

# uk2020

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The Anglosphere, Trade and International Security

Margaret Thatcher Center for Freedom  
The Heritage Foundation

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Thank you.

It is an honour to speak here at the Margaret Thatcher Center for Freedom at the Heritage Foundation.

Under the leadership of Senator Jim DeMint and my friend Nile Gardiner, the Center is a pillar of support for the Special Relationship of the United States and the United Kingdom – a relationship that has shaped the modern world.<sup>1</sup> It is a forum for discussion and debate about the role of the entire Anglosphere.

The alliance between our two countries and the parallel alliances with Australia, Canada and New Zealand – are unique in history. They were central to the outcomes of World War I and II and of the Cold War. But the fruits they sought from those successes were neither conquest nor hegemony.

This year we celebrate 800 years since Magna Carta was sealed. Absolutely central to all our countries. It established the primacy of property rights and defence of them by rule of law. They delivered greater political, intellectual, religious, and economic freedoms. The result was greater personal opportunity and happiness for more people in more countries than ever before in human experience.

This Anglosphere alliance is central to what I will propose to you today, which is a new global role for the United Kingdom and why America should support it.

Americans tend to see the EU primarily as an economic project. But it was always and still is primarily a political one. It uses economic means to secure political integration, with the end game the creation of a supreme government of Europe. When Brits such as myself expose the false perceptions, as, in her time, Margaret Thatcher did – many Americans raise fears that the alternative to the political union is chaos.

My argument today is that British withdrawal from the European Union will reinvigorate rather than degrade those states of affairs that, from America's point of view, the original European Community was established to secure. I mean broadly shared prosperity and a Europe at peace with itself. Beyond that, I will argue that our exit will strengthen both the global trading system and the foundations of global security.

This is in tune with what Churchill told the House of Commons in June 1950 when he said,

With our position as the centre of the British Empire and Commonwealth and with our fraternal association with the United States in the English-speaking world, we could not accept full membership of a federal system of Europe.

He went on to say,

We must find our path to world unity through the United Nations organisation, which I hope will be re-founded one day upon three or four regional groups, of which a united Europe should certainly be one. By our unique position in the

world, Great Britain has an opportunity, if she is worthy of it, to play an important and possibly a decisive part in all the three larger groupings of the Western democracies. Let us make sure that we are worthy of it.<sup>2</sup>

I am very aware that America was deeply involved in the creation of the original European Coal and Steel Community, the predecessor of the European Common Market and the European Union. Indeed without the active encouragement and intervention of the American High Commissioner to Germany, John J McCloy, Jean Monnet and others might not have brought the Community together when they did.

But the American vision was always economic – to create a Europe-wide free trade area that would ultimately have room for America... as well as Australia, Canada and New Zealand, and a larger collection of nations where the values of freedom, democracy and rule of law held sway.

From the American point of view, opening the European continent to the free flow of goods, services, and money was part of a larger plan for global prosperity and security. The hope was that, as the economies of once-warring nations flourished, the people of those nations would reject Communism, National Socialism and nationalist ambitions. This would ensure that the two World Wars, into which you had been drawn, were permanent relics of a nightmare past. It was always a clear American intention to establish a bulwark against further advances of Communism.

This is not the time to debate the extent of the Common Market's role in Europe's postwar economic success. But turning to recent decades, Brussels's expanding web of prescriptive regulations, the growing weight of its social spending, and the distortions brought on by the misconceived and disastrous euro must surely be held to account for the strangling of that growth.

Today, every continent on Earth is experiencing steady economic growth. The exception is Europe, where the economy actually shrank in 2013 and grew by a miserable 0.3 per cent in 2014 (last quarter).<sup>3</sup>

Even worse, over the past four decades, including periods of robust GDP growth, there has been a catastrophic lack of European job creation.

The stagnation of GDO – “gross domestic opportunity” – is a major reason for the outbreaks of the civil unrest we have seen of late in Greece and Italy.

