

65th Königswinter Conference

Schloss Neuhardenberg, 4th-6th June 2015

70 Years of Peace, 65 Years of Partnership:

European and Global Challenges to Britain and Germany

This year's Königswinter was full of significance, in memory of the past and in anticipation of trials and tribulations to come. Only a month earlier, the 70th anniversary of the end of the Second World War in Europe had been commemorated. Since that day when war ended, the arc of history has veered towards reconciliation, unity and peace in Europe. One of the unsung heroes in transforming the relationship between Germany and Britain during that time has been Königswinter, whose contribution has been described by Prime Ministers and Foreign Secretaries over time as "distinctive", "inestimable" and "unique".

Königswinter owes a debt of gratitude to the tireless efforts of its founder, Dame Lilo Milchsack, who in March 1949, along with seven others, founded the Deutsch-Englische Gesellschaft in the dining room of her home in Wittlaer, near Düsseldorf. The Berlin Air Lift was nearing its peak and just two months later the Bundesrepublik Deutschland would be established. With the able assistance of Sir Robert Birley, later headmaster of Eton College, and the financial support of Lilo's husband, Hans, the first conference took place 65 years ago at the Adam-Stegerwald Haus, in a small Rhineland spa town from where the conference took its name.

This at first novel idea of an Anglo-German exchange has enabled serious but informal discussions over the decades, ranging widely over European and Global issues with opinions cutting across national divisions more often than not. So it was with a nod to the past that this year's participants assembled under the glorious Brandenburg sunshine in Schloss Neuhardenberg to discuss "European and Global challenges to Britain and Germany". How do Britain and Germany envisage Europe's path ahead? What was Europe's future in an unstable and unpredictable world? And was continental competition the next stage of globalisation? These were to be the topics for this year's discussion.

As has been the tradition over the decades, these three subjects were discussed in a range of formats, commencing and concluding in open plenary, but for the most part discussed in three separate study groups with speeches providing food for thought over lunch and dinner. Many participants also took full advantage of the delightful weather to continue discussions over strolls in the magnificent grounds of Schloss Neuhardenberg, or into the small hours in the well-stocked Brennerei.

The Conference Chairmen and former Ambassadors Hans-Henning Horstmann and Sir Michael Arthur opened the conference and quickly set the scene. The recent election in the UK had resulted in an unexpected Conservative majority and an in/out referendum would therefore be held by the end of 2017, probably sooner. MPs were voting on the Queen's Speech that very evening which would confirm the government's legislative programme. This clarity of purpose would now focus minds on the upcoming renegotiation. David Cameron had been in Berlin the previous week to discuss EU reform with Angela Merkel. He would join the other leaders of the G7 in Bavaria the following week for their annual G7 summit and a fortnight later, the Queen would be making her fifth state visit to Germany. June would therefore be a busy month for Anglo-German relations. Aside from the looming "British question" there were other pressing issues to discuss as well.

Russian aggression and the conflict in Ukraine, instability in the Middle East and that perennial Königswinter favourite, Greece and the eurozone.

“After the election”

The opening panel discussion brought together two former British parliamentarians, the Rt. Hon. David Willetts (Conservative) and the Rt. Hon. Douglas Alexander (Labour). The discussion was chaired by Jochen Buchsteiner of the Frankfurter Allgemeine Zeitung. What followed was a very prescient analysis of the recent UK election and the likely impact of the next parliament.

Buoyed by their superior economic credibility and leadership, the Conservatives had done far better in marginal constituencies than had been expected. Combined with an SNP surge that saw them take 53 out of 56 seats in Scotland, Labour had been routed with several high profile parliamentarians, Douglas Alexander included, losing their seats. Labour now held few seats in the South East outside London, were battling for supremacy with UKIP in the north of England and had a sole seat north of the border. This election result could be understood as the result of the politics of identity, of insiders vs. outsiders and not the usual left vs. right ideological battle. This was in part due to the efficacy of politics being called into question after the financial crisis. Some German participants remarked on the unfairness of the British parliamentary system, a system where nearly 4 million votes for UKIP had translated into only one UKIP MP (incidentally a long-standing Königswinter attendee). They were surprised to hear that electoral reform was not a major current issue in the UK. Reflecting on his own bad luck, Douglas Alexander recalled the words of Sir Winston Churchill, who having lost the 1945 General Election was comforted by his wife Clemmie who said it might be a “blessing in disguise”. To which Churchill is said to have replied that it was, “very well disguised”.

