

After the Vote: Britain's Future in Europe

Sir John Holmes GCVO KBE CMG

Director, Ditchley Foundation

Monday 4 July 2016

The views expressed in this document are the sole responsibility of the speaker(s) and participants do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions. The published text of speeches and presentations may differ from delivery.

Sir John Holmes

Ladies and gentlemen, I am delighted and honoured to be invited to give this memorial lecture, to commemorate the tenure at Chatham House of a notable figure and great internationalist. Tim Garden had a quite extraordinarily wide-ranging and fascinating life, from his degrees at both Oxford and Cambridge, through his long and successful time in the Royal Air Force, to his later blossoming as a consultant, academic, think-tank expert and politician. I am not sure how many pilots there are with both a lapful of British honours and the Legion d'Honneur. Given his life and his views, I shudder to think what he would have made of the situation this country now finds itself in. But he would certainly have been engaged.

Ladies and gentlemen, this is not the lecture I had originally wanted to give, or thought I would be giving. I also wonder how much appetite there is for more words about the UK and Europe, when we have all heard and read so many over the past few weeks, both before and after the referendum. During the campaign, sitting at Ditchley where Churchill's shadow always hovers, I often reflected on two profound but not totally compatible things he said about democracy. First, and well-known, that democracy is the worst form of government apart from all the others so far devised; and second, rather less well-known, that the best antidote to democracy is a five minute conversation with the average voter.

However these are crucial times for this country and for Europe as a whole, and there is no getting away from the importance of the decisions we now have to take. So we do have to have yet another fundamental discussion of where we want to go.

The reality for me is that, however much I may regret the result of the referendum, and wonder how it could have been different, what's done is done. There is no going back on the decision taken by the British people after a long campaign, when anyone who was not aware of the vital nature of the question being put to them, and the possible consequences of the answer, really was not paying attention. That emphatically does not mean the views of the 48% of the people who voted to say should somehow be disregarded, or those of some of the young who may wish now they had voted and are in various stages of grief. But we should not waste time arguing for a rerun or a new general election which might amount to the same thing.

The vote raises some extremely painful issues about the deep fractures in our society. Any new government needs to tackle these very seriously indeed if we are not to find ourselves in even more dangerous, populist territory in the future. That is not my theme today, and I will say no

more about it directly, except to note that if we do not do something serious about inequalities, the struggle for an open, internationalist country I am about to recommend will be lost anyway. On the European front, what the vote confirmed was that many of the British people have never really reconciled themselves to the EU, and have continued to regard it as something done to them, not something we are really a part of doing; and that our leaders, and Europe's leaders, have lost, or failed to renew, the right, convincing way to sell it to them. Of course that has been made immeasurably more difficult by the decades-long drumbeat of criticism and often mendacious claims about the EU and its institutions, of which not only the media but also many politicians and others have been guilty – and not just in Britain. I also already knew from my experience in Paris, during the French referendum of 2005 on the Lisbon Treaty, how easy the arguments against the EU are to make, and how difficult the more complicated and nuanced arguments in favour are to get across. Other EU governments now have to face the problem of how to make the EU seem relevant and popular again to their peoples, and to move away from the impression, not entirely false, that it is something done by, and for, the elite. They are not going to find it at all easy.

However, my purpose today is not to look back, but to look forward. To repeat, whatever our views, we now need to face up squarely to the fact that the UK is going to leave the EU in a couple of years or so. We now have to make a success of our new status outside the EU. I believe this is possible, if difficult. But it is only possible if we make good decisions in the coming months, and if we establish the right stance for this country's future.

I start from the position that Britain is a European country, geographically, culturally, politically and in every other way. We may be an island, with a long and proud history, with all that implies for self-reliance and a streak of bloody-mindedness, but that does not make us any less European. There is no other country or group of countries waiting to greet us with open arms. Fantasies about building our future round the US relationship or the Commonwealth or the BRICs are just that – fantasies, as these countries themselves made abundantly clear during the campaign. We can and should have very good relations with them, and indeed improve them where we can, but they are not an alternative to those with whom we share a continent.

So the paradox is that we will need and want to hug Europe and other European countries even more closely now we are leaving the EU. That is what our values and our interests dictate.

At the same time we have to stick to our view of ourselves as global players. There is a widespread perception in the rest of the world that we have just dealt ourselves out of the game,

and gone back to being the small island off the continental shelf of Europe we were before our glory days. That perception must not be allowed to stand.

