA is embarked on a security strategy of outspending other states for a generation, Europe must provide for its own defence. We cannot expect the USA to continue to shoulder such a large burden of European defence. Global stability is not served by a dominant US military acting alone due to a European lack of capabilities. The EU must pay its way and share the burden of global responsibilities, not just European ones.

3.2.4 Threats, including terrorism affecting the security and stability of all member states are best tackled collectively. Instability in regions close to the EU and even closer to its enlarged borders such as North Africa, the Caucasus and the Middle East have an impact on European security, and Europe should be in a position to respond. Individual member states do not have the capability to undertake large-scale peacekeeping, conflict prevention or defence diplomacy by themselves. Further improvements in EU intelligence provision will be needed for both counter-terrorism and for Petersberg Task operations.

3.2.5 In 1997 the Treaty of Amsterdam added the so-called Petersberg Tasks to the CFSP which were to be “*humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peacemaking*”. The Union also agreed to move towards the “*progressive framing of a common defence policy*”. The Treaties make it clear that such a common defence policy would not compromise individual nations traditions and Constitutional requirements, nor would it prejudice the common defence that some EU nations realise through the North Atlantic Treaty Organisation (NATO).

3.2.6 Despite being declared ‘operational’, ESDP structures have yet to be tested. The institutional arrangements to allow EU operations are in place: an EU military framework and procedures for sharing assets with NATO were agreed at

Nice and finally signed at Copenhagen in December 2002. Making the ESDP operational depends more on increased capabilities than further institutional reform and multilateral agreements. ESDP has not yet yielded a credible force capable of acting without US support.

3.2.7 NATO command and control facilities and jointly owned and operated assets remain central to the ability of the EU to deploy its Rapid Reaction Force. Military co-operation under the ESDP should progress in close consultation and cooperation with NATO. A comprehensive security agreement between NATO and the EU should follow in due course.

3.2.8 Further co-operation between national militaries should use NATO assets where necessary, and should follow the lines of NATO’s “separable but not separate” Combined Joint Task Force (CJTF) concept.

3.2.9 Duplication of HQ, training, research and logistics mean that for the amount spent, overall EU military effectiveness is substantially less than that of the US. Europe at present gets poor value for money in Defence.

3.2.10 Efforts underway within NATO such as the Prague Capabilities Commitment go some way to closing the gap between European capabilities and the USA. These commitments must be honoured. Enhanced European capabilities will strengthen ESDP and strengthen NATO

3.2.11 We favour greater effectiveness in European defence operations and defence spending. Common action by member states in several key areas would reduce the cost of modernizing EU defence capabilities, an urgent task facing all member states. Collective action on research, procurement, logistics and support capabilities could bring major savings to every participating nation. In addition the EU should earmark a small proportion of European defence budgets

for common EU funding of capabilities. Such capabilities could include:

- Strategic Airlift and Sea-lift
- Logistics and communications
- Medical Services
- Training and Research Facilities

3.3 International Development and Aid

3.3.1 We remain committed to the goal of increasing Britain's spending on overseas aid towards the United Nations' target of 0.7%. We would encourage our European partners to work towards the same target.

3.3.2 The goal of European development policy is to promote sustainable development, eradicate poverty and support projects that promote democracy. Today, the European Union is the world's leading development partner, in terms of aid, trade and direct investment. Together, the EU and its Member States provide 55% of all official international development aid.

3.3.3 At present the disbursement of international assistance funds is confused and inefficient. Three agencies are responsible: DG External Relations, the European Community Humanitarian Office and EuropeAid. In 2001 the EuropeAid Co-operation Office was created. The primary aim was to provide greater organisational coherence to the Union's external assistance programmes.

3.3.4 At present, EC external assistance policies appear to be determined more by political priorities than poverty alleviation. The main obstacle to concentrating spending on the poorest countries is the European Development Fund (EDF), which is fed by contributions from Member States. It is outside the Commission budget process and thus also outside the scrutiny of the European Parliament. Member States contribute to it and have to ratify the agreement each time, subordinating a large part of the aid budget to political wrangling. The EDF represents

approximately half of all External Action payments. Channelling this money through the budget would provide greater accountability and stability to aid payments.

3.3.5 The distinction between different kinds of external assistance (emergency assistance, long-term technical development aid and trade and co-operation agreements) is becoming increasingly blurred. Many emergency programmes have long lives and the trade justice lobby has successfully linked the development agenda to CAP reform and to the opening of EU markets to products from poorer countries. These elements of aid policy could be better linked.

3.3.6 Acting collectively, the EU could achieve much in this sphere, especially since the Union has the exclusive right to negotiate trade agreements such as the Cotonou agreement on behalf of member states. Therefore we support the linking of these different elements of foreign assistance bringing all the EU's foreign policy and development instruments under one umbrella. We propose merging ECHO with EuropeAid to create a new agency run by a deputy commissioner. In this way longer term planning for technical support or reconstruction after emergencies can go together with the mechanisms for dealing with emergencies in the first place. Streamlining the agencies would allow a simpler structure, more effective co-ordination within the Commission and a more coherent approach to humanitarian disasters.