The parliament was to be “a parliament of two unions: the British Union and the European Union”. Settling these questions would introduce substantial uncertainty throughout the parliamentary term. The government in Westminster was committed to a new constitutional settlement for Scotland, but Scottish elections in 2016 could see the notion of a second Scottish referendum back on the agenda. An in/out EU referendum could quite feasibly split the Conservative party with Ministers resigning to campaign for the Brexit camp and a large minority of Conservative MPs dismissing the efforts of the Prime Minister. Although the British government’s expectations were being revised down making an agreement more achievable with European partners, there remained an “unbridgeable chasm” between what the Conservative party wanted and what was feasible. Labour had the challenge of finding a credible new leader and defining the question “to which they were the answer” for the 2020 election. But perhaps the most important event of the next parliament would be David Cameron stepping down as Prime Minister. Those Ministers around the Cabinet table who were involved in the renegotiation would have that gnawing at the back of their minds. The panel concluded with an agreement that whatever happened in the referendum, Königswinter had preceded the UK’s membership of the EU, and would continue irrespective of the outcome.

Over dinner that evening, Markus Ederer, State Secretary of the Federal Foreign Office made clear the German view on the referendum. “The German position on this question could not be clearer and it comes from our hearts and minds: We want you to stay in”. He explained that the UK was a much valued partner and Germany wanted the UK to “remain in the club”. The greatest risk therefore arose from unrealistic expectations. “Of course Germany will go to great lengths to support London, even help London – but it cannot go to any lengths.” The State Secretary also warned of the risk of being too fixated with Germany at the cost of other Member States and institutions, “when it comes to drafting the future design of the EU, all 28 Member States as well as the European Commission and the European Parliament have to be involved”. Looking at the

questions for the group discussions the next day, he was certain that everyone would agree that, “none of us in Europe can face challenges of this magnitude alone and without the others”. He remained firmly convinced that the European Union would remain stronger with the UK as a member, and likewise, the UK would continue to be stronger as a member of the EU. His parting words were a chilling reminder of what was at stake, “none of us want to walk back into future Königswinter conferences being asked who lost the UK and who lost the EU.” It was clear that Germany and the UK had more need than ever to talk and Königswinter would provide the setting for it.

How do Britain and Germany envisage Europe’s path ahead?

The large study group looking at Europe’s path ahead was superbly chaired by the firm but fair hand of Almut Moeller of the Deutsche Gesellschaft für Auswärtige Politik. The group covered three questions: What is the state of the union? What does Europe mean in the 21st Century? And what could Brits and Germans do together?

On the state of the union, an early disagreement arose between the British and German camps on the eurozone crisis and the fate of Greece. Some British participants were quick to point out that the eurozone continued to suffer from subpar growth and stubbornly high unemployment, although some recent improvement in both variables had been observed. There was a distinct impression that fundamental structural issues had yet to be resolved. German participants were quick to retort that the “birth defects” of the euro were being dealt with, substantial progress had been made e.g. with banking union and that Greece remained the exception, not the rule. The response came that the recent Franco-German paper on deeper integration had kicked the important structural issues into the long grass.

This initial disagreement between the two camps bubbled over into a discussion about the likely impact of Grexit, with some German participants dismissing its significance, pointing to Greece’s small size, the fact its debts were owed to official, not private creditors, and the various firewalls including the ECB which were ready to step in if necessary. There was no sign of panic in the markets for Portuguese or Spanish sovereign bonds, even as the talks with Greece went from bad to worse. British participants highlighted that would be fine, if markets never changed their minds, or got things wrong. One Brit asked a German if he would be willing to transfer his life savings from a German to a Portuguese bank in the event of a Grexit.