This means that our approach has to be one of resolute maintenance of Britain both as a country which wants to have a close and positive relationship with the rest of Europe and the EU, and also as an open, tolerant and internationalist country, with a determination to go on contributing to the solution of the world's problems. These are not just platitudes. Only if we can achieve that will it be possible to say to all those young people horrified by the result of the vote that they are not condemned to live in a narrow, isolated society driven by a combination of nostalgia for an imagined past and xenophobia. That is their concern, I am convinced, rather than a more specific concern about whether or not we are part of the EU institutions. At least some of those who campaigned to leave the EU are firmly in this open, internationalist camp. We have to encourage them to stay there, and to make it happen, not just talk about it.

I have one particular reason for saying we not only should have, but also can have, a good future relationship with the other key players in Europe. Once the divorce is complete – and that is bound to be difficult and messy - we should at last be able to stop the endless, terrible wrangling, both among ourselves in this country, and with our other European partners, about so many aspects of the EU which has dominated our membership all my adult life. Just imagine not having to listen any more in this country to the endless nonsense about the dictatorship of the unelected faceless bureaucrats in Brussels; or the European army about to appear; or the myths about straight bananas or whatever.

More seriously, the UK's relations with our EU partners were constantly poisoned throughout my diplomatic life by bitter rows about the direction of travel of the EU, about the budget and our rebate, about the Common Agriculture Policy, state aids policy, the relationship with the US, and so on. We gave as good as we got, always, and won a lot of arguments. We were no doubt a necessary grit in the oyster. But it did not make us many friends – and we compounded that in recent years by marginalising ourselves and becoming in many ways semi-detached.

Imagine that the remain camp had won the referendum – and for the avoidance of doubt that is what I voted for and wanted – and especially if it had been a narrow victory. What would have happened next? I, in this lecture, and many others in many other ways, would have argued that now was the moment to start a completely different relationship with the EU – more engaged, more enthusiastic, with the basic argument about membership now settled, more ready to lead in non-eurozone areas, to champion the interests of those left outside the Eurozone, to make a

fresh push for the completion of the single market, to drive forward an effective European foreign and security policy.

But how sure are we that this is what would have happened? I fear that, no matter how uncharacteristically enthusiastic our leaders sounded about EU membership during the referendum campaign, it would not have taken long to revert to the sourer and less cooperative norm, as we demanded greater ability to control freedom of movement (rightly, by the way, as I will come to in a moment), refused this or that step proposed by others, and had yet another toxic argument about the budget and the rebate. Meanwhile our position outside the Eurozone would have continued to make us a less than central player.

At home, too, the argument would not of course have ended with the referendum result, as Nigel Farage made abundantly clear when he thought the leave side had lost narrowly on the evening of the referendum. The cries of 'we wuz robbed' would have been heard the length and breadth of the country, the campaign for another referendum would not have taken long to start again, and all the panoply of Eurosceptic nonsense about the EU would have been rolled out again to soften up public opinion for next time. That would have been profoundly dispiriting.

You will of course recognise that in saying all this I am desperately thinking of reasons to be cheerful. But some of you will may also see that this picture is not entirely wrong.

So what would a good alternative future after the divorce look like? The first thing is of course the terms of the divorce, which will be crucial. The leavers had no coherent plan. There are a thousand important questions to be resolved across the whole spectrum of our economic and political lives. I have no time or technical knowledge to go into them all. But the basic economic and trade relationship is the most critical.

The best outcome in my view would be a kind of Norway arrangement, where we are part of the single market, which is about much more than just trade, and close in all kinds of other ways to the EU, without actually being members. Our businesses and the City, and our foreign investments, would suffer far less under this scenario.

We all now know that it has two potentially fatal flaws, at least from the point of view of many out supporters: it comes accompanied by acceptance of the principle of freedom of movement of people, ie no scope for controlling immigration, and it also carries with it a significant financial bill. It also of course means accepting the rules of the single market without having any say in

them, as the remain campaign endlessly pointed out, and would therefore be worse than the status quo. But we are where we are, after the referendum, and have to cut our cloth accordingly.

