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Untangling the EU web [1]

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The most constructive approach towards the renegotiation between the EU and the UK would embrace a fulfilment for the UK of the EU?s central bargain: a surrender of sovereignty in return for palpable gains. For the UK this means not so much peace (as for France), or respectability (as for Germany, as well as in different ways as for the Southern and Eastern European members with only recent history of democracy), or a voice (as for the Low Countries and other smaller nations), but free access to local markets where we have comparative advantage, specifically services.

This, however, has been delayed indefinitely: for all that the ?Service Directive? was negotiated during the good times from 2000 to 2006, it was rendered toothless by vested interests and now stands unenforced. The failure of the EU to deliver on its central bargain with the UK amplifies the grievances which find expression as concerns about sovereignty.

The natural course would be to revisit the issue with a new timetable. Setting aside credibility, at present no-one can engineer such a thing. There is neither understanding, fiscal capacity nor political will for the critical reform, cleaning up bank balance sheets and the zombie companies they support.

Instead the authorities have diverted themselves with regulatory tokenism, while the Euro's sovereign debt crisis complicates events beyond any hope of timely resolution. In addition, the political class?s successful campaign to demonise banks has demolished any appetite for public intervention to restructure balance sheets. So efforts on this score are acutely untimely, with the recession and banking crisis leading to greater rather than lesser restrictions.

So negotiators will be left unable to address the market in services in a positive spirit. This means that possibly in spite of themselves, our delegation will be obliged to engage with the other side of the failed bargain - in other words to contemplate the repatriation of powers which famously threatens to inflame attitudes. Do negotiations founder at this point? It depends on how the Government?s has communicated its ambitions for renegotiation and the public's sense of these things.

Ahead of the PM?s speech, we are getting a strong sense of a PR campaign to manage expectations. In the last few days, this has included the Sunday Telegraph interview with the PM himself, articles by senior commentators and Tuesday?s round-robin letter to the FT from business leaders. Whether or not culminations, Wednesday?s speech by a senior US diplomat, Philip Gordon, followed by today?s by Gunther Krichbaum, the chair of Germany?s European affairs committee, do double duty.

On their face, such speeches argue for restraint by drawing attention to the misgivings of principal allies. More to the point, they do HMG the favour of defining sovereignty down, so that after such interference any reference whatever to a referendum qualifies as bulldog independence. Knee-jerk comments from harrumphing columnists are already helping this along.

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