The two camps then started to find some common ground. There was a broad acceptance of the economic necessity of treaty change, but that current politics did not allow for it. Some British participants took the opportunity to encourage the German Federalists in the room to push harder for treaty change. One of the reasons behind the UK’s desire for treaty change was the need for legal certainty behind proposed changes. There was a feeling that in the balance of law vs. politics in Europe, the latter was winning at a cost of eroding trust in the legal framework or “Rechtsgemeinschaft”. Some British participants thought that legal advice in the EU had become more “plastic,” moulding readily to suit political imperatives, although other British and German participants pointed out that this was hardly a problem confined to the EU. One German took the historical view that all significant foreign policy decisions in Germany had been taken against the will of the people, from NATO membership to entry into the euro. Further integration would therefore require leadership to carry the people along. There was a broad consensus in the room that such a view of “elites” determining policy was part of the problem in Europe and was behind the rise of populist movements. Both the British and German camps agreed that the referendum had injected a large dose of dynamism into the debate. Some Germans, having seen the Scottish referendum and

now the upcoming EU referendum, admitted a tinge of envy in all of these displays of democracy and wished that Germany would hold a referendum or two of its own.

The starting point for what Europe meant in the 21st Century was the single market, both as a market of 500 million people and as a global setter of norms, rules and standards. Here, there was broad agreement that completing the single market in digital and energy was a vital component to future success and enhanced competitiveness. The single market also had to be outward looking and there was a feeling among some British participants that the German government was not doing enough to “sell” the Transatlantic Trade and Investment Partnership (TTIP) to the public. One British participant made the claim that the European single market was not about trade liberalisation at all but rather a corporatist concoction to restrict trade by setting standards to suit incumbents, a single regulatory regime controlling trade by the granting of official permission. This was at the heart of the sclerotic growth in Europe and what was needed instead was to let the consumer decide and to have mutual standard recognition. There was broad support for the notion that Europe meant more than just a single market, it was also the ability to tackle common issues such as Russia. Several participants commented on how positive it was that Europe had stood united against Russia in launching and maintaining sanctions, despite their differences on the matter.

Looking at what Britain and Germany could do together, the immediate common ground was fairly obvious: a focus on competitiveness, adoption of trade agreements and attacking the completion of the single market with renewed vigour. The Commission had already started its “better regulation” agenda and one German participant remarked that it was good news to hear that “MEPs were complaining that there wasn’t enough legislation”. There was a fear that after this initial reset the Commission may go back to “producing rules”. Whereas German participants were optimistic about the general agenda for reform and the restriction of out-of-work benefits for migrants, they were less sure about restricting in-work benefits, providing the UK with safeguards and a greater role for national parliaments. Some British participants thought that Germany could use its substantial clout to help influence the other 26 Member States.

On Foreign Policy, we had gone through the looking glass. Historically, the UK had accused Germany of a lack of engagement on key Foreign Policy issues but now it was Germany who was leading the Western response to Putin, while the UK had become more disengaged and introverted. Germany had shown it was willing to be more intergovernmental and robust on Foreign Policy and both sides agreed that the UK had a much bigger role to play with Russia. The final thought was to learn the mistakes from the past, specifically the Scottish referendum, where complacency about the outcome had led to the result being a lot closer than expected.

Europe in an unstable and unpredictable world

The study group discussing Europe in an unstable and unpredictable world was chaired by Omid Nouripour, Member of the Deutsche Bundestag. As befitting a group chaired by a member of the Green Party, this group took full advantage of the weather and relocated their discussion outdoors. The fine weather however did not temper the discussion and the group quickly agreed that Europe was still suffering from the hangover of the wars in Iraq and Afghanistan, as well as year after year of crisis in the eurozone. Twenty five years after the end of the cold war, the continent was also faced with a series of new threats ranging from a revanchist Russia, terrorism and instability arising from weak and failing states.