3.3.7 We further propose placing the new EuropeAid (formerly DG Development) under the aegis of DG External Relations to be run by a new High Representative (CFSP). Strengthening the EU's ability to act purposefully in this area and removing the wrangling over the EDF and inefficiency in DG Development would allow it to play a global leading role in stabilising weak states. It would also enable the EU to contribute more effectively to subsequent rounds of WTO negotiations to balance the

effects of world markets with the interests
of poorer countries.

Democratic Europe

4.0 Introduction

4.0.1 The EU derives its legitimacy from two separate sources, which is reflected in its institutional arrangements. It derives legitimacy directly from the people, represented by the Members of the European Parliament and from the Member States in the Council.

4.0.2 A more effective Union depends on stronger institutions. However, we believe if institutions are to have more power, they should be subject to greater scrutiny and possess greater legitimacy. A stronger Union must also mean a more democratic Union. It must be brought closer to its citizens by reforming its institutions and by simplifying its decision-making processes. The Union must be accountable, transparent and representative in the exercise of its powers to engage citizens fully in decision-making at the European level.

4.1 A Constitution for Europe

A European Constitution, containing the Charter on Fundamental Rights and justiciable by the European Court of Justice, would provide the necessary framework for the democratic Europe we seek. It would outline the rights of European citizens, in particular enshrining the right to vote as well as the key human rights that the EU has adopted in the Charter. A single Constitution would provide a clearer, more intelligible overview of how the Union operates. Once agreed, the Constitution should remain unchanged for a considerable time to create greater institutional stability within the Union and draw a line under the 'ever closer union' of Europe.

4.2 The European Parliament

4.2.1 In marked contrast to elections to domestic parliaments, be they national, regional or local, elections to the European Parliament have little noticeable effect. The elections do not cause a change of government or lead to an obvious shift in policy choices at the European level. As a consequence citizens pay little attention, often not bothering to participate in European Parliament elections. While this is not surprising, it is cause for considerable concern.

4.2.2 We would improve the links between the European Parliament and the National Parliaments to strengthen the debate about the Union's multi annual programmes, and to widen awareness of the Union's legislative programme. We would also enable the European Parliament to determine where it sits.

4.2.3 As mentioned elsewhere in this paper we propose to enhance the power of the European Parliament in scrutiny of the Council and the Commission and to control budget expenditure.

4.3 The Commission

4.3.1 A solution to both the question of how to ensure Commission accountability and how to give the citizen a greater say in the leadership of the EU is for the President of the Commission to be chosen by MEPs, subject to ratification by the Council. The President's term of office would be for the duration of the European Parliamentary term. The expectation is that transnational parties would announce who their nominee for President would be during the election campaign. This system would ensure that voters would see very clearly the impact of their votes. It would also facilitate a clear set of policy options emerging during the election campaigns

promoted across Europe by the different party groupings. In order to secure a common basis of representation for the MEPs who are choosing the President we also advocate a common electoral system for European Parliament elections.

4.3.2 The current model of a college of Commissioners selected to represent all member states will be unsustainable after enlargement. The number of required Commissioners could not be reasonably expected to match the number of new states. A much smaller college of commissioners would be more efficient, more effective and in the interests of the people of Europe as a whole.

4.3.3 We propose that each member state should nominate a candidate for the Commission creating a pool of 25. The Council should then adopt the slate of Commissioners unanimously. The President of the Commission should allocate the portfolios choosing the college of Commissioners (10-12 Commissioners with 13-15 deputy Commissioners). As now the European Parliament would be entitled to conduct public hearings of individual Commission candidates. Both the Council and the European Parliament would separately have the right to pass a vote of no confidence in the Commission.

4.4 The Presidency of the Council

4.4.1 The present arrangements for the six-month rotating Presidency of the Council are cumbersome and would be almost unmanageable in an enlarged Union. Firstly, the present system of rotation contributes to the incoherence and instability of the Council's agendas, with each state holding the Presidency bringing with it a different set of priorities.

4.4.2 Secondly, the system creates a significant burden for states, particularly smaller ones. Although small states have frequently run extremely good Presidencies, it tends to be at considerable cost to their domestic affairs: most of their

civil service have to be turned over to the work of the Union for half a year.

4.4.3 Consequently, we propose that the work of the Presidency be split. Member States would still separately chair the European Council on a six-monthly rotational basis. It would be their primary responsibility to prepare and preside over the European Council, keeping in regular touch with Heads of State and Government throughout their term. The Presidency of the European Council would not be responsible for chairing the sectoral Councils. They would elect their own chairmen, who would not need to be serving ministers, for a fixed period of time. This would reduce the burden of the Presidency for Member States, and allow for more effective & coherent chairmanship within the sectoral Councils, serviced by a strengthened Council Secretariat.

4.4.4 The General Affairs Council (GAC) should become the legislative chamber of the Council attended by 'Europe Ministers'. We envisage that the Secretary General of the Council would be responsible for chairing and preparing for GAC meetings.