The EU's more-than-a-generation-long tilting at the windmill of an “ever closer union” and its Quixotic infatuation with the Dulcinea of the euro has distracted the countries of the area from the essential task of delivering to their peoples strong, broadly shared individual opportunity and job growth. And that failure has spawned a permanently unemployed underclass which undermines internal security and prosperity. I am personally astounded that there has not been more unrest given shameful levels of youth unemployment, which in Spain reached well over 50 per cent.<sup>4</sup>

From the very inception of the Schuman Plan back in 1950 and the establishment of the Coal & Steel Community, “le projet” has been primarily political, rather than

economic.

The euro may be the post-Maastricht EU's crowning achievement – it was the cornerstone of that political agenda but now, with consequences that we read in our headlines almost by the day, it never made economic sense.

And before anyone gets too carried away with romantic notions of the democratic achievement of bringing 28 countries into a political union, let me sketch how entirely bankrupt the institution is democratically.

There is no European demos and there has been no citizens' engagement in the creation of the project. When the British people voted in a referendum in 1975, it was to remain in a Common Market. Such an economic project was sold to both Parliament and the people by the prime ministers at the time; while all along, declassified papers now reveal, they knew it was a political project.

When the people of France rejected a wider and deeper Union in a referendum in 2005 by 55 per cent and Holland rejected it by 62 per cent, their wishes were ignored and the rejected Constitution was revamped as the Lisbon treaty. When Ireland then held a referendum with 54 per cent rejecting that Treaty, they were told to vote again and get the answer right. The UK and Denmark were denied a vote in the face of defeat elsewhere. So strong is the desire to establish a political project, that the democratic rights of its people are ignored in order to achieve it.

Furthermore, I don't think it is always realised just how much the process of EU law-making is almost wholly removed from democratic accountability. Sure, national politicians and MEPs have some small opportunity to vote on things, but much of the regulation emerges from secret, back-room dealing. This is particularly the case with "green laws". These are unduly influenced by unelected big green pressure groups ... whose very lobbying budgets are themselves subsidised by grants from the officials they are influencing, in a beautifully circular process that would count as perpetual motion if it did not require continual topping up by taxpayers.

The whole process is shockingly corrupt and its lack of accountability would make a dictator blush.

So, predictably, after 65 years of pursuing "ever closer union", the bloc is now weighed down by unsustainable burdens. Public spending takes 49 per cent of its combined GDP, yet the total employment rate stands at a mere 64 per cent. As German Chancellor Angela Merkel said recently, "Europe accounts for just over seven per cent of the world's population, produces around 25 per cent of global GDP and 50 per cent of global social spending".<sup>5</sup>

Nothing more exemplifies Brussels's determination to pursue its political project regardless of economics than the manner in which the Euro has been supported in breach of treaty provisions while the EU and its central bank bailed out Greece. Christine Lagarde, the then French Finance Minister, spoke the truth recently when she said: "We violated all the rules because we wanted to close ranks and really rescue the euro zone. The Treaty of Lisbon was very straightforward. No bailouts."

Understand that the 2007 Treaty of Lisbon provides the current constitutional basis for the European Union. To sweep it aside with impunity is a major - perhaps ultimately a fatal - transgression.

Whatever the countries of Europe think they have agreed to, as long as the European Commission and Court exercise supreme power, the rules can be changed after the event. It is inconceivable that you would treat the US Constitution in such a cavalier manner.

We have now come to a fork in the road. And wasn't it Yogi Berra – forgive me, but he was a baseball player wasn't he, not a cartoon character – wasn't it Yogi Berra who said, "When you come to a fork in the road, take it"?

The result of its accumulated contradictions and distortions is that the Eurozone must become, in effect, a new country, a United States of Europe like the United States of America. Only then can there be a fully redistributive federal government with legitimate means of transferring funds from wealth creating areas such as southern Germany or Holland to places where it is simply not possible to create wealth at the rate at which their countries joined the Euro, places like southern Spain, southern Italy and Greece.