The Charlie Hebdo attacks in Paris at the beginning of 2015 had provided a timely reminder of the challenges of protecting European values in a time of instability. Dual concerns about immigration and austerity had fuelled a mix of anti-EU, anti-Euro and anti-immigration parties across the

continent, which had capitalised on this surge of popularity in the European elections. The after effects of the eurozone crisis continued to dominate EU states, contributing to tensions between creditor and debtor nations and had led to dramatic cuts in defence, development and government budgets more broadly in most member states.

Discussion quickly turned to the conflict in Ukraine which was fighting for its survival as an independent state. The economy was in free fall, contracting 18% in the first quarter of this year and sporadic fighting in the East had continued after the second Minsk agreement in February. Creditors were resisting a debt write down, while the IMF pledged \$17.5bn in financial support supplemented by only \$7.5bn in bilateral aid, a fraction of what had been offered to Greece. There was a sense that as Ukraine spiralled downwards, “neither side wanted the Donbass.” A majority in the group believed that sanctions against Russia ought to be maintained.

The eurozone crisis also had a side-effect in diminishing the EU’s soft power. It was still the case that neighbouring countries wanted to join it or work closer with it (the troubles in Ukraine had started over an association agreement with the EU). But there was a sense that other regional groupings, particularly in Asia, did not see the EU in the same light post-crisis. The failure to provide prosperity had led to a shake-up for political parties of the mainstream left and right, all across Europe. If the negotiations with Greece failed and led to Grexit, this effect would be compounded.

In the Middle East, European neighbourhood policy was confronted with a mix of “failed states, rogue states and rogue allies.” Turkey was highlighted as somewhere with greater possibilities for cooperation, with the opposition uniting around Kemal Kılıçdaroğlu, whose Republican People’s Party were campaigning on a promise to join the EU. A key problem that was identified was the issue of “transformation vs. transactionism” which led to difficulties of containment in the Middle East.

Overall, the EU was seen to have “more leverage in the East than in the South”. There was an agreement that there were plenty of tools in the toolkit, but that the EU was choosing not to use them. Whether this was the right course of action remained to be seen.

Continental Competition

The study group on Continental Competition was chaired by Sir Simon Fraser, Permanent Under-Secretary of the Foreign and Commonwealth Office. It was notable for establishing from the outset a consensual style of discussion which quickly established a joint position between the British and German camps. Contributions varied based on professional backgrounds but there were no Anglo-German disagreements. On more than one occasion British participants were heard to say “we Europeans!”

The group started with the observation that we were “no longer in the 19th Century”. The Westphalian concept of the nation state was in crisis and neither the UK nor Germany would be adequate partners in dealing with the US, China, India or Russia. European nations trying to compete unilaterally was neither an option nor desirable in normative terms. The only option available to survive and prosper was a high degree of solidarity between the states of Europe; a serious effort to meet the challenges head on by highlighting common strengths; and to develop new forms of collective action. This would lead to a highly complex mix of collaborative and competitive elements that determined the relationship with other global players. The group highlighted civil society as a powerful actor to facilitate social cohesion, something the state could also offer in times of radical change.

Discussion was quickly dominated by “China, China, China.” Despite repeated attempts to introduce India, Russia and the emerging markets into the discussion, talk soon returned to China – an

example of continental competition in action. China was striving to be the dominant world power and the Communist Party had at times shown remarkable responsiveness, even more than some democratically elected governments. Whether this would be sufficient to deal with all the social and political tensions remained to be seen.

There was also extraordinary unanimity within the group in pinpointing disenchantment with the US, particularly the way in which politics had been hijacked by corporate interests, security arguments were made to ensure protectionism of industries and the growing “data imperialism” of the US large cap tech sector. With the US system inflexible and intent on remaining top dog, the scene was set for a clash of civilisations between the US and the rest of the world which would have been unthinkable a few years ago. When these sentiments were fed back to the group later in the day, one British participant said that this sounded more like the “Berlin chapter of the Occupy Movement.”