The two fatal flaws could well be enough to rule out the Norwegian option, given the emphasis in the leave campaign on the immigration issue and on our budget contribution, and the current warnings from our partners about not trying to cherry-pick. But as time goes on there may still be a significant group on the mainstream leave side as well as remainers – who were after all 48% of the vote - who see the merits of this option – especially among those wanting to leave whose motivation was not really immigration or money but sovereignty and democracy. Is it impossible to imagine a new Prime Minister deciding that, with the referendum won, but only by a small margin, with economic problems staring us in the face, and the problems of the other options becoming ever clearer, he or she should decide to aim for a deal like this, whatever the howls of protest from some quarters? It would probably be much easier to get through the House of Commons. It might also blunt the demand from Scotland for a divorce of their own so that they can rejoin the EU, and ease the problems likely to be faced on the island of Ireland, both of which for me could well be the worst consequences of the vote to leave.

We have to be realistic. Any such arrangement, to be acceptable to many of those who voted to leave, would have to go along with some kind of extra national controls on EU immigration, given the prominence of this issue in the campaign. I have no problem in accepting the legitimacy of this immigration concern, whatever my overall favourable view of immigration, because it is clear that, even beyond the propaganda of certain newspapers, it was a real fear from the lived experience of many who voted for Brexit. It has to be addressed. So is it impossible to imagine some kind of emergency brake arrangement for large and rapid flows, even now when we are leaving, and despite the rejection of this option by some of our European friends? I believe the Norwegians do have something similar in principle, though that does not mean it would be easily negotiable for us.

I do not see myself why an emergency brake on these lines means breaking the principle of freedom of movement. It should rather be seen as a natural reaction to the fact that large gaps between the economic performance of different countries persist, and are causing unacceptable imbalances of flows of people. I suspect that, whatever they say in public, there are quite a few other EU governments, including even Germany, which might be brought to see advantages in a similar measure for themselves at some stage. This might be particularly true if they began to experience greater flows from within the EU themselves, and if further enlargements are

contemplated in the future. If the French economy started to get better, and other Europeans started to flood in, I am pretty sure it would not take the French government long to come round to some measure of this sort.

Whatever the reality here turns out to be, our fundamental aim has to be an arrangement which enables us to be in or as close to the single market as possible. Will our partners play ball? This is hard to tell at this stage. As we all know, they feel slighted and ill-used, and therefore unlikely to be in a mood to do us too many favours, and some will also be anxious not to seem too accommodating for fear of encouraging contagion. But a decent deal is far from impossible if immediate emotions are allowed to cool, if we play our cards right, and if we enter the negotiation in a positive spirit.

Beyond this, we should try to ensure that in as many areas as possible we retain close cooperation with our EU partners. Wherever possible we should aim to stay inside, one way or another, some of the collaboration mechanisms from which we benefit. Thus in areas such as science, research, education, the environment, overseas aid, criminal justice, security cooperation and others, we have everything to gain, and little to lose, by continuing to work as closely with our European partners as we reasonably can, even if we are no longer a member of the EU. We cannot entirely have our cake and eat it, of course, even if at least one Brexit leader had long been in favour of such an approach. But we may in the end be able to achieve a surprising amount – if we really want to. There is nothing to stop us arguing for as positive a settlement as we can. This is a negotiation after all.

In any case, whatever the terms of the divorce, and as long as we have managed not to turn the negotiations into a really acrimonious struggle, there should be an opportunity to start to rebuild relations with our European neighbours, free from contamination by the endless toxic battles in Brussels. In particular, we have every reason to want to continue to cooperate closely on foreign policy and security matters. We cannot sensibly want, or imagine we can pursue, a separate policy on issues like Ukraine or the Middle East. We may paradoxically find it easier to work together once we are free from our own paralysing fear of supranational institutions and of the abandonment of our sovereign right to have our own foreign policy. Our partners should be glad to have us in such a close position since they know the weight our diplomatic network and military strength can bring. We should for example redouble our efforts to work closely with the French in military matters, industrially and otherwise, and start a similar process with the increasingly important German foreign policy and security set-up. We may again find it easier to

do this in some ways, paradoxically, because we can stop fighting each other about whether the EU has the right to have some kind of security role.

My broader point, once again, is that the new British government is going to have to work very hard indeed to rid itself of the perception around the globe of a reduced power, isolated and turning in on itself, more nationalistic, and less open to the rest of the world and foreigners in general. This perception is very damaging, not only to our national self-esteem and overall influence in global affairs, but also to our chances of attracting foreign investment and striking the kind of trade deals we are going to need. This suggests to me, that, even if government money is in even shorter supply than now, because of our self-inflicted economic travails, the next government needs to make a point of stepping up what we spend on diplomacy, trade and investment relations, and security, not only because we will have a lot of new diplomacy to do with our European partners, and a daunting range of new trade deals to negotiate, but also to show that we are still a force to be reckoned with internationally and taken seriously. That is something we should have been doing anyway, as a Ditchley and Chatham House-inspired experts' report argued last year, but it is given added urgency by the position in which we now find ourselves. It will be hard to afford, I am aware, but we literally cannot afford to be seen as a spent force in international affairs.