In order to make such a shift legally watertight, particularly with reference to German constitutional arrangements, it is most likely that the EU will eventually need a new treaty.

In short, and this is critical for Americans to understand, it is not so much that Britain should leave the EU, as that the EU is leaving us.

It is critical to understand that the economic Single Market and the political EU are not one and the same thing. The Single Market is a formal fact under an arrangement called the European Economic Area (EEA). It is an agreement between EU member states and three of the four members of the European Free Trade Association (EFTA) -- Norway, Iceland, and Lichtenstein minus Switzerland. By switching our membership to the EEA, Britain can pursue participation in the Single Market without being strapped in the EU's political and judicial straightjacket. And if we joined EFTA, often described as the "Norway Option", it would become the fourth largest trade bloc in the world.<sup>6</sup>

Confusing membership of the Single Market with membership of the EU is a common error. You can stay in the Single Market and not be in the EU. And the argument that leaving the EU would damage Britain's ability to continue its trade with our European neighbours – thereby damaging the economy of the entire developed world including the US - massively underestimates the huge strategic and selfish interest that our neighbours have in ensuring our continued vigorous participation in the Single Market.

In 2013 the EU exported \$342bn of goods to the UK supporting 5 million jobs on the continent, with 1 million of those in Germany. We exported \$240bn of goods to the bloc, leaving a deficit on account of \$102bn, up from \$62bn in 2011. We imported \$88bn-worth of goods from Germany and \$37bn from France, with a surplus for these two countries totalling \$46bn.<sup>7</sup>

It is hard to imagine that our EU trading partners would wish to break off such a lucrative trading relationship. To suggest that leaving the EU would put at risk three million jobs attributed to UK exports to the EU is simply wrong.

Here are the essential points:

- It is the Single Market comprising the 31-member European Economic Area that delivers jobs, not the EU.
- Britain can leave the political project and enter into a solely economic project with Europe via the European Free Trade Association and the European Economic Area.
- We would still enjoy the trading benefits of the EU, without the huge cost of the political and judicial baggage.
- The benefits to international trade and global stability that Americans have historically looked to the EU to provide would remain undisturbed. Indeed, as I will now argue, they would be enhanced.

So let's say Britain makes the switch – out of the European Union, into the EEA. Where would we – America as well as Britain - be by 2020?

Some Americans have insisted that having Britain in the EU gives you a friend inside the councils of Europe. Few have noticed the high price you pay for having that friend on the inside rather than outside.

In the world today, decision-making – true decision-making - takes place at a global level through a variety of bodies deciding regulations. It is at the global level that having a friend counts. Yet as things stand, Britain has no seats at these "top tables." We have handed power to the European Commission to represent us along with 27 other Member States. On these global councils, we have one twenty-eighth of a chair. Hardly a leg to stand on.

What I am about to say is critical and almost entirely missed, not just in the United States but in the United Kingdom and everywhere else.

What very few understand about global processes is that in 1994 the game changed substantially. It was then that the EU adopted the WTO's Technical Barriers to Trade Agreement.<sup>8</sup> This incredibly important instrument requires the participating parties (including the EU) to adopt international standards in preference to their own. Thus, if any global body adopts standards that impinge on the EU's laws, the EU is obliged to scrap its rules and implement the new standards.

This provision is not optional. The Agreement uses the word "shall". The EU has no choice but to replace its laws with international rules as they are adopted. That compulsion applies to the United States, as well.

As Britain's Secretary of State for Environment, Food and Rural Affairs, I was only too well aware of how these changes affected Britain. Many of the food standards my former department must implement are no longer established in Brussels. A

commission of the UN's Food and Agriculture Organization in Rome now makes them.

This multinational commission goes by the name of the *Codex Alimentarius*. It was established in the early 1960s. It has 186 members, including the EU and Britain, although we hand our vote to the EU, so that we are not functional members.<sup>9</sup> As a result, we in London would often learn of new *Codex* rules only after they had been handed down to Brussels - and then it's too late to change them.