Europe’s strength was that it “did not need to be Number 1”. Europeans had an ability to bridge East and West, like Austria had in the past. Europe could thus act as a go-between, finding a balance between competition, cohesion and collaboration and exploit its comparative advantage in having to deal with complexities in governance. “We are all Europeans as long as we become Austrians” became the Group’s motto. Europe ought therefore to “invest in trust” as well as its more obvious strengths such as innovation, shunning the emphasis on security found increasingly in the US and China. There was however one lesson to learn from our American cousins – we needed to have a sense of confidence in ourselves and our competitiveness. Surprisingly, the group were unanimous in their scepticism about TTIP and favoured other trade agreements as well a focus on its standards (the protection of consumers) and values (the rule of law). There was much optimism in the group that Europe could survive and indeed thrive in global competition, if Europeans came together, focused on their strengths and underwent a creative and disruptive process of renewal. Overcoming the trust and identity crisis in Europe was paramount, specifically at the European not national level. Whether and to what extent the EU was the right vehicle for this remained to be seen.

Concluding addresses

Königswinter finished this year with a triumvirate of speeches, the first on “Refugees and Europe” by Dr. Fritz Jaeckel, Chief of the Saxon State Chancellery and State Minister for Federal and European Affairs. This commenced with a stark reminder about the scale of the global challenge with 53m refugees globally, the same as the population as England. There were 1.8m Syrian refugees living in Turkey and Lebanon and the Turkish government had already spent \$5 billion on humanitarian assistance in the east of their country. The previous weekend, 5,000 refugees had been rescued trying to cross the Mediterranean by international relief forces. Here too the numbers were eye-opening: In 2012 across the entire EU, 315,000 applications for asylum had been made. This year in Germany alone, 400,000 applications were expected.

The push factors were clear: “forced displacement, armed conflicts, repression, discrimination and, last but not least, poverty.” Europe offered the hope of security and political stability, the ability to work and to make a better life for individuals and their families. Europe had a moral obligation to help people fleeing from conflict zones, but it should also be possible to return economic migrants to their country of origin. Offering a legitimate path to emigration above and beyond the existing “Blue Card” system for highly skilled workers was also called for. There were potential economic benefits for Europe from this. Migrants tended to be young, willing to work and flexible. In Germany with an aging population, the benefits to the labour market were clear if the necessary training was provided. However, there were also concerns about the impact of large movements of unskilled

labour on wages and unemployment at the lower end of the income distribution. This was one of the drivers behind the Pegida movement in Saxony.

With the immediate burden of receiving and dealing with such migrants concentrated on a few countries such as Cyprus, Greece, Italy and Malta, there was also a growing threat to the Schengen free movement area if a coordinated approach was not agreed. The main burden of accommodating the refugees was borne by a few countries such as Germany and Sweden, which would be increasingly difficult to justify to the public. The UK therefore had a role to play in providing safe harbour for refugees, even though it had well known concerns about immigration.

Dr. Jaeckel highlighted in particular the fiscal impact this large scale movement of people would have. Provided they were working, migrants paid taxes but they also received social benefits. The question arose as to whether receipt of such benefits should be deferred for a period of time, as David Cameron had suggested. The “homeland” principle ought to apply: for EU migrants, benefits should be paid from the country of origin for those that were not working and from the country of employment after an allotted period of time for those that were in employment. For non-EU citizens a different system needed to be adopted.

In his winding up address, John Peet, Europe Editor for the Economist picked up on some key themes from the conference. First the British election which had been an astonishing surprise. He remarked that in the dim and distant past he had been a junior British official in Brussels and the complaint at the time was that they could never do anything because there was always an election going on in Germany. Now it was the UK that was staging referendum after referendum. He echoed the concerns of one of the study groups to guard against complacency, the Scottish referendum had been a lot closer than expected. The UK also had to realise that their demand for safeguards were a result of their own decision not to join the euro. There was a difference between being inside and outside the club. Recalling the very first Eurogroup summit in 1998 when Gordon Brown had participated as Chancellor of the Exchequer, he explained how the French Finance Minister had been against the UK’s participation, saying that the Euro was “like a marriage and that in a marriage, one did not invite a stranger into one’s bed.” Amusingly, the Finance Minister at the time was Dominique Strauss-Kahn.