As part of this, Britain needs to rededicate itself to the struggle for freer international trade and investment rules. One of the more alarming features of the current anti-establishment, anti-globalisation mood amongst many electorates, not least in the US, is the growth of the view that liberalisation is not good for us, economically, and that agreements such as the Trans Pacific Partnership and the potential Transatlantic Trade and Investment Pact are dangerous and to be resisted. We have to work harder to make the contrary arguments, and to demonstrate once again that in the end protectionism harms most those who practice it. This really is a battle we must win.

The new government, like the leave campaign and its supporters, may contain a fair number of people whose instincts are less than liberal in this area, but there will also be some whose instincts are very much on the free trade side. Again, there is every reason to support strongly the latter group. These are crucial battles for the future direction of Britain as an open and free-trading country and for international prosperity as a whole which have to be fought and won. This battle may in the end be more important than the question of whether we are in or out of the EU itself.

What, you may ask, is the rest of the EU going to be doing all this time? Its members much regret our decision, and some of our traditional friends and allies, not least those outside the Eurozone, will particularly regret our future absence from internal battles about issues like free trade and unnecessary integration. The vital struggle for the extension of the single market to services and digital trade will lose its main protagonist. German leadership of the organisation will be strengthened, for better or for worse.

The EU's own primary goal for the coming years will be survival, and all else will be subordinated to that in the short term. The forces which led to the referendum result in Britain are present in almost full measure in several other countries too, including some of the founding members, and the crises of the Eurozone are not necessarily over. Who can say at this stage what the effect of our vote for Brexit might be on, for example, Greece, or even France?

I note the argument from some that the current turmoil in Britain may put others off from following our example, and I am certainly not one of those predicting or hoping that the vote for Brexit is likely to precipitate a rapid break-up of the EU or the Eurozone. The EU is an astonishing construct which has enabled massive progress and prosperity across Europe. What I do observe is that the EU and especially the Eurozone finds itself in a deep hole from which the escape is not at all obvious. Paradoxically, our vote to leave the EU has come at a moment when it is finally dawning on some of those in the EU and particularly its institutions that the answer to all problems is not simply more Europe. It really is, in my view, time that any talk of a United States of Europe is dropped.

The Eurozone itself faces a more specific fundamental and for the moment irresolvable dilemma. It cannot become more successful and escape recurrent crises without greater integration among its members, but such measures are less than ever acceptable to many, perhaps most, of its peoples and parliaments. If attempted they are only likely to lead to greater resistance and more popularity for insurgent parties from right or left. As part of this dilemma, for the moment there seems to be no way of resolving the disagreement between those arguing for mutualisation of liabilities, like most bar Germany, and those led by Germany refusing this and calling instead for more structural reform and more financial and fiscal discipline.

Could these pressures lead to genuinely new approaches in the EU, and reform measures of the kind successive British governments have long been calling for? Could they even lead over time to a looser organisation in which we could ultimately feel more comfortable, and even apply to rejoin at some point in the future? I would like to think so personally. But it is very hard to see how this could happen without dramatic change to the Eurozone, whether break up or reduction

in membership to a smaller, more cohesive and economically convergent group which would not seek to have such a predominant influence over the wider EU. Such changes could only come about through a period of economic turmoil and chaos which would have a dramatic effect on us too. And the key member states, particularly Germany, have long said, and no doubt meant, that they will do anything to prevent such an outcome.

There is a lot more to say but my time is up. So let me repeat my main point, which is that after the referendum vote, on which I fear there can be no going back, we have to fight another fundamental battle to make sure that this country remains internationalist, open and tolerant in outlook, in foreign policy, security and international trade terms; and that in particular, and however paradoxical it might seem, to make sure that this country begins as soon as possible a renewed effort to be as close to our European partners as possible. That is the way to minimise the prosperity losses, to remain attractive to our own young population, and other internationalism-minded parts of the population, to safeguard the union, and to stay a country that matters in the world.