My Ministry was also subordinate to two other FAO standard-setting organisations: the World Organization of Animal Health and the International Plant Protection Convention. The EU is obliged to embrace their standards and then those standards are passed down to us unamended in London.

If I had any illusions about what this means, I lost them on an official visit to New Zealand. My counterparts were particularly exercised about a specific proposal of the World Organization for Animal Health. It affected the sheep industry, which is crucial to New Zealand. They told me how pleased they were to have got the Australians on their side and believed that gaining the support of Canada and the US would see a key amendment through.

I wondered why they had not asked for the UK's assistance. They said that the UK's position was entirely represented by the EU. In other words, though we have one of the largest sheep flocks in the world, we had no effective voice on this key, global body.

In contrast, Norway is a member of the EEA but, as I said, not the EU. Norway has a huge fishing industry and, appropriately, plays an enormously important role in promoting regulations concerning fish in Codex by chairing the Codex Fish and Fish Products Committee. These are regulations to which Britain (which also has a sizable fishing fleet) must submit. So why not have a decent chance to influence them as Norway does by building alliances with like-minded countries?

Regarding our discussion today: Isn't it at this global level where our friendship with America most matters to Americans?

The range of international standards shaping EU laws and rules is staggering. In the European car industry, for instance, the regulatory focus has moved from Brussels to Geneva. There, the EU's standards start as "UN Regulations" produced by the World Forum for the Harmonization of Vehicle Regulations. Known as WP.29, it is hosted by the United Nations Economic Commission for Europe.<sup>10</sup> European vehicle production is extraordinarily integrated; the UK produces 1.6 million cars but 2.6 million engines. Most of these engines are exported to Europe and many of them are reimported as components of finished cars.<sup>11</sup>

As we move to world standards of vehicle production, you and we would be at a massive advantage if we could work together on the body influencing standards especially as Brussels is getting over-powerful.

Then there is the regulation affecting the financial services industry - of such great importance to both the City of London and Wall Street, which are, in many respects, a single economic entity.

Many of the important rules come from the Basel Committee on Banking Supervision.

Equally important is the Financial Stability Board founded in April 2009 by the G20 and working with the Paris-based OECD. It coordinates national financial authorities and international standard-setting bodies and itself develops and promotes implementation of financial sector policies.<sup>12</sup>

In other words, key decisions on financial regulation may be made in Geneva, Paris, Berne, or Rome. They are not made in Brussels. If Britain were not in the EU, we would be working directly with these organizations, building alliances with like-minded nations – such as the United States.

So here again, in today's world, it is outside the EU where America needs our friendship and where we need yours. This is particularly necessary in view of what Columbia Law School Professor Anu Bradford called the “Brussels effect”, where the EU is increasingly dominating the global regulatory system, even being able to dictate regulation to the United States.<sup>13</sup>

As I said at the outset, the enhanced alliance of which I speak extends beyond our two countries. It includes the Anglosphere – the English speaking countries of Australia, Canada and New Zealand. We are all nations that could line up on the same side of most major questions of trade and finance.

And beyond the Anglosphere, there is the Commonwealth of Nations. The UK has, of course, unique links to the Commonwealth whose trade is worth around \$4 trillion and where in some countries the United States is not entirely trusted.<sup>14</sup> From within this great organization, we can work closely with large numbers of African nations who are beginning to emerge into prosperity.

We have especially close links to the growing nations of South Asia. As India opens its economy and continues to rise among the world's most dynamic nations, India will become a natural ally on matters of commerce and investment. Likewise, our strong historical ties with Hong Kong, Malaysia and Singapore are not only critical in themselves but strengthen our mutual ability to work with the emerging superpower of China.

The need to strengthen the Anglosphere's global hand is particularly urgent just now.

The global trading system is breaking down. To rebuild it, our nations must take the lead in a program of regulatory convergence.

EU-style regulation is restrictive and costly, to be avoided. But as Adam Smith would have understood, well-crafted promissory laws that set standards for cross-border transactions and exchange are needed to prevent a return to protectionism.