Secondly, “exit” was on the agenda. We had the very real threat of Brexit, Grexit and perhaps even a French exit or “Frexit”. The National Front had seen to that and the impact of their rise could now be seen in Sarkozy’s harsh anti-immigration rhetoric. Something which made the British government’s demands seem tame in comparison. The final theme was Merkel in whom the British had placed a large degree of trust in her ability to fix the “British problem.” He regaled the participants with an anecdote about one French official who asks another why the Americans were able to establish the United States of America while the Europeans were unable to establish a United States of Europe. The response comes that the Americans had settled their “British question” before they had started work on their union!

Over dinner hosted by Sir Simon McDonald, British Ambassador, the final address was given by the Rt. Hon. Greg Clark, Secretary of State for the Department of Communities and Local Government. He celebrated the partnership between the UK and Germany over the 65 years since Königswinter was founded and quoted Richard von Weizsäcker, *“one would look in vain for an association between states with as much continuous success...Time and again others model themselves on it. Even so, there is nothing to compare with it in the entire world. Königswinter will indeed remain unique.”*

The Minister used his address to set out the case for holding a referendum. The last such referendum had been 40 years ago, over which time the EU had added competencies in areas that would have been unthinkable in 1975. Citizens across the EU had been asked in over 30 national referenda to decide about their country's relationship with the EU, while the UK had held referenda on issues as diverse as Scottish and Welsh devolution and the electoral system, an entire generation of British voters had never had the chance to vote on the relationship with the European Union.

The goal was to enable change that was in the interests of all of the EU Member States and that would enable the EU to focus relentlessly on jobs, growth and competitiveness. The Prime Minister had already spoken to 15 Heads of Government about his agenda and intended to speak to all 27 prior to the June European Council. The priorities were completing the single market, reducing unnecessary EU regulation, reforming welfare rules and enabling as a fair system to safeguard the integrity of the single market.

The Minister finished with an issue close to his heart, reforming England's centralised state to devolve power in Britain. Here, there was a lot to learn from Germany's Federal structure which enabled every one of Germany's largest cities to have a higher output per person than the national average. The UK would continue to look to Germany for inspiration in its drive for localism.

Ambassador Horstmann closed the conference by thanking the organisers, Jackie Newbury, Christl Reissenberger, Cornelia Neumann and Sabine Uibel for all of their work in delivering an excellent conference. He also thanked our generous sponsors, the Auswärtiges Amt, the British Embassy and the Königswinter Foundation, without whom there would be no Königswinter. Finally, he paid special tribute to the British Ambassador, Sir Simon McDonald, who was attending his last Königswinter in his current role. Ambassador Horstmann said Sir Simon McDonald was unique in having attended 16 Königswinters across a variety of formats in his four and a half years as Ambassador. He thanked him on behalf of both the British and German associations for being a splendid host and for always finding the time (and the money!)

Students of history will note that 2015 also marks another important date in European affairs – the 200th anniversary of the battle of Waterloo. Famously celebrated as a British victory over the centralising powers of Napoleon, there is a more nuanced reading of history which makes it relevant to this year's discussion at Königswinter. The Duke of Wellington had in fact led a multinational army, a minority of whom were British. Combined with Irish, Dutch, Belgian and German soldiers from Hannover and Brunswick, victory was only secured late in the day after the arrival of the Prussian army under Blücher. Similarly, the UK could only succeed in reforming the EU if it was able to construct a broad coalition in the EU. As Markus Ederer had said, focusing on Germany alone would be a mistake and it was therefore welcome to hear Greg Clark speak about the Prime Minister's diplomatic tour of Europe. Whether this would be enough would remain to be seen. We would have a good indication at next year's conference which was eagerly anticipated by all participants. As Sir Michael Arthur had said in his opening address, Königswinter may have been entering its 65th year, but there was absolutely no sign of retirement.