4.5 Simplifying the Decision-Making Procedures

4.5.1 We favour the creation of a single institutional framework, abolishing the confusing and opaque pillar system currently in place. Procedural features specific to the conduct of the Union's external affairs would however be preserved, particularly in matters of a military nature. In all other areas the Community Method should be the norm, whereby the Commission has the exclusive right of legislative initiative and the Parliament and the Council take the final decision of legislation, which is justiciable by the Court of Justice. We recognise that the issues of security and defence policy remain at the heart of national sovereignty and therefore do not advocate a move to the Community Method in these areas.

Such areas would remain the primary responsibility of the Council.

4.5.2 We strongly favour a reduction in the number of decision-making procedures in the European Union. The current plethora of procedures is not just confusing for the public but also renders decision-making opaque and unaccountable. We therefore recommend that there is one legislative procedure, a revised form of the co-decision, to be used whenever the Union is acting in a legislative capacity. The Council would vote by a double majority (of states and citizens), removing the cumbersome weighted voting system currently in use. The assent of the Parliament should be used to ratify all international treaties, including trade agreements. The budgetary procedure should be simplified to strengthen the European Parliament's oversight and the artificial distinction between compulsory and non-compulsory expenditure removed.

4.6 Transparency

4.6.1 Whenever the Council of the Union is acting in a legislative capacity, it should do so in public, with full reporting, making available the voting patterns of its individual members. This will help to ensure that member governments are more effectively accountable to their own parliaments and people. The vast network of committees within the Commission known as 'comitology committees' (composed of national representatives) is a further area where more accountability is required. Their work on delegated legislation is often undertaken without proper oversight. Their work should be open to review and approval by the European Parliament and the Council.

4.7 National Parliaments

4.7.1 National parliaments have a three-fold role to play in an effective and democratic European Union: firstly, they hold their own government members of the Council of the Union to account for their actions; secondly, they offer another

link between the citizens of Europe and the decision-making process; thirdly, they have a key role in scrutinising EU legislation. Liberal Democrats favour strengthening the part played by national parliaments by improving co-ordination between national parliaments and the European Parliament. Each parliamentary body should be involved in the legislative process: national parliaments ensuring scrutiny at the national level, the EP deciding at the European level. There should be an ongoing dialogue between the committees of all parliaments, enabling them to share expertise, and also bringing the national and European MPs closer.

4.7.2 It is not always clear what the Union does or what is being debated at any given time. We propose that the forthcoming annual legislative agenda should also be debated in each Member State parliament in a 'Europe Week'. This would highlight the Commission's work and make it more open to citizens across the Union.

4.8 Monitoring Subsidiarity and Proportionality

4.8.1 The constitution should provide that powers not specifically conferred on the Union will be exercised by the Member States. The Maastricht Treaty introduced the principles of subsidiarity and proportionality leaving it to the political institutions to judge how they should be applied on a case-by case basis. We support the incorporation of these principles in the proposed new Constitution, empowering Union action only 'if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States', and that 'any action by the Community shall not go beyond what is necessary to achieve the objectives.'

4.8.2 We support a strengthening of the application of these principles, but strongly oppose any proposals to create a new institution to oversee them. Instead we believe that national parliaments

should be given an advisory role in ensuring their correct application through the establishment of an Early Warning Mechanism. Legislative proposals should be addressed directly to each national parliament at the same time as to the European Parliament. Any parliament would be able to issue a reasoned opinion regarding compliance with the principles of subsidiarity and proportionality to the Commission. The Commission would then be required to justify its view or amend the proposal. Following enactment, in cases where it was felt that the one of the principles had indeed been violated, an appeal would go to the European Court of Justice at the behest of the Member States.

4.9 The Regions

4.9.1 At present regional governments are required to implement a number of policies made at European level. In some cases, regions possessing legislative competencies have the possibility of representing their Member State in the Council when the policy-issues fall within their remit. Nevertheless, this is often not the case. We favour the representation of the regions in the Council when issues fall within their own domestic legislative competence. In accordance with the principle of subsidiarity the arrangements for enabling the regions to be represented in the Council should be determined by national constitutional provision.

4.9.2 We also favour new ways of associating regional governments more directly with decision-making at the European level. When the Member States are debating the Commission's annual

legislative programme regional parliaments should be similarly be enabled to conduct debates in areas of their own devolved power. This would strengthen their input to the Committee of the Regions.

4.10 The European Court of Justice

4.10.1 The European Court of Justice (EJC) and the Court of First Instance (CFI) work well but they are severely over-stretched. Therefore, we recommend that the number of judges appointed to the ECJ and CFI be increased to a size commensurate with the demands placed on the courts. To ensure that the appointment of new judges is not politicised and to safeguard the quality of the judges we advocate a Commission of Judicial Appointments, which would make appointments drawing on recommendations made by national governments.

4.10.2 At present the European Court of Justice does not possess jurisdiction in the fields of common foreign and security policy and police and judicial cooperation. Consequently, states and individuals, whose rights and duties may be affected by Union action, may not always be protected from procedural 'abuse of power'. The Court should therefore be empowered to determine whether or not, with respect to the discharge of all the Union's functions, it is acting in accordance with the Constitution. The Court should be the guarantor of the rights and duties of the European citizen.

This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party, except in appropriate areas where any national party policy would take precedence.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

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