Freeing the world's 5<sup>th</sup> largest economy to participate directly in international regulatory bodies would strengthen the Anglosphere's influence, creating real pressure in those bodies for expanded international trade.

And let me add, as a first step to increasing the Anglosphere's robustness and for our own sakes, after Britain leaves the EU, our two countries should forge sectoral agreements in vital areas, such as pharmaceuticals and cars, where our two countries could rapidly agree. This should then lay a solid base towards embracing the Heritage Foundation's proposal for a speedy conclusion of a US-UK free trade agreement.

I have said that the benefits of Britain dropping out of the EU are exactly those that led the United States to support the creation of the European institutions after the Second World War – higher Gross Domestic Opportunity, greater and more widely shared freedom, democracy and happiness: together the domestic foundations for international peace.

But global security policy is also at stake.

Leading British historian Andrew Roberts has pointed out that the high command of the modern American military was structured to mesh with the high command of the United Kingdom.<sup>15</sup> That was during World War II and remains the case today. But intertwining goes further.

For three quarters of a century, both countries' intelligence services have operated as nearly a single entity, as have the services of the other Five Eyes, that is, of the Anglosphere.<sup>16</sup> Throughout our various national security establishments, capacities are complementary. This means that if one cannot hold up its responsibilities, all are compromised. Today Britain is not holding up its part of the defence bargain.

This is because the EU is not just confining its activities to trade. The Lisbon Treaty brought a concerted move to develop an EU foreign policy, with the launch of the European External Action Service (EEAS) – intended to be the European equivalent of the State Department. Only two weeks ago, we saw Commission President Jean-Claude Juncker, revive the ambitions for a European Army.<sup>17</sup>

If this ambition was ever realised, it would cut across the close relationship between the UK and the US. It would undermine the structure of Nato and weaken the resolve of individual member states to maintain their own militaries, using the European force as an excuse for cutting back their own defence expenditure.

Even as Vladimir Putin makes his moves, ISIS continues its barbaric slaughter in the Levant and Africa, and Iran continues to fund terrorist activity around the world, we are succumbing to that temptation. We are relying on double-hatted "rapid reaction forces" available both to the EU and Nato as part of a multinational force, thus legitimising reduced defence spending. You currently spend 4.4 per cent of your national budget on defence, although some estimates – such as the World Bank - put it at 3.8 per cent.<sup>18</sup>

As recently as the mid 1980s, when the Soviet Union was a real threat, we were spending 5 per cent of our GDP which served us well at the time of the Falklands.<sup>19</sup>

We still spend over the NATO goal of 2.0 per cent – but just over. 2.1 per cent. Our current budget would put us at 1.38 per cent within a decade, making us more and more reliant on the Europeans for defence. Unsurprisingly, your military already is reported to believe that we lack the capacity to act as an independent ally.

The UK, leaving the EU, would regain our independence to devise our own foreign policy. Working with like minded allies, we would forge our own defence policy and the practical requirements that should follow on from that. It is the first duty of a government to defend its citizens. I believe we should provide the necessary funds required by an appropriate foreign policy. Whether it is aircraft carriers or improved cyber defence, I don't wish to be bound by a particular percentage. It is the required defence outcome that should be decisive. If foreign and defence requirements change, we should not be afraid to override established percentages.

The essence of this is that continued membership of the EU requires the progressive surrender of much more than national regulatory capacities. With its long-standing political ambitions, Brussels is demanding that we let other national capacities wither. We are learning that a nation cannot give up its national responsibilities in just one area. Nationhood is indivisible – because it is not just material. It is a state of mind and heart. Companies can divide themselves up and spin off divisions. A nation cannot divide its soul without losing its spirit.

America needs Britain as an ally on many fronts. It needs us to reassert ourselves as a nation ... to take our place once again in the counsels of the world.

For as Churchill said, "We have our own dream and our own task. We are with Europe but not of it. We are linked but not comprised. We are interested and associated but not absorbed".<sup>20</sup> He was right then and he is right